

Final Exam Review

Multiple Choice

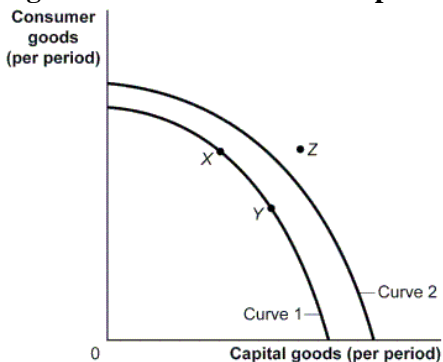
Identify the choice that best completes the statement or answers the question.

- _____ 1. The primary emphasis in macroeconomics is on:
- how firms set prices.
 - the national economy.
 - marginal analysis.
 - bits and pieces of the economy.
 - the employment of individual workers.
- _____ 2. The problem of scarcity is confronted by:
- industrialized societies.
 - pre-industrialized societies.
 - societies governed by communist philosophies.
 - all societies.
 - rural, but not urban, societies.
- _____ 3. Margo spends \$10,000 on one year's college tuition. The opportunity cost of spending one year in college for Margo is:
- \$10,000.
 - whatever she would have purchased with the \$10,000 instead.
 - whatever she would have earned had she not been in college.
 - whatever she would have purchased with the \$10,000 minus whatever she would have earned had she not been in college.
 - whatever she would have purchased with the \$10,000 plus whatever she would have earned had she not been in college.
- _____ 4. Khalil is offered a free ticket to the opera. His opportunity cost of going to the opera is:
- zero—the tickets were free.
 - the price listed on the ticket.
 - whatever Khalil would have done had he not gone to the opera.
 - the price listed on the ticket plus whatever Khalil would have done had he not gone to the opera.
 - the price listed on the ticket minus whatever Khalil could have received by selling it to another person in the parking lot.
- _____ 5. Your elderly grandma tells you: “I haven't been taking my beloved walks because I'm concerned about falling and getting hurt. See, there is always a cost to doing something. But if you don't do anything, then there is no cost.” Your grandma does not understand the concept of:
- scarcity in economics.
 - efficiency in economics.
 - negative externalities in economics.
 - marginal analysis in economics.
 - opportunity cost in economics.
- _____ 6. Which of the following is a normative statement?
- International trade leads to expanded consumption opportunities.
 - Higher expenditures on health care will reduce infant mortality rates.
 - We would all be better off if we could reduce our dependence on oil imports.
 - Increased defense spending will lead to higher budget deficits.
 - Higher expenditures on education will increase literacy rates.
- _____ 7. Which of the following is an example of a positive statement?
- The poverty rate should be 4%.
 - A high rate of economic growth is good for the country.
 - Health care is a universal right for all citizens.
 - Everyone in the country needs to be covered by national health insurance.

e. The federal government pays for 46% of U.S. health care costs.

- _____ 8. If an economy has used up all opportunities to make someone better off (without making someone else worse off) then it has achieved _____.
- equity
 - opportunity cost
 - marginal optimality
 - efficiency
 - full employment.
- _____ 9. The trade-off between equity and efficiency occurs because:
- the efficient allocation of resources is bad for business and industry.
 - allocating resources fairly may cause inefficiency.
 - to ensure equity everyone must pay more tax.
 - efficiency is politically unpopular.
 - equity is politically unpopular.
- _____ 10. An economy has achieved _____ if it _____ pass up any opportunities to make some people better off without making others worse off.
- efficiency; does not
 - equity; does
 - efficiency; does
 - equity; does not
 - specialization; does not
- _____ 11. The economy's factors of production are not equally suitable for producing different types of goods. This principle generates:
- economic growth.
 - technical efficiency.
 - resource underutilization.
 - the law of increasing opportunity cost.
 - the law of demand.
- _____ 12. If there is a tremendous natural disaster, the effect can be shown by:
- a point interior to the production possibility curve.
 - an outward expansion of the production possibility curve.
 - a movement from one point to another along the production possibility curve.
 - an inward contraction of the production possibility curve.
 - a flatter slope of the production possibility curve.

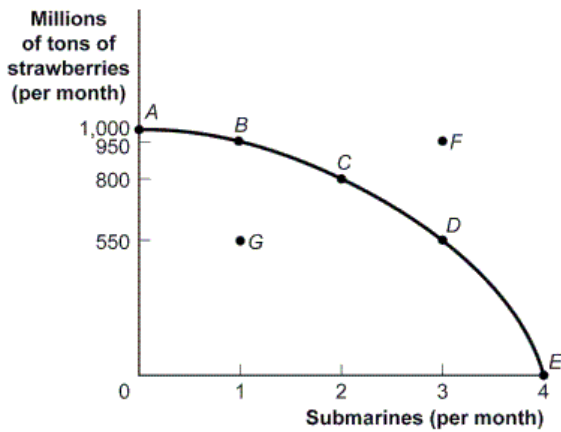
Figure 3-3: Consumer and Capital Goods



- _____ 13. Use the “**Consumer and Capital Goods**” **Figure 3-3**. Point Z:
- is unattainable, all other things unchanged.
 - is attainable if the economy is able to reach full employment.
 - is attainable if the quantity and/or quality of economic resources decreases.

- d. will be attained as soon as the economy becomes efficient and moves to Curve 2.
- e. is unattainable due to an inefficient use of economic resources.

Figure 3-2: Strawberries and Submarines



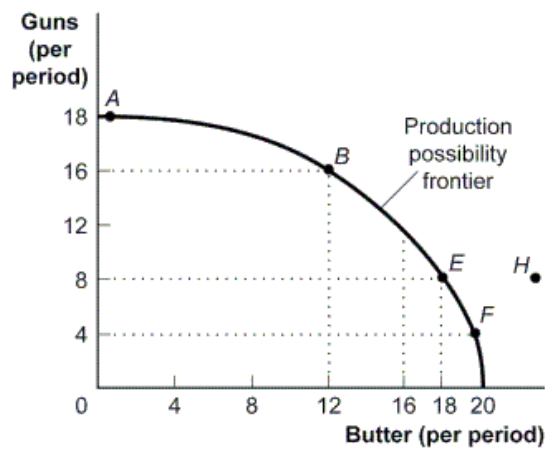
14. Use the “**Strawberries and Submarines**” **Figure 3-2**. Suppose the economy is operating at point *G*. This implies that:
- a. the economy can move to a point such as *C* only if it improves its technology.
 - b. the economy is experiencing unemployment and/or an inefficient allocation of resources.
 - c. the economy lacks the resources to achieve a combination such as *C*.
 - d. people in this economy don't really like strawberries and submarines.
 - e. the economy can move to point *B*, but must sacrifice submarine production to do so.

Production alternatives	<i>V</i>	<i>W</i>	<i>X</i>	<i>Y</i>	<i>Z</i>
Capital goods per period	0	1	2	3	4
Consumer goods per period	20	18	14	8	0

Table 3-2: Production Possibilities Schedule II

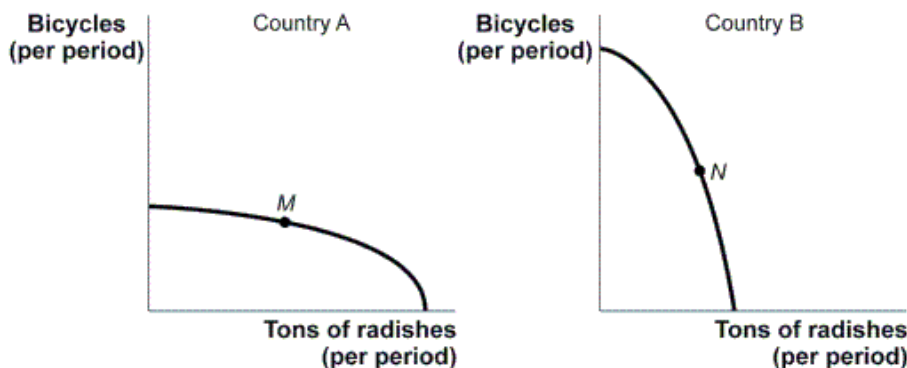
15. Based on **Table 3-2**, if an economy is producing at alternative *W*, the opportunity cost of producing at *X* is _____ unit(s) of consumer goods per period.
- a. 0
 - b. 1
 - c. 4
 - d. 18
 - e. 2
16. Alison has a linear production possibility curve in the production of bracelets and necklaces. In one hour, she can produce 5 bracelets or 10 necklaces. What is the opportunity cost for her to make one necklace?
- a. 5 bracelets
 - b. 10 necklaces
 - c. 0.50 bracelet
 - d. 2 necklaces
 - e. 15 bracelets

Figure 3-1: Guns and Butter



17. Based on the “Guns and Butter” Figure 3-1, the combination of guns and butter at point *H*:
- can be attained, but would cost too much.
 - is unattainable due to excessive government gun regulation.
 - has no meaning since it does not relate to the preferences of consumers.
 - is attainable but would increase unemployment.
 - cannot be attained, given the level of technology and the factors of production available.

