Illustrative "essay" questions for the Midterm Exam for Economics 105

(Each question is worth **5 minutes** of your time. Many are stated implicitly as if they are True, False or Uncertain. Briefly explain why they are true if true, and why false, if false. If uncertain, illustrate how it may be true, and how it may be false.)

Chapter 19:

Why do we study the circular flow of income and expenditure?

What is the difference between the CPI and the GDP deflator?

Chapter 20

What is value added and how is it related to the GDP?

What is omitted from the GDP?

Because some activities are omitted from the GDP, it is a bad measure of well-being. Discuss.

Chapter 21

True, false or uncertain and briefly explain. If GDP is growing at 10%per year and factor inputs at 7% per year, technology is increasing at 3% per year.

Chapter 22

In the most simple macro model, an increase in the value of the marginal propensity to consume means that income rises.

If income is equal to expenditure then the national income accounts are always right and we have no theory of income determination.

Chapter 23

Explain why C+I+G+X-IM = C+S+T.

Why is the BBM an interesting concept? Suppose that people value government spending. Will this raise or lower the value of "the" BBM multiplier?

Chapter 24

In the short run an increase in aggregate demand will increase prices and output.

If output increases and the price level falls, aggregate demand has undergone a contractionary shock.

The multiplier does not matter in the short run.

A shift in AD to the left will reduce output, prices and real wages

Chapter 25

In the long run, only AD matters for the determination of GDP.

The paradox of thrift tells us that saving is bad because it reduces income.

During the Great Depression, GDP fell by 30% and prices fell by 10%. This implies that it was caused by a shock to SRAS.