

Choose the one alternative that best completes the statement or answers the question.

- 1) The best definition for economic growth is 1) _____
 - A) a sustained expansion of consumption goods over a given period.
 - B) a sustained expansion of production possibilities measured as the increase in real GDP over a given period.
 - C) a sustained expansion of production possibilities measured as the increase in nominal GDP over a given period.
 - D) a sustained expansion of production goods over a given period.

- 2) In 2008, Armenia had a real GDP of \$4.21 billion and a population of 2.98 million. In 2009, real GDP was \$4.59 billion and population was 2.97 million. What was Armenia's economic growth rate from 2008 to 2009? 2) _____
 - A) 8.3 percent
 - B) 0.38 percent
 - C) 9.0 percent
 - D) 3.8 percent

- 3) In 2008, Armenia had a real GDP of approximately \$4.21 billion and a population of 2.98 million. In 2009, real GDP was \$4.59 billion and population was 2.97 million. From 2008 to 2009, Armenia's standard of living _____. 3) _____
 - A) decreased
 - B) did not change
 - C) might have increased, decreased, or remained unchanged but more information is needed to determine which.
 - D) increased

- 4) Using the Rule of 70, if the country of Flowerdom's current growth rate of real GDP per person was 7 percent a year, how long would it take the country's real GDP per person to double? 4) _____
 - A) 1 year
 - B) 49 years
 - C) 2 years
 - D) 10 years

- 5) The Rule of 70 is used to 5) _____
 - A) estimate how much of an economy's growth rate is due to increases in capital per hour of labor
 - B) calculate the economy's growth rate
 - C) calculate the standard of living
 - D) estimate how long it will take the level of any variable to double

- 6) Real GDP per person in the country of Flip is \$10,000, and the growth rate is 10 percent a year. Real GDP per person in the country of Flap is \$20,000 and the growth rate is 5 percent a year. When will real GDP per person be greater in Flip than in Flap? 6) _____
 - A) in 2 years
 - B) in 15 years
 - C) in 10 years
 - D) never

- 7) As labor increases, there is a 7) _____
 - A) movement along the aggregate production function and real GDP will increase less with each additional increase in labor.
 - B) movement along the aggregate production function and real GDP will decrease less with each additional increase in labor.
 - C) shift of the aggregate production function, but no movement along it.
 - D) movement along the aggregate production function, but no shift in it.

- 8) According to the law of diminishing returns, an additional unit of _____
- A) labor decreases output.
 - B) capital produces more output than an additional unit of labor.
 - C) labor produces more output than the previous unit.
 - D) labor produces less output than the previous unit.
- 9) Labor productivity rises _____
- A) if firms invest in hiring more workers rather than buying more capital.
 - B) in the absence of technological progress.
 - C) if the amount of capital per worker increases.
 - D) if the amount of capital per worker decreases.
- 10) Which of the following contributes to an increase in labor productivity? _____
- A) increased capital stock
 - B) decreased investment
 - C) increased consumption expenditure
 - D) All of the above contribute to an increase in labor productivity.

Write your answer in the space provided or on a separate sheet of paper.

Labor demand (billions of hours per year)	Real wage rate (2005 dollars)	Labor supply (billions of hours per year)
0	30	6
1	25	5
2	20	4
3	15	3
4	10	2

Employment (billions of hours per year)	Real GDP (billions of 2005 dollars)
6	95
5	90
4	80
3	60
2	30

- 11) The first table above gives the labor demand and labor supply schedules for a nation. The second table gives its production function.
- a) What is the equilibrium real wage rate and the level of employment?
 - b) What is potential GDP?