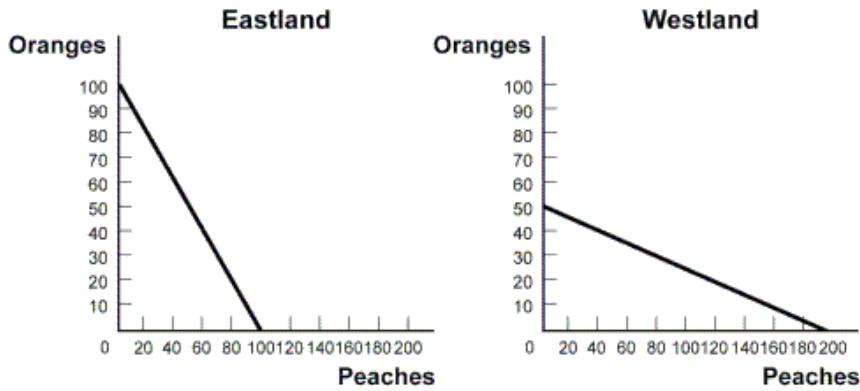
Figure 4-1: Bicycles and Radishes I



18. Use “Bicycles and Radishes I” Figure 4-1. The figure shows production possibility curve for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point *M*, and Country B is now operating at point *N*. The opportunity cost of producing an additional ton of radishes would be:
- greater in Country A than in Country B.
 - greater in Country B than in Country A.
 - the same in both countries.
 - greater at point *M* than at point *N*.
 - zero for either country if the country was operating on the production possibility curve.
19. Specialization and trade usually lead to:
- lower economic growth.
 - the exchange of goods and services in markets.
 - lower living standards.
 - higher prices.
 - less efficiency.

Figure 4-2: Comparative Advantage

Eastland and Westland produce only two goods, peaches and oranges, and this figure shows each nation's production possibility curve for the two goods.



- ___ 20. Use the “Comparative Advantage” Figure 4-2. The opportunity cost of producing 1 unit of peaches for Westland is:
- 1 unit of oranges.
 - 1/4 unit of oranges.
 - 4 units of oranges.
 - 10 units of oranges.
 - 50 units of peaches.
- ___ 21. Countries that engage in trade will tend to specialize in goods in which they have a(n) _____ and will _____ those goods.
- comparative advantage; import
 - absolute advantage; export
 - comparative advantage; export
 - economic profit; import
 - absolute advantage; import

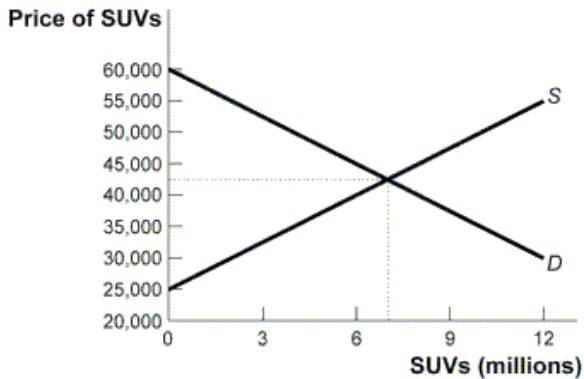
The table shows the maximum amounts of machinery and petroleum that the United States and Mexico can produce if they only produce one good. Both nations face constant costs of production.

Countries	Machinery (units)	Petroleum (units)
United States	80	40
Mexico	60	180

Table 4-5: Production Possibilities for Machinery and Petroleum

- ___ 22. Use Table 4-5. Which of the following is true?
- The opportunity cost of petroleum is less in the United States than in Mexico.
 - The opportunity cost of petroleum is more in the United States than in Mexico.
 - Petroleum costs are the same in the United States and in Mexico.
 - Machinery costs are the same in the United States and in Mexico.
 - The opportunity cost of machinery is less in Mexico than in the United States.
- ___ 23. Use Table 4-5. Which of the following is true?
- The opportunity cost of machinery is more in the United States than in Mexico.
 - Machinery costs are the same in the United States and in Mexico.
 - The opportunity cost of machinery is less in the United States than in Mexico.
 - The opportunity cost of petroleum is less in the United States than in Mexico.
 - Petroleum costs are the same in the United States and in Mexico.
- ___ 24. Use Table 4-5. The opportunity cost in Mexico of producing 40 units of machinery is _____ units of petroleum.
- 30
 - 90
 - 120
 - 270
 - 180

Figure 4-7: Domestic Supply and Demand for SUVs



25. Use the “**Domestic Supply and Demand for SUVs**” **Figure 4-7**. The graph represents the domestic supply and demand for SUVs. Suppose the world price equals \$50,000 and there is free trade, then the United States would _____ SUVs.
- import 6 million
 - export 6 million
 - export 2 million
 - import 2 million
 - neither export nor import SUVs.

Scenario 4-2: Production of Wheat and Toys

Below is information regarding Countries A and B's production of two goods, wheat and toys.

	Wheat	Toys
Country A	50	100
Country B	25	75

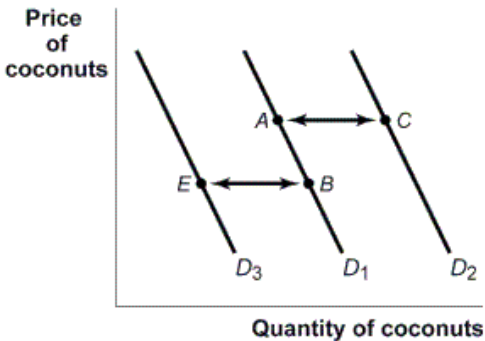
Each country has a linear production possibility curve with respect to their production of the two goods. The totals in each column represent the total number of units each country could produce if it used all of its resources to produce the good.

26. Use **Scenario 4-2**. Given the information provided, one can determine that Country A has an absolute advantage in _____ and a comparative advantage in the production of _____.
- neither good; wheat
 - toys; toys
 - wheat; wheat
 - wheat; toys
 - both goods; both goods
27. Which of the following factors cause a movement along the demand curve?
- change in the prices of related goods
 - change in the price of the good
 - change in the population
 - both a change in the price of the good and a change in the population
 - change in the popularity of the good
28. If goods A and B are substitutes, a decrease in the price of good B will:
- increase the demand for good A.
 - increase the demand for good B.
 - decrease the demand for good A.
 - increase the demand for good B and decrease the demand for good A.
 - increase the quantity of good B demanded and increase the demand for good A.
29. If goods A and Z are complements, an increase in the price of good Z will:
- increase the demand for good A.

- b. increase the quantity of good Z demanded and decrease the demand for good A.
- c. decrease the demand for good Z.
- d. decrease the demand for good A and decrease the demand for good Z.
- e. decrease the demand for good A.

