

Kentucky Class Notes

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859.252.NOTE

ECO 202 Gillette
Spring 2009
Test #1

ECO 202 CPA 1

For Tuesday, January 20, 2009

Read in the Hubbard/O'Brien text Ch. 7, pp. 212-233

1. Chapter Opener on p. 212: a) What caused American Airlines' problems during 2008? Specifically, what caused their falling ticket sales and what caused their rising costs? c) Next, how are college students hurt who graduate during a recession?

- a. The recession caused American Airlines' to have problems during 2008. The decrease in demand and increase of costs forced American Airlines' to cut back the number of flights on other routes, and even stopped flying between certain cities.
- b. Recession caused the falling of ticket sales. People were losing jobs, receiving less income, therefore people weren't taking vacations and businesses weren't going on trips. Increase in oil prices caused the rising costs.
- c. College students have a harder time longer to find a job that on average pays 9% less (make less for 8-10 years).

1. a) Define gross domestic product (GDP). b) Why is market value used instead of quantities? c) Is the value of intermediate goods & services included in GDP?

- a. GDP: the market value of all final goods and services produced in a country during a period of time, typically one year (final production)
- b. In the economy when we measure total production, we can't just add together the quantities of every good & services because the result would be a meaningless jumble. We take the value, in dollar terms, of all the goods and services produced in order to measure production.
- c. OF COURSE THEY ARE, but they are not counted separately. If you count them separately you will double count.

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8. a.) Define labor productivity. b.) What role does labor productivity play in long-run economic growth? c.) What are the two key factors that determine labor productivity? & d.) which of these two is the most important?

- a. **Labor productivity** = The quantity of goods and services that can be produced by one worker in one hour of work (output per person per hour).
- b. Output per hour of work...to avoid effects of fluctuations in length of the workday and in the reactions of populations employed.
- c. The level of technology and the quantity of capital per hour worked
- d. Increases in capital per hour worked

Real minimum wage 1956 = maximum wage 1956 *

CPI 1956

\$3.70

Questions for Quiz:

- o What would you use to measure the cost of living?
 - Changes in the price level
- o What would you use to measure the standard of living?
 - Real GDP per capita