# Practice Quiz – Spring 2021

1. Use the following market basket to determine the inflation rate between years 1 and 2:

Item Quantity Price (Year 1) Price (Year 2)

Bread 3 3.00 3.25

Milk 2 3.50 3.50

Bananas 3 1.00 0.50

1. Explain what type of unemployment is represented by each of the followins:

Jane quits her job to move to the Midwest\_\_\_\_\_\_

Joe is laid off due to weak demand for the products his company makes\_\_\_\_\_\_

Unemployment rises in the corporate leasing department due to distance work\_\_\_\_\_\_

Carol is laid off when her company moves production overseas\_\_\_\_\_\_

Unemployment rising in 2009 due to the drop in consumer spending\_\_\_\_\_\_

Fred is unemployed for 6 months while he looks for work in the computer field\_\_\_\_\_

1. Use the following information to calculate GDP, NNP and National Income:

Imports = $900 Rental Income = $230

Transfer Payments = $550 Personal Taxes = $700

Depreciation = $290 Indirect Business Taxes = $125

Investment spending = $470 Corporate Profits = $500

Savings = $190 Exports = $810

Consumption = $6270 Proprietor’s Income = $420

Wages & Salaries = $6500 Interest Income = $380

1. Use your answer to determine the value (a number) for government spending.

1. Construct an AE/45 degree diagram using the following:

C = 100 + 0.9\*Y

I = 400

G=T=0

Full employment GDP = $5500

Make sure you label: Equilibrium GDP

Autonomous expenditures (exogenous expenditures)

The MPC

Full employment GDP

The expenditure gap

The income gap

Part II – Distinguish between discretionary and non-discretionary policy in terms of how the gap above could be closed. Give an example of each. Why might the latter be preferred?