- ___ 30. Over the past several years, consumer tastes for tattoos have increased. This means that the _____ for tattoos has _____.
- a. quantity demanded; increased
 - b. demand; decreased
 - c. demand; increased
 - d. quantity demanded; decreased
 - e. demand; remained the same

Figure 5-1: Demand for Coconuts

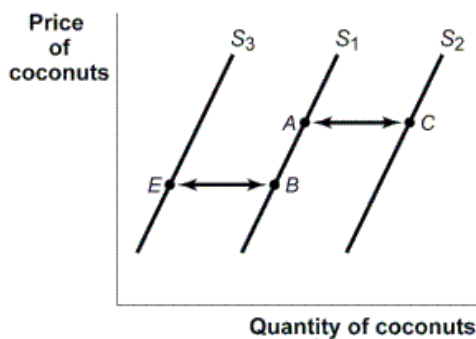


- ___ 31. Use the “**Demand for Coconuts**” **Figure 5-1**. If coconuts are considered a normal good and the overall income level of consumers is falling, then the movement that would take place in the model could be:
- a. A to C.
 - b. B to A.
 - c. C to A.
 - d. E to B.
 - e. A to B.
- ___ 32. A decrease in the price of eggs will result in a(n):
- a. increase in the demand for eggs.
 - b. increase in the supply of eggs.
 - c. greater quantity of eggs supplied.
 - d. greater quantity of eggs demanded.
 - e. decrease in the demand for eggs.
- ___ 33. For most goods, purchases tend to rise with increases in buyers' incomes and to fall with decreases in buyers' incomes. Such goods are known as:
- a. inferior goods.
 - b. direct goods.
 - c. normal goods.
 - d. indirect goods.
 - e. substitute goods.
- ___ 34. Given that pizza is a normal good, if students' incomes at your college increase substantially, there would be:
- a. an increase in the demand for pizza.
 - b. a decrease in the quantity of pizza demanded.
 - c. a decrease in the demand for pizza.
 - d. no change in the demand for pizza.
 - e. a decrease in the supply of pizza.
- ___ 35. Which of the following is likely to cause a rightward shift in the demand for home-delivered pizza?
- a. a lower price of pizza

- b. a lower price of fast-food hamburgers
- c. a higher price of pepperoni
- d. a larger population
- e. a lower price of pepperoni

- ___ 36. The law of demand is illustrated by a demand curve that is:
- a. horizontal.
 - b. downward-sloping.
 - c. vertical.
 - d. upward-sloping.
 - e. a U-shaped curve.
- ___ 37. A negative relationship between the quantity demanded and price is called the law of _____.
- a. demand
 - b. marginality
 - c. efficiency
 - d. supply
 - e. increasing marginal cost.

Figure 6-1: Supply of Coconuts



- ___ 38. Use the “**Supply of Coconuts**” **Figure 6-1**. If there is an expectation on the part of coconut suppliers that the price of coconuts will be significantly higher in the very near future, then the movement in the model to reflect today's market behavior would be:
- a. *A to B.*
 - b. *B to A.*
 - c. *A to C.*
 - d. *B to E.*
 - e. *E to B.*
- ___ 39. If the price of a commodity increases, you would expect the:
- a. supply curve to shift to the left.
 - b. quantity supplied to increase.
 - c. quantity supplied to decrease.
 - d. supply curve to shift to the right.
 - e. demand curve to shift to the left.
- ___ 40. If the price of mozzarella cheese (an ingredient in pizza. declines due to a major technological breakthrough in the dairy industry, there would be:
- a. a decrease in the supply of pizza.
 - b. an increase in the supply of pizza.
 - c. a decrease in the quantity of pizza supplied.
 - d. no change in the supply of pizza.
 - e. a decrease in the demand for pizza.
- ___ 41. A decrease in supply is caused by:

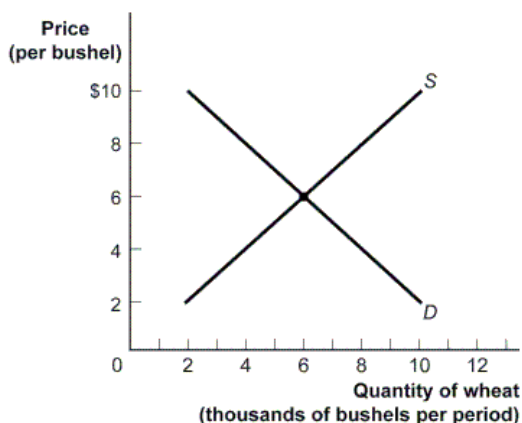
- a. a decrease in resource prices.
- b. an increase in the number of sellers in the market.
- c. suppliers' expectations of higher prices in the future.
- d. an advancement in the technology for producing the good.
- e. the removal of a tax that had previously been levied on each unit produced.

Price of Lemonade (per cup)	Number of Cups Demanded (Qd.)	Number of Cups Supplied (Qs)
\$.50	250	25
\$.75	200	50
\$1.00	150	75
\$1.25	100	100
\$1.50	50	125
\$1.75	20	150

Table 6-3: The Lemonade Market

42. Use **Table 6-3**. If the price of lemonade were \$1.25 per cup, we would expect to see:
- a. a rising price to eliminate the shortage.
 - b. a rising price to eliminate the surplus.
 - c. a falling price to eliminate the shortage.
 - d. a market in equilibrium.
 - e. a falling price to eliminate the surplus.

Figure 6-5: Demand and Supply of Wheat II



43. Use the “**Demand and Supply of Wheat II**” Figure 6-5. What is the equilibrium quantity in this wheat market?
- a. 12,000 bushels
 - b. 2,000 bushels
 - c. 10,000 bushels
 - d. 6,000 bushels
 - e. 8,000 bushels
44. Use the “**Demand and Supply of Wheat II**” Figure 6-5. If a price of \$8 temporarily exists in this market, a:
- a. shortage of 2,000 bushels will result.
 - b. surplus of 2,000 bushels will result.
 - c. shortage of 4,000 bushels will result.
 - d. surplus of 6,000 bushels will result.
 - e. surplus of 4,000 bushels will result.
45. Milk is an important ingredient in the production of ice cream. If the price of milk increases, then one would expect, holding all other things constant:
- a. the supply curve for ice cream to shift left.

- b. the supply curve for ice cream to shift right.
- c. no change in the supply curve for ice cream.
- d. a movement along the supply curve for ice cream curve, resulting in more ice cream supplied.
- e. the demand curve for ice cream to shift to the left.

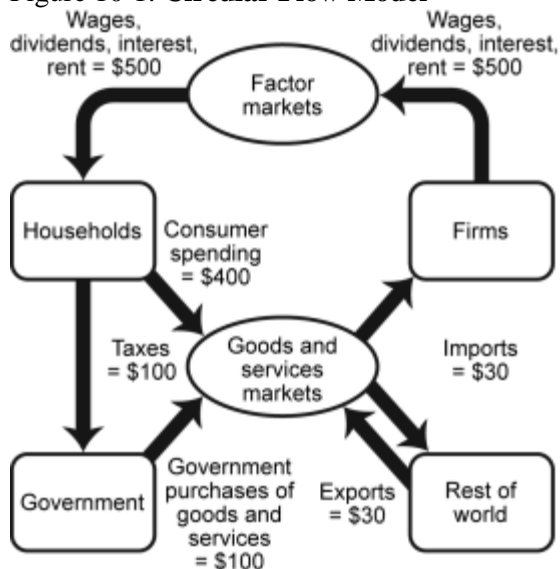
- ___ 46. If suppliers expect prices to rise next year for their product, then one would expect:
- a. that this will shift the demand curve for the product right this year.
 - b. a decrease in the quantity demanded this year.
 - c. that this will shift the supply curve for the product to the left this year.
 - d. a shift in the supply curve for the product to the right this year.
 - e. an increase in the quantity demanded this year.
- ___ 47. When a market is in equilibrium, one will find that the:
- a. quantity demanded is equal to zero.
 - b. quantity demanded is equal to quantity supplied.
 - c. quantity demanded is greater than quantity supplied.
 - d. quantity supplied is zero.
 - e. market price is equal to zero.
- ___ 48. A shift of a demand curve to the right, all other things unchanged, will:
- a. increase equilibrium price and quantity.
 - b. decrease equilibrium price and quantity.
 - c. decrease equilibrium quantity and increase equilibrium price.
 - d. increase equilibrium quantity and decrease equilibrium price.
 - e. increase equilibrium price while leaving equilibrium quantity unchanged.
- ___ 49. The market for soybeans is initially in equilibrium. Because of “mad cow disease,” producers decide to replace bone meal with soybeans in cattle feed. The likely effect is that:
- a. the equilibrium price and quantity of soybeans will rise.
 - b. the equilibrium price and quantity of soybeans will fall.
 - c. the equilibrium quantity of soybeans will rise, but we can't determine what will happen to the equilibrium price.
 - d. the equilibrium price of soybeans will rise, but we can't determine what will happen to the equilibrium quantity.
 - e. there is likely to be no impact on the soybean market.
- ___ 50. Which of the following *always* results in an increase in price and quantity?
- a. an increase in supply and a decrease in demand
 - b. an increase in demand and supply
 - c. an increase in supply with no change in demand
 - d. a decrease in demand and supply
 - e. an increase in demand with no change in supply
- ___ 51. The market price of airline flights increased recently. Some economists suggest that the price increased because jet fuel is much more expensive than before. If the economists are correct, it must be the case that:
- a. supply increased.
 - b. supply decreased.
 - c. demand increased.
 - d. demand decreased.
 - e. supply increased while demand also decreased.
- ___ 52. Consider the market for iPods. What happens if a fantastic new alternative MP3 player is developed and, at the same time, a boat carrying a large shipment of iPods is attacked by sea monsters and sunk?
- a. Price decreases and quantity increases.
 - b. Price increases and quantity increases.
 - c. The change in price is uncertain and quantity decreases.
 - d. Price increases and the change in quantity is uncertain.

