

ECO 1001 Macroeconomics Midterm Exam Fall 2021

The way this works is that you send me an email to my hotmail account as listed in the syllabus telling me your answers to these questions. Just answer t/f or the letter answer for each question (you need not send the questions), be sure to indicate in subject line of email what class you are in (ECO 1001). The exam is due by midnight October 6, 2021.

25 questions, 4 points each. I will get back to you your grade after I grade the exam as discussed. Be sure to save your exam as we will discuss the content together once the grading is completed.

Thank you

T or F, choose the *best* answer

1. T or F. “Sowell’s Rule” is about the fact that economic resources are not scarce so therefore political distribution is more efficient than market distribution.
2. T or F. Diminishing marginal utility for the consumption of normal economic goods can help explain why the Demand curve is downward sloping.
3. T or F. The “action axiom” in praxeology is defined that maximizing consumption and income, as opposed to other human motivations, is the purpose of life.
4. T or F. Adam Smith’s concept of the “invisible hand” in the *Wealth of Nations* (1776) describes how those acting in their own best interest can help others they don’t even know due to the economic growth afforded by free-trade and the rule of law in depersonalized relationships.
5. T or F. Voluntary exchange through the market brings inequality over time between the “top” and “bottom” income distributions because this is a statistical tautology.
6. T or F. Keynesians measure income (where income equals expenditures for final goods and services for a period of time) of an economy by adding-up all the expenditures for consumption (C), investment (I), government (G) and net exports (X-M).
7. T or F. Hayekians believe that private investment with a profit motive can better explain economic growth than can a model based around stability and Keynesian paternalistic “job-creation” as practiced in the modern utilitarian welfare-state.
8. T or F. We found in our class discussion on opportunity cost that there is no such thing as anything “free,” because, for example, everything costs time.
9. T or F. Milton Friedman believes those involved in *politics* (“angels”) in general have better intentions than those acting in the *economy* (the “greedy”), as we learned from his youtube video “On Greed” in class.
10. T or F. An unintended consequence of a new higher minimum wage might be a substitution out of investment in robotics and into wage-labor.

Multiple Choice, choose the *best* answer.

11. What best describes the notion of positive and negative rights as discussed in class?
 - a. In a *positive rights* regime people are entitled to something which can only be delivered through violating someone’s negative rights to be from harm.
 - b. In a *negative rights* regime people are entitled to something (food, shelter, healthcare etc.) which can only be delivered through violating someone’s positive rights.
 - c. Kings and other state forms have the *natural right* to rule over ‘citizens’.
12. What best describes the “marginal revolution” in economic thought through today?
 - a. Economic value is created through the production process.
 - b. Economic value is created through positive rights redistribution.
 - c. Economic value is created through exchange based on entrepreneurs meeting subjective consumer demand.
13. Which of the below can illustrate Adam Smith’s “extent of the market” and “specialization of labor”?
 - a. More wealth is created as market exchange and specialization of labor expand in society over the long-term
 - b. Specialization of labor can create alienation (see Charlie Chaplin in the factory).
 - c. Both of the above can describe Smith’s ‘commercial’ period of history (Marx’s ‘capitalism’) as found in the *Wealth of Nations* (1776).

14. The “fiscal cliff” as discussed in class is a way to describe,
 - a. That the USA welfare state in general runs budget deficits because of the unsustainable demographic shifts for social- and corporate welfare programs between the mid-20th and early-21st centuries.
 - b. That the USA administrative branch can spend as much as they want without getting legislation branch approval.
 - c. That federal government intervention in the economy has decreased over time since the classical liberal period allowing for increasing rates of economic growth in the USA especially since the financial crisis of 2007/8.

15. The concept of *praxeology* is that,
 - a. People’s actions are vague and meaningless and only dependent on time and place.
 - b. People’s actions are predictable based on past actions.
 - c. By definition people act in their own best-interest whether it be maximizing income, wealth and consumption, or acting towards other subjective goals known only to the individual, including mutual-aid and the pursuit of craftsmanship such as science, art, education and athletics.

16. “Experience goods” are different from normal economic goods in that,
 - a. Experience goods are not necessarily depleted in consumption.
 - b. Experience goods always have diminishing marginal utility.
 - c. When individual income increases, people will substitute out of experience goods into normal goods.

17. When we look at the FEE.org homework about Hurricane Ida and the economics of disasters we find that,
 - a. The state locking-down disaster areas and controlling resource distribution helps people recover from disasters
 - b. Price controls like “anti-gouging” laws facilitate the recovery process
 - c. Allowing factor mobility helps the recovery process after disaster

18. The Marginal Productivity Theory of Distribution (MPTD) can help explain how,
 - a. Absent state coercion, the value factors of production create approaches the value that is earned in exchange
 - b. Those with less experience suffer the most when a minimum wage is placed from above on local and decentralized relationships
 - c. Why perhaps larger firms would enjoy an increased minimum wage in that these firms have more capital investment in labor-saving technologies
 - d. All of the above

19. Hayek’s micro-foundations of macroeconomics as discussed in class can help explain prolonged unemployment (“busts”) after central bank interventions leading to “booms” because,
 - a. When the central bank intervenes into the Loanable Funds market lowering interest rates from a pre-intervention (“natural”) level, entrepreneurial decision-making becomes distorted toward longer-term investments which would not have been made absent intervention.
 - b. Central bank monetary easing means that longer term investments seem more profitable than had not the central bank intervened into the market for capital investment.
 - c. Long-term investments get ‘stuck’ at a given time and place when the central bank reduces monetary easing in order to prevent inflation because longer-term projects no longer seem viable at now higher interest rates.
 - d. All of the above.

20. According to the *New York Times* article we reviewed in class (“Myths of the 1%”, Nov. 2017), the wealthiest people in the USA remain so because,
 - a. Free trade and competition prevents social mobility
 - b. Certain sectors are protected from competition by government policy
 - c. Export sectors create more value than do import sectors

21. In our class discussion of socialism, communism and capitalism as ideals-forms, we learned that,
 - a. Socialism is when the factors of production are privately owned and allocated
 - b. Socialism is when there is no state enforcement of property rights
 - c. Socialism is when the factors of production are owned and allocated by the state

22. The reason that *replacing* the existing welfare-state with a Basic Income might help create an increase in economic growth is because,
- e. The extent of the market might increase as cash replaces state-set prices
 - f. The extent of the market might decrease as cash replaces state-set prices
 - g. Individual's time-preferences will be shortened if they are allowed to make more long-term economic choices
23. If there are trade barriers then,
- a. People live at their Production Possibility Frontier (PPF)
 - b. People live below the PPF
 - c. People live above the PPF
24. As discussed in class, and as related to the PPF, if a society prioritizes private investment over consumption and/or government spending then we would expect,
- a. A decrease in economic growth and lower decrease in absolute poverty
 - b. An increase in growth and a more rapid decrease in absolute poverty
 - c. Only the state can increase wealth because only state 'investments' seek their highest return through voluntary exchange with a profit motive
25. According to our discussions around Adam Smith's work, we might see secessionist movements, like Brexit and Catalonia Spain, when,
- a. Political power creates depersonalized relationships and alienation
 - b. We gain personal autonomy when the state is paternalistic and depersonalized
 - c. State control over the factors of production creates increasing standards of living for everyone not just special interest groups