Econ 115: Sample Midterm 2

S 2017

Name ________________

GSI ________________ **(1 pt)**

Section ________________ **(1 pt)**

A. Multiple Choice Quantitative (20 min; 6 pts each)

1. (10 pts) In the 146 years from 1870 to 2016, real global GDP multiplied 128-fold. What was the average growth rate of real global GDP between 1800 and 1870?

    a. about 2.2%/year
    b. about 8.8%/year
    c. about 3.4%/year
    d. about 4.4%/year
    e. none of the above

2. (10 pts) Today China's annual real GDP per capita is about $13,000, and America's annual real GDP per capita is about $52,000. If in the future American real GDP per capita grows at 2%/year while China's grows at 5%/year, about how many years will it take for Chinese levels of prosperity to catch up to American?

    a. about 69 years
    b. about 27 years
    c. about 48 years
    d. it will never catch up
    e. none of the above

3. (10 pts) In 1937 Franklin Delano Roosevelt decided that it was time to start trying to balance the budget. He cut federal spending and raised taxes for the next year by 4% of GDP. Assume that this did not lead the Federal Reserve to change interest rate policy, and did not affect either consumer confidence or business investment committees' animal spirits or foreigners' desires to invest in the United States. Assume that the multiplier was 2.5. By how much did this reduce GDP relative to what it would have been otherwise?

    a. about 10%
    b. about 4%
    c. about 2.5%
    d. GDP would remain more-or-less unchanged
    e. none of the above

4. (10 pts) The rules of thumb are that a 1%-point rise in interest rates is needed to raise the currency value by 10% and that a 1%-point rise in interest rates discourages investment spending and reduces it by 1% of GDP. In the mid-1920s the British central bank, the Bank of England, decided to raise interest rates in order to boost the value of the pound back to its pre-WWI value against the dollar, which required raising its value by 30%.

If the multiplier were three, and if this policy change had no additional consequences for consumer confidence, business animal spirits, foreigners' willingness to invest in Britain, or government purchases, what was the effect of this policy change on British GDP relative to what it would otherwise have been?

a. It pushed it up by 3%
b. It pushed it down by 9%
c. It pushed it down by 6%
d. We cannot tell from the information given
e. None of the above

B. Multiple Choice Qualitative (20 min; 3 pts each)

1. Under the gold standard, countries' abilities to expand their money supplies by printing up more currency was limited by…

a. extremely strict and rigid legal limits on how much currency they could issue
b. speculative attacks coordinated by foreign central banks
c. the right of individuals with excess currency to trade it back to the government for gold
d. threats of military invasion by the British navy
e. none of the above

2. Under the gold standard, a country that was booming, feeling rich, and importing a lot extra soon found its level of economic activity reduced by

a. a shortage of raw materials
b. a central bank reacting to higher inflation by choosing to raise interest rates
c. higher interest rates produced by a shortage of cash as gold was sent abroad to pay for the extra imports.
d. a financial crash leading to large-scale bankruptcies
e. none of the above

3. Keynes saw the attractiveness of laissez-faire doctrines as the result primarily of:

a. a suspicion of corrupt industrial-age govenrments
b. libertarian beliefs fueled by the writings of Friedrich von Hayek and other members of the Mont Pelerin Society
c. the overregulation of pre-industrial Europe and the active efforts of pro-market publicists
d. the desire by the rich to escape taxation
e. none of the above

4. John Maynard Keynes believed that it was unwise to retard the economic recovery of Germany after World War I primarily because he thought:

a. a poorer Germany would be a less profitable country for Britain to trade with.
b. Europe was a single linked civilization, and poverty in one part of it would have devastatingly destructive political-economic consequences for everyone
c. Germany needed to prosper in order ot be able to afford to pay reparations to Britain
d. the premise is false: Keynes believed that everything possible should be done to slow down the economic recovery of Germany after World War I.
e. none of the above

5. Two medium-sized powers that are permanent members of the U.N. Security Council are:

a. India and France
b. Britain and France
c. India and Nigeria
d. Britain and Indonesia
e. none of the above

6. The country of those below that experienced the fastest growth spurt in the twentieth century was:

a. Japan
b. Argentina
c. the United States
d. Indonesia
e. Botswana

7. Countries that adopted the Soviet economic system of central planning wound up:

a. about 50% richer than comparable capitalist countries, and happier
b. about 50% richer than comparable capitalist countries, but unhappier because consumer goods production was inefficient and too much output was spent on the military
c. about as well off as comparable capitalist countries
d. less than 20% as prosperous as comparable capitalist countries
e. we cannot tell—the comparison is too difficult to make

8. George Orwell's *The Road to Wigan Pier* is:

a. a novel about talking animals which is a satire of the Soviet Union and Nazi Germany
b. a novel about a dystopian future society with an all-controlling ruling party
c. the story of Orwell's travels to the depressed coal mining and other regions of Britain
d. a reflective essay about life by the seaside in the town of Wigan
e. none of the above

C. Essays (40 min; 25 pts each)

1. Consider Barry Eichengreen's *Globalizing Capital;* Christina Romer's "Lessons from the Great Depression for Policy Today"; and John Maynard Keynes's trio of *Unemployment as a World Problem*, *The Economic Consequences of Mr. Churchill*, and *The End of Laissez-Faire.* Pick one author. Describe what the author you picked thinks are the greatest obstacles to governments successfully managing their economies in order to produce full employment and rapid, balanced growth. Describe what institutions and policies they see as potentially solving these obstacles. Assess whether you think the argument made is likely to be correct.

2. Consider Rosa Luxemburg's *The Russian Revolution*, Vladimir Lenin's *What Is to Be Done?*, and George Orwell's *The Road to Wigan Pier*. Pick one. Describe what the author you pick sees are the principal obstacles to the creation of a socialist utopia in the twentieth century. Describe what institutions and policies they see as potentially solving thee obstacles. Assess whether you think the argument made is likely to be correct