e. Price decreases and the change in quantity is uncertain.

- ___ 53. The market for corn is currently in equilibrium. Which of the following is most likely to increase the equilibrium price of corn?
- a bountiful harvest
 - increasing production of corn-based ethanol
 - decreasing household incomes and corn is a normal good
 - a subsidy given by the government to growers of corn
 - the price of soybeans, an alternative crop for many farmers, is rising.
- ___ 54. The market for lemonade is currently in equilibrium and the price of lemons rises. How will this affect the lemonade market?
- Demand will decrease, decreasing the price and decreasing the quantity.
 - Demand will decrease, increasing the price and decreasing the quantity.
 - Supply will increase, decreasing the price and increasing the quantity.
 - Supply will decrease, increasing the price and decreasing the quantity.
 - Supply will decrease, increasing the price and increasing the quantity.
- ___ 55. Suppose that more police and security workers become aware that wearing bulletproof vests can protect them from injury and decide to start wearing bulletproof vests. At the same time, the price of ceramics used to produce the vests falls. Then, the equilibrium price of bulletproof vests _____ and the equilibrium quantity produced _____.
- increases; increases
 - decreases; decreases
 - probably changes, but in an ambiguous direction; probably changes, but in an ambiguous direction
 - probably changes, but in an ambiguous direction; increases
 - decreases; increases
- ___ 56. The cost of sensors used in making digital cameras falls, while a successful ad campaign makes digital cameras more fashionable. As a result, the equilibrium price of digital cameras _____ and the equilibrium quantity _____.
- increases; increases
 - increases; may increase, decrease, or stay the same
 - may increase, decrease, or stay the same; increases
 - decreases; increases
 - may increase, decrease, or stay the same; decreases
- ___ 57. It is certain that the equilibrium price will rise when:
- the supply curve and the demand curve both shift to the right.
 - the supply curve shifts to the right and the demand curve shifts to the left.
 - supply and demand both shift to the left.
 - supply shifts to the right and demand stays the same.
 - supply shifts to the left and demand shifts to the right
- ___ 58. Given a supply curve that is positively sloped and a demand curve for a normal good that is negatively sloped, an increase in income will most likely result in:
- an increase in equilibrium price and quantity.
 - a decrease in equilibrium price and an increase in equilibrium quantity.
 - a decrease in both equilibrium price and quantity.
 - an increase in equilibrium price and a decrease in equilibrium quantity.
 - an increase in equilibrium price and an uncertain change in equilibrium quantity.
- ___ 59. It is true that equilibrium quantity will always rise if:
- supply and demand both increase.
 - supply increases and demand decreases.
 - supply and demand both decrease.
 - supply decreases and demand remains unchanged.
 - supply decreases and demand increases.

60. Gasoline, a derivative of oil, is a large part of transportation costs for many producers. If the price of oil increases at the same time that incomes fall for many consumers, one would expect that the equilibrium price of many normal goods would _____, while their equilibrium quantities would _____.
- fall; rise
 - fall, rise, or stay the same; fall
 - fall; fall, rise, or stay the same
 - rise; fall
 - rise; rise
61. The circular-flow diagram illustrates how firms _____ goods and services and _____ factors of production.
- buy; sell
 - buy; buy
 - sell; buy
 - sell; sell
 - buy; own

Figure 10-1: Circular Flow Model



62. Use the “Circular Flow Model” Figure 10-1. If the circular flow model is in equilibrium (the sum of money flows into each box is equal to the sum of the money flows out of that box), which of the following is likely to happen if there is an increase in imports?
- an increase in the nominal GDP
 - a decrease in the nominal GDP
 - a decrease in the unemployment rate
 - an increase in the nominal GDP and in the unemployment rate
 - an increase in exports
63. An example of investment spending would be:
- purchase of a bond.
 - purchase of a loaf of bread.
 - purchase of a new productive machine.
 - purchase of a rival company.
 - purchase of stock in a foreign company.
64. In 2008, consumption spending is \$7,000, government purchasing is \$2,000 and investment spending is \$1,500. If GDP for 2008 is \$10,300, then:
- Spending on exports is \$400 and spending on imports is \$200.
 - Spending on exports is \$100 and spending on imports is \$200.
 - Spending on exports is \$600 and spending on imports is \$800.
 - Spending on exports is \$500 and spending on imports is \$300.

e. Spending on exports is \$500 and spending on imports is \$500.

- _____ 65. The Boeing Corporation buys \$3 million worth of steel from the Steel manufacturers, \$2.5 million worth of computerized hardware and software, and \$1 million worth of mechanical tools to manufacture a certain model of aircraft. Boeing Corporation sells this particular model of aircraft at \$10 million. The value-added by Boeing is equal to:
- \$3.5 million.
 - \$16.5 million.
 - \$13 million.
 - \$15.5 million.
 - \$10 million.
- _____ 66. Net exports are calculated by subtracting:
- taxes from total income.
 - exports from imports.
 - out all intermediate goods.
 - I, G, and value added from GDP.
 - imports from exports.
- _____ 67. If during 2005, the country of Sildavia recorded investment spending for \$3 billion, government purchases for \$3 billion, consumer spending for \$7 billion, imports for \$5 billion, government transfers for \$1 billion, and exports for \$3 billion. Sildavia's GDP in 2005 was:
- \$17 billion.
 - \$12 billion.
 - \$13 billion.
 - \$14 billion.
 - \$11 billion
- _____ 68. Gross domestic product measures the:
- amount of money circulating through an economy during a year.
 - value of final goods and services produced within the borders of a country during a given time period.
 - value of final goods and services produced by the citizens of a country regardless of their location during a given time period.
 - amount of government spending undertaken during a given time period.
 - amount of national debt accumulated by the government during a given time period.
- _____ 69. Construction of new homes is considered part of:
- investment spending.
 - consumption.
 - government spending.
 - private saving.
 - the stock market.
- _____ 70. An economy's gross domestic product is made up of:
- consumption, saving, investment and government spending.
 - consumption, investment, government spending and net exports.
 - consumption, saving, inventories, financial markets, and government spending.
 - consumption and saving.
 - consumption, investment, government borrowing and net exports.
- _____ 71. Consider an economy that only produces two goods: DVDs and DVD players. Last year, 10 DVDs were sold at \$20 each and 5 DVD players were sold at \$100 each, while this year 15 DVDs were sold at \$10 each and 10 DVD players were sold at \$50 each. Real GDP this year using last year as the base year is:
- \$100.
 - \$700.
 - \$1,300.
 - \$300

e. \$650

Year	Output	Price per Unit
1	2	\$2
2	3	4
3 = base period	4	5
4	6	6
5	7	9

Table 11-2: Price and Output Data

- ___ 72. Use **Table 11-2**. The value of Year 2's output in real dollars is:
- \$4.
 - \$12.
 - \$6.
 - \$16.
 - \$15.

