Chapter 25 Production and Growth Practice Test

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

____ 1. Compounding refers to
a. the adjustment made to GDP meant to take out the effects of inflation.
b. the geometric smoothing of productivity data.
c. the accumulation of a growth rate over a period of time.
d. the increase in a growth rate over a period of time.

____ 2. Technological knowledge refers to
a. the amount of time the population has devoted to reading society's textbooks.
b. available information on how to produce things.
c. resources expended transmitting society's understanding to the labor force.
d. All of the above are technological knowledge.

____ 3. One of the Ten Principles of Economics in Chapter 1 is that people face tradeoffs. The growth that arises from capital accumulation is not a free lunch: It requires that society
a. conserve resources for future generations.
b. recycle resources so that future generations can produce goods and services with the accumulated capital.
c. sacrifice consumption goods and services now in order to enjoy more consumption in the future.
d. None of the above are correct.

____ 4. Other things equal, relatively poor countries tend to
a. grow slower than relatively rich countries; this is called the fall-behind effect.
b. grow slower than relatively rich countries; this is called the Malthus effect.
c. grow faster than relatively rich countries; this is called the catch-up effect.
d. grow faster than relatively rich countries; this is called the constant-returns-to-scale effect.

____ 5. In the second half of the twentieth century, which of the following nations benefited a lot from the catch-up effect?
a. Ethiopia
b. Germany
c. South Korea
d. the United States

____ 6. In the 1800s, Europeans purchased stock in American companies that used the funds to build railroads and factories. The Europeans made
a. foreign direct investments.
b. foreign indirect investments.
c. foreign portfolio investments.
d. indirect domestic investments.

____ 7. Investment from abroad
a. is a way for poor countries to learn the state-of-the-art technologies developed and used in richer countries.
b. is encouraged by economists.

c. often requires removing restrictions that governments have imposed on foreign ownership of domestic capital.
d. All of the above are correct.

____ 8. An organization that tries to encourage the flow of investment to poor countries is the
a. World Bank.
b. Organization of Less Developed Countries.
c. Alliance of Developing Countries.
d. International Development Alliance.

____ 9. Which of the following is generally an opportunity cost of investment in human capital?
a. increased earning potential
b. future job security
c. forgone wages at present
d. All of the above are correct.

____ 10. The term "brain drain" refers to
a. the emigration of many of the most highly educated workers from poor to rich countries.
b. the loss of knowledge due to a poor educational system in a country.
c. a situation where the population grows faster than the level of education.
d. a situation where one country robs technological knowledge from another country.

____ 11. Inward-oriented policies
a. have generally increased productivity and growth in the countries that pursued them.
b. include imposing tariffs and other trade restrictions.
c. promote production of goods and services within a country that they can produce most efficiently.
d. All of the above are correct.

____ 12. Patents turn new ideas into
a. private goods, and increase the incentive to engage in research.
b. private goods, but decrease the incentive to engage in research.
c. public goods, and increase the incentive to engage in research.
d. public goods, and decrease the incentive to engage in research.

____ 13. From 1959 to 1973, productivity, as measured by output per worker hour worked in U.S. businesses, grew at a rate of
a. 4.0 percent.
b. 3.2 percent.
c. 2.5 percent.
d. 1.8 percent.