Year	Units of Output	Price per Unit
1	40	\$1
2	30	2
3	50	2
4	70	4
5	60	6
6	60	8

Table 11-3: Real and Nominal Output

- ___ 73. Use **Table 11-3**. The year in which the increase in nominal GDP is exclusively due to the increase in the price level rather than physical output is Year:
- 2.
 - 3.
 - 4.
 - 6.
 - 5.
- ___ 74. Use **Table 11-3**. Nominal GDP in Year 2 is equal to:
- \$40.
 - \$60.
 - \$100.
 - \$280.
 - \$30.
- ___ 75. If the price level in the economy and the nominal wages both doubled, then the real wages would:
- also double.
 - increase by 50%.
 - decrease by 20%.
 - decrease by 50%.
 - remain unchanged.
- ___ 76. Nominal GDP is:
- the inflation adjusted GDP.
 - the real GDP minus depreciation.
 - the current dollar GDP.
 - the constant dollar GDP.
 - the future dollar GDP.

Year	Output	Price per Unit
1	2	\$2
2	3	4
3 = base period	4	5
4	6	6
5	7	9

Table 11-5: Price and Output Data

- ___ 77. Use **Table 11-5**. The value of Year 3's output in nominal dollars is:
- \$5.
 - \$5.20.
 - \$20.
 - \$36.
 - \$9.
- ___ 78. Use **Table 11-5**. The value of Year 4's output in real dollars is:
- \$5.20.
 - \$6.
 - \$24.
 - \$36.
 - \$30.

The town of York produces two goods, Good A and Good B. The following is information regarding York's production of these two goods and their prices the following three years.

	Year 2006	Year 2007	Year 2008
Quantity of Good A	3	4	5
Price of Goods A	\$500	\$550	\$550
Quantity of Good B	10	10	10
Price of Good B	\$2	\$4	\$5

Scenario 11-1: Good A and Good B

- ___ 79. Use **Scenario 11-1**. In 2007, nominal GDP is:
- greater than the nominal GDP in 2008.
 - greater than the nominal GDP in 2006.
 - equal to the nominal GDP in 2008.
 - equal to the nominal GDP in 2006.
 - less than the nominal GDP in 2006.
- ___ 80. Use **Scenario 11-1**. Using 2006 as the base year, then one would find that the real GDP in 2006:
- is equal to the real GDP in 2007.
 - is equal to the nominal GDP in 2006.
 - is greater than the real GDP in 2007.
 - is greater than the real GDP in 2008.
 - is the same as real GDP in 2007.
- ___ 81. Employment in the labor force is defined as:
- the total labor force.
 - the total population of working age.
 - the total number of persons actively working.
 - the total number of persons not unemployed.
 - the total population of working minus the number of persons unemployed.
- ___ 82. Which of the following would describe a person who is counted as unemployed by the government?
- Stan does not have a job but is actively seeking employment.
 - Beverly has a part-time job but would prefer a full-time job.

III. Moesha does not have a job because she recently retired.

- a. I only.
- b. II only.
- c. III only.
- d. I and II only.
- e. I, II and III.

___ 83. The percentage of the labor force that is unemployed is the:

- a. labor force.
- b. employment ratio.
- c. unemployment rate.
- d. natural employment rate.
- e. labor force participate rate.

___ 84. If 99 million people are working and 1 million are unemployed but actively seeking work, then the unemployment rate is _____.

- a. 1%
- b. 5%
- c. 10%
- d. 100%
- e. 15%

___ 85. Donna was laid off by her employer at the beginning of 2008. She looked for a job for three months, but could not find anything suitable. She then decided to volunteer for a soup kitchen. Donna is considered to be

- a. unemployed.
- b. underemployed.
- c. a discouraged worker.
- d. a part time worker.
- e. employed.

___ 86. In general, for the U. S. economy, the relationship between unemployment and real economic growth is:

- a. positive.
- b. direct.
- c. neutral.
- d. negative.
- e. non-existent.

Demographic Group	Number of Residents
Employed	5000
Unemployed and looking for work	1000
Not working due to disability	200
Not working due to retirement	700
Unemployed and not looking for work due to discouragement over job prospects	500
Under the age of 16	2400
Total Population	9400

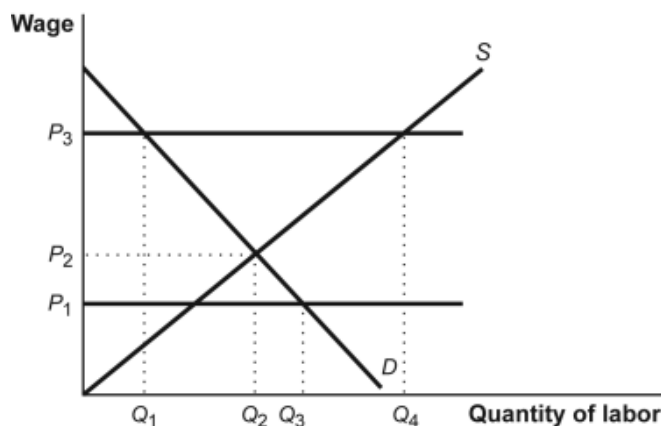
Table 12-3: Population Data for Madtucky

___ 87. Use **Table 12-3**. What is the unemployment rate in Madtucky?

- a. 64%
- b. 48%
- c. 17%
- d. 6%
- e. 1%

- ___ 88. A person who spends time looking for work is:
- engaged in a job search.
 - counted as employed.
 - counted as out of the labor force.
 - usually counted as a discouraged worker.
 - ineligible for unemployment insurance benefits.
- ___ 89. When the demand for labor is falling and employers have committed to high wages, _____ unemployment will result.
- frictional
 - cyclical
 - permanent
 - structural
 - natural
- ___ 90. Cyclical unemployment is the result of:
- normal job turnover (“job search”).
 - discrimination.
 - the business cycle.
 - the minimum wage.
 - changing job skills.
- ___ 91. Internet employment agencies have simplified the job search process for the applicants. More importantly, it has led to:
- an increase in frictional unemployment.
 - an increase in cyclical unemployment.
 - a decrease in frictional unemployment.
 - a decrease in structural unemployment.
 - a decrease in cyclical unemployment.
- ___ 92. The sum of frictional and structural unemployment make up the:
- actual unemployment level.
 - cyclical amount of unemployment.
 - amount of unemployment in an economy during an expansion.
 - amount of unemployment in an economy during a recession.
 - natural rate of unemployment.

Figure 13-1: Minimum Wage



- ___ 93. Use the “**Minimum Wage**” **Figure 13-1**. A binding minimum wage would be:
- P_1 .
 - P_2 .
 - P_3 .

- d. zero.
- e. Q_4 .

- ___ 94. Use the “**Minimum Wage**” **Figure 13-1**. The binding minimum wage of P_3 leads to unemployment of:
- a. $Q_3 - Q_1$.
 - b. $Q_3 - Q_2$.
 - c. zero.
 - d. $Q_4 - Q_2$.
 - e. $Q_4 - Q_1$.
- ___ 95. Unit-of-account costs refer:
- a. to the increases in prices during inflation.
 - b. the decrease in value of money during inflation.
 - c. the loss of reliability of money as a relative unit of measurement.
 - d. the increased costs of servicing bank accounts during inflation.
 - e. the gradual erosion of purchasing power during inflation.
- ___ 96. Menu costs are
- a. the costs of money becoming less reliable.
 - b. the real costs of changing listed prices.
 - c. the increase in the transaction costs caused by inflation.
 - d. adjustments to cost of living.
 - e. the increased costs of servicing bank accounts during inflation.
- ___ 97. During rapid price inflation, firms must frequently change prices. The cost of changing prices is known as the:
- a. menu costs.
 - b. real interest rate costs.
 - c. shoe-leather costs.
 - d. unit-of-account costs.
 - e. Fisher effect.
- ___ 98. Unanticipated inflation:
- a. increases the value of money.
 - b. decreases uncertainty about the future.
 - c. reduces the value of the debt owed by borrowers.
 - d. helps lenders.
 - e. benefits potential home buyers.
- ___ 99. Which of the following annual rates of inflation would most likely be called hyperinflation?
- a. 5%
 - b. 13%
 - c. 25%
 - d. 2000%
 - e. 15%
- ___ 100. A process that brings the inflation rate down, is called:
- a. disinflation.
 - b. deflation.
 - c. stagflation.
 - d. hyperinflation.
 - e. speculation.
- ___ 101. Alex expects the inflation rate to be 4%. If Alex borrows money at a nominal interest rate of 5%, his real interest rate is:
- a. positive and greater than the nominal interest rate.
 - b. positive and less than the nominal interest rate.
 - c. positive and equal to the nominal interest rate.
 - d. negative and less than the nominal interest rate.

e. equal to zero.

- ___ 102. The _____ is the most widely used measure of inflation in the United States.
- producer price index
 - consumer price index
 - GDP deflator
 - national income account
 - growth rate of real GDP
- ___ 103. The inflation or deflation rate is:
- the change in a price index divided by the initial value of the index.
 - the change in a price index divided by the new index number.
 - the difference between the initial price index number and the new price index number.
 - computed by dividing the old price index number by the new price index number.
 - the rate of change in real GDP from year to year.

Year	Consumer Price Index
1	80
2 (base year)	100
3	105
4	125
5	150

Table 15-1: The Consumer Price Index

- ___ 104. Use **Table 15-1**. The approximate rate of inflation in Year 5 is _____ percent.
- 5
 - 10
 - 19
 - 20
 - 150
- ___ 105. If the consumer price index changes from 120 to 125 between December 2007 and December 2008, the:
- inflation rate for 2008 is 4.2%.
 - inflation rate for 2008 is 5%.
 - deflation rate for 2008 is 5%.
 - deflation rate for 2008 is -4.2%.
 - inflation rate for 2008 is 10%.

Year	Price Index
2005	100
2006	104
2007	103
2008	110

Table 15-2: Price Index

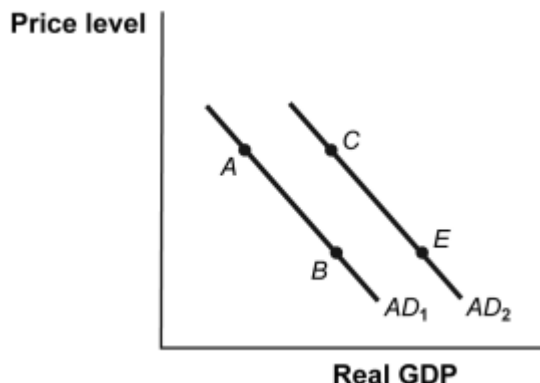
- ___ 106. Use **Table 15-2**. Consider the information in table provided. Which year is most likely to be the base year?
- 2006
 - 2008
 - 2007
 - 2005
 - A year not presented in the table.
- ___ 107. Which one of the following price indices is commonly used to measure the cost of living?
- producer price index
 - wholesale price index

- c. human development index
- d. GDP deflator
- e. consumer price index

- ___ 108. The purpose of indexing Social Security payments to the CPI is to:
- a. increase corporate profits.
 - b. justify continued government funding of the Bureau of Labor Statistics.
 - c. avoid the privatization of Social Security.
 - d. increase government tax revenue.
 - e. maintain the purchasing power of retirees.
- ___ 109. If the size of MPS is decreasing, it will:
- a. make the multiplier smaller.
 - b. make the multiplier larger.
 - c. not affect the value of the multiplier.
 - d. increase the interest rate.
 - e. cause the MPC to also decrease.
- ___ 110. Consider the simple economy of Behr, whose government does not tax its citizens. The consumption function of Behr is given by: $C = 500 + .80Y$, where Y is income. The autonomous consumer spending in this economy is:
- a. \$1,000.
 - b. \$800.
 - c. \$500.
 - d. \$0.80.
 - e. \$1,800.
- ___ 111. Other things being equal, investment spending _____ when _____.
- a. decreases; firms expect sales to fall
 - b. increases; firms have excessive production capacity
 - c. increases; the rate of growth of real GDP is low
 - d. decreases; the obsolete or worn out physical capital increases
 - e. increases; market interest rates increase.
- ___ 112. If real GDP is \$1000 billion and the aggregate expenditure is \$850 billion, then the change in inventories will be:
- a. -\$150 million.
 - b. \$1,850 million.
 - c. \$150 million.
 - d. -\$1,850 million.
 - e. \$850 million.
- ___ 113. The aggregate demand curve shows the relationship between the aggregate price level and:
- a. aggregate productivity.
 - b. the aggregate unemployment rate.
 - c. the aggregate quantity of output demanded by households, businesses, the government, and the rest of the world.
 - d. the aggregate quantity of output demanded by businesses only.
 - e. the aggregate quantity of goods and services consumed by households.
- ___ 114. The aggregate demand curve is negatively sloped in part because of the impact of:
- a. the wealth effect on consumer spending.
 - b. a changing exchange rate on potential output.
 - c. the stickiness of nominal wages and salaries.
 - d. the flexibility of nominal wages and salaries.
 - e. the substitution effect on government spending.
- ___ 115. The interest rate effect is the tendency for changes in the price level to affect:
- a. the quantity of investment demanded and thus affect interest rates.
 - b. export demand and thus affect aggregate demand.

- c. interest rates and thus affect the quantity of investment and consumption demanded.
- d. real incomes and lead to shifts in potential output.
- e. interest rates and thus affect the productivity of existing capital equipment.

Figure 17-2: Shift of the Aggregate Demand Curve



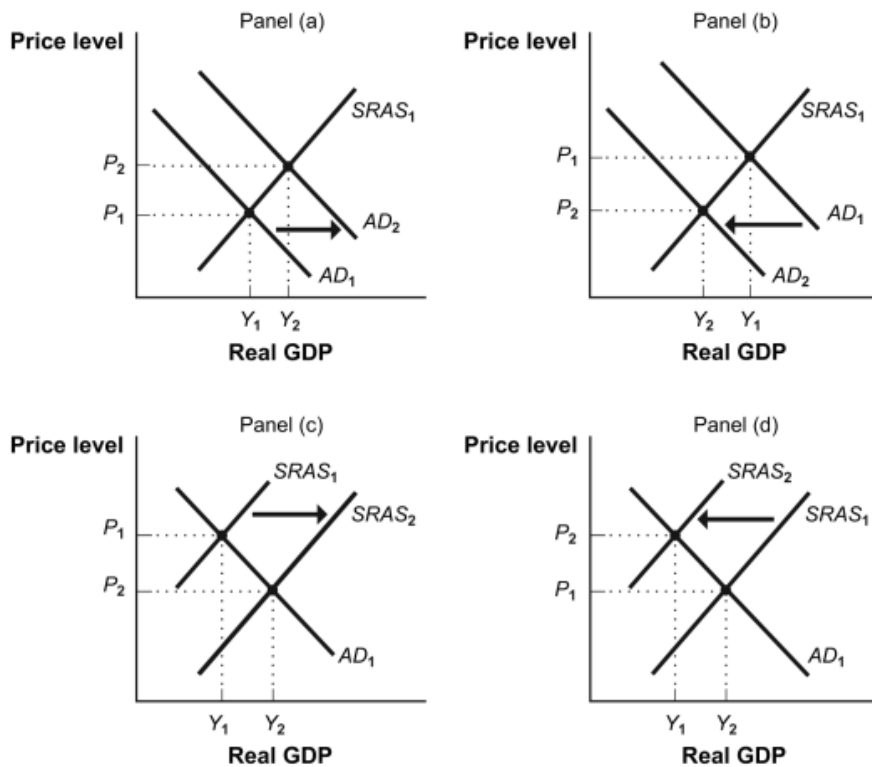
- ___ 116. Use the “**Shift of the Aggregate Demand Curve**” **Figure 17-2**. A movement from point *B* on AD_1 to point *E* on AD_2 could have been the result of:
- a. an increase in consumer optimism.
 - b. a decrease in consumer wealth.
 - c. an increase in personal income taxes.
 - d. the central bank reducing the quantity of money.
 - e. an increase in interest rates.
- ___ 117. If the Fed decreases the quantity of money in circulation:
- a. interest rates decrease, investment increases, and the aggregate demand curve shifts to the right.
 - b. interest rates decrease, investment decreases, and the aggregate demand curve shifts to the left.
 - c. interest rates increase, investment decreases, and the aggregate demand curve shifts to the left.
 - d. interest rates increase, investment decreases, and the aggregate demand curve shifts to the right.
 - e. interest rates decrease, investment decreases, and the aggregate demand curve shifts to the right.
- ___ 118. When the aggregate price level rises, this will, other things equal:
- a. lead to a rightward shift in the AD curve.
 - b. lead to a leftward shift in the AD curve.
 - c. result in a decrease in the quantity of aggregate output demanded.
 - d. result in an increase in the quantity of aggregate output demanded.
 - e. result in a decrease in the quantity of aggregate output supplied.
- ___ 119. The interest rate effect states that as the aggregate price level rises, holding everything else constant, people demand:
- a. less money which causes the interest rate to fall and investment to rise.
 - b. more money which causes the interest rate to rise and investment to fall.
 - c. less money which causes interest rates to rise and investment to fall.
 - d. more money which causes interest rates to fall and investment to fall.
 - e. more money which causes interest rates to fall and investment to rise.
- ___ 120. The $SRAS$ curve is upward rising because:
- a. a higher aggregate price level leads to lower output as costs of production increase.
 - b. a higher aggregate price level leads to higher output since most production costs are fixed in the short run.
 - c. a lower aggregate price level leads to higher output since production costs tend to fall in the

short run.

- d. a lower aggregate price level leads to higher profit and higher productivity.
- e. a higher aggregate price level leads to higher output since most production costs are flexible in the short run.

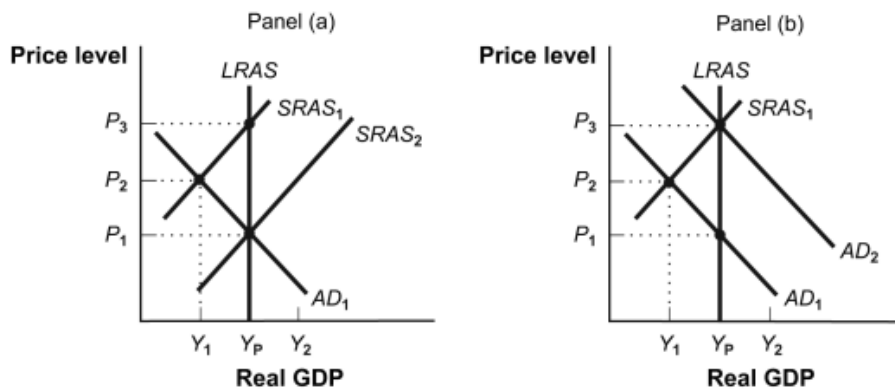
- ___ 121. The short-run aggregate supply curve is positively sloped because:
- a. business people suffer from money illusion.
 - b. wages are sticky or don't readily adjust to changes in economic conditions in the short run.
 - c. workers care about nominal wages, not real wages.
 - d. of diminishing returns to labor.
 - e. productivity is positively related to wages.
- ___ 122. Which of the following will cause short-run aggregate supply to increase?
- a. A law that requires employers to provide health insurance for all employees.
 - b. An increase in the aggregate price level.
 - c. A large decrease in the price of oil.
 - d. An increase in the minimum wage.
 - e. A decrease in government transfer payments.
- ___ 123. A general increase in wages will result in the:
- a. aggregate demand shifting to the right.
 - b. aggregate demand shifting to the left.
 - c. short-run aggregate supply shifting to the right.
 - d. short-run aggregate supply shifting to the left.
 - e. long-run aggregate supply shifting to the left.
- ___ 124. A general decrease in wages will result in the:
- a. aggregate demand shifting to the right.
 - b. aggregate demand shifting to the left.
 - c. short-run aggregate supply shifting to the right.
 - d. short-run aggregate supply shifting to the left.
 - e. long-run aggregate supply shifting to the right.
- ___ 125. The level of output that the economy would produce if all prices, including nominal wages, were fully flexible is called:
- a. real GDP.
 - b. Keynesian GDP.
 - c. structural GDP.
 - d. potential output.
 - e. recessionary output.
- ___ 126. Sticky wages and prices occur:
- a. in the long run.
 - b. in the short run.
 - c. in both the short and long run.
 - d. only when the economy is operating above its potential real GDP.
 - e. only when the economy is operating below its potential real GDP.

Figure 19-1: Shifts of the AD–AS Curves



- ___ 127. Use the “**Shifts of the AD–AS Curves**” **Figure 19-1**. In the short run, an increase in net exports is illustrated by:
- Panel (A).
 - Panel (B).
 - Panel (C).
 - Panel (D).
 - Panels (A) and (C).
- ___ 128. An increase in aggregate demand will generate _____ in real GDP and _____ in the price level in the short run.
- an increase; an increase
 - an increase; no change
 - a decrease; no change
 - no change; an increase
 - an increase; a decrease

Figure 19-5: Policy Alternatives

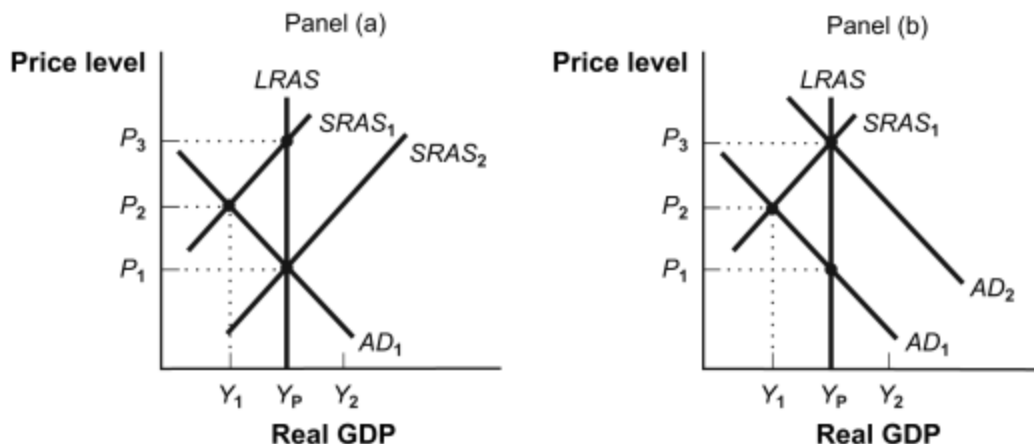


- ___ 129. Use the “**Policy Alternatives**” **Figure 19-5**. Assume that the economy depicted in Panel (a) is in short-run equilibrium with AD_1 and $SRAS_1$. If the economy is left to correct itself:
- real interest rates will fall which will shift $SRAS$ rightward.
 - lower wages will result in a gradual shift from $SRAS_1$ to $SRAS_2$.

- c. long-run equilibrium will be established at Y_p and P_3 .
- d. aggregate demand will shift leftward.
- e. aggregate demand will shift rightward to Y_p and P_1 .

- ___ 130. If the short-run macroeconomic equilibrium is _____ of the economy's potential output, then there is a(n) _____ and the aggregate price level is expected to _____.
- a. to the right; inflationary gap; fall
 - b. to the right; recessionary gap; rise
 - c. to the left; inflationary gap; fall
 - d. to the left; recessionary gap; fall
 - e. to the left; recessionary gap; rise

Figure 19-11: Policy Alternatives

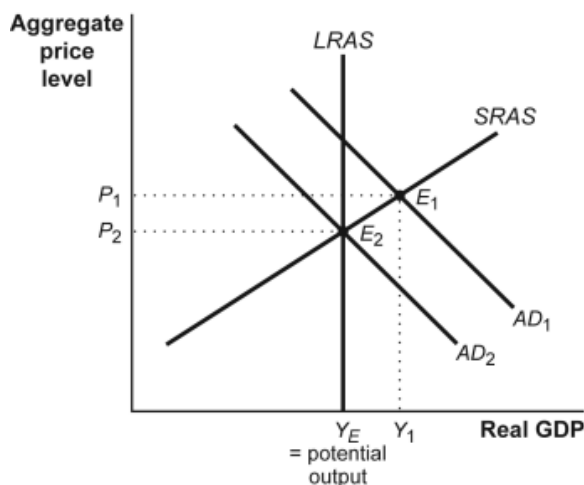


- ___ 131. Use the “**Policy Alternatives**” **Figure 19-11**. In Panel (b), the economy is initially in short-run equilibrium at real GDP level Y_1 and price level P_2 . If the government decides to intervene, it would most likely:
- a. increase taxes.
 - b. decrease the quantity of money available.
 - c. increase the level of government purchases of goods and services.
 - d. decrease the level of government purchases of goods and services.
 - e. decrease transfer payments.
- ___ 132. In response to a negative supply shock, the government decreases taxes. The most likely result of the government's tax decrease is:
- a. an increase in real GDP and a decrease in the aggregate price level.
 - b. a decrease in unemployment and a decrease in the aggregate price level.
 - c. an increase in unemployment and an increase in the aggregate price level.
 - d. an increase in unemployment and a decrease in the aggregate price level.
 - e. a decrease in unemployment and an increase in the aggregate price level.
- ___ 133. Keynesian economics propagates the economic ideas:
- a. that argue that the government intervention in the economy can be destabilizing.
 - b. that argue that the government can help a depressed economy through fiscal and monetary policies.
 - c. that argue that the private sector is perfectly capable to regulate itself.
 - d. that argue that the free market system will always prevail.
 - e. that economic recessions will self-correct without active government intervention.
- ___ 134. Which of the following is a government transfer?
- a. wages paid to U.S. senators
 - b. purchases of tanks for the army
 - c. Social Security payments to retired postal workers
 - d. payments to contractors for repairs on interstate highways

e. interest payments to those who have purchased U.S. Treasury bills.

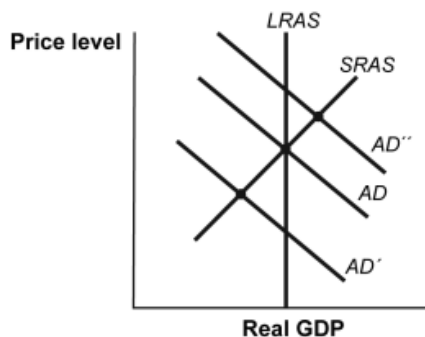
- ___ 135. A reduction in government transfers _____, therefore shifting the aggregate demand curve to the _____.
- increases labor costs to companies and so increases investment; left
 - decreases government purchases of goods and services and so decreases consumption; right
 - increases the marginal propensity to save and so decreases consumption; right
 - decreases disposable income and consumption; left
 - decreases disposable income and investment spending; left
- ___ 136. Decreasing funding to explore space:
- will shift the short-run aggregate supply curve to the left.
 - will shift the short-run aggregate supply curve to the right.
 - will shift the aggregate demand curve to the left.
 - will shift the aggregate demand curve to the right.
 - will shift the long-run aggregate supply curve to the right.

Figure 20-6: Fiscal Policy II



- ___ 137. Use the “Fiscal Policy II” Figure 20-6. Suppose that this economy is in equilibrium at E_1 . If there is a decrease in taxes, then:
- AD_1 will shift to the right, causing a decrease in the price level and an increase in real GDP.
 - AD_1 will shift to the left, causing a decrease in the price level and a decrease in the real GDP.
 - AD_2 will shift to the right, causing an increase in the price level and an increase in real GDP.
 - AD_2 will shift to the right, causing a decrease in the price level and an increase in real GDP.
 - AD_1 will shift to the right, causing an increase in the price level and an increase in real GDP.

Figure 20-8: Fiscal Policy Options



- ___ 138. Use the “Fiscal Policy Options” Figure 20-8. If the aggregate demand curve is AD' :
- a contractionary fiscal policy may be warranted.
 - an expansionary fiscal policy may be warranted.

- c. the economy is in long-run equilibrium.
- d. the economy is experiencing an inflationary gap.
- e. the unemployment rate is lower than the natural rate of unemployment.

- ___ 139. An economy is currently in the midst of a recession. An example of a government policy aimed at moving the economy back to potential GDP is:
- a. an increase in taxes.
 - b. an increase in government spending on infrastructure improvements.
 - c. an increase in the property tax.
 - d. a decrease in unemployment benefits.
 - e. a decrease in military spending.
- ___ 140. The multiplier effect of changes in government purchases of goods and services is equal to:
- a. $1/(1 - MPS)$.
 - b. $1/(1 - MPC)$.
 - c. $MPS/(1 - MPC)$.
 - d. $MPC/(1 - MPS)$.
 - e. MPS/MPC .
- ___ 141. If the marginal propensity to consume is .80, and the federal government decreases spending by \$200 billion, the income expenditure model would predict that real GDP will decrease by:
- a. \$160 billion.
 - b. \$200 billion.
 - c. \$800 billion.
 - d. \$1000 billion.
 - e. \$750 billion.
- ___ 142. When the economy expands, which of the following is true?
- a. Income tax receipts will rise but sales tax revenues will remain the same.
 - b. Income tax receipts will fall but sales tax revenues will rise.
 - c. Income tax receipts will stay the same unless the government changes the tax rates.
 - d. Income tax receipts and sales tax revenues will both rise.
 - e. Income tax receipts and sales tax revenues will both fall.
- ___ 143. Which of the following is an automatic stabilizer?
- a. Military spending on the war in Iraq.
 - b. Unemployment compensation payment to the unemployed auto workers.
 - c. Disability payments to the war veterans.
 - d. Medicare payments to the elderly.
 - e. Social Security payments to retired workers.
- ___ 144. Government transfer payments rise when the economy is contracting and fall when the economy is expanding. In this role, transfer payments are described as:
- a. automatic stabilizers.
 - b. discretionary fiscal policy.
 - c. balanced budget policy.
 - d. deficit reduction policy.
 - e. balanced foreign trade policy.
- ___ 145. The multiplier effect of government purchases of goods and services:
- a. has a more direct and greater impact than an equal amount of tax changes.
 - b. runs into fewer time lag issues than tax changes.
 - c. is a type of automatic stabilizer.
 - d. is useful for recessions but not for inflations.
 - e. is useful for inflations but not for recessions.
- ___ 146. Automatic stabilizers act like:
- a. automatic expansionary fiscal policy when the economy is in an inflation.

- b. automatic expansionary fiscal policy when the economy is in a recession.
- c. an additional multiplier effect.
- d. automatic contractionary policy when the economy is in a recession.
- e. automatic budget balancing policies when the economy is in a recession.

Scenario 22-1: Closed Economy $S = I$

In a closed economy suppose that GDP is \$12 trillion. Consumption is \$8 trillion and government spending is \$2 trillion. Taxes are \$0.5 trillion.

- ___ 147. Use **Scenario 22-1**. How much is national saving?
- a. \$3.5 trillion
 - b. \$3 trillion
 - c. \$2.5 trillion
 - d. \$2 trillion
 - e. \$1.5 trillion
- ___ 148. In a closed economy, national savings is equal to:
- a. (disposable income – consumption spending) – (tax receipts – government spending)
 - b. (disposable income – consumption spending) + (government spending – tax receipts)
 - c. (disposable income – consumption spending) + tax receipts
 - d. (consumption spending – disposable income) + (government spending – tax receipts)
 - e. (disposable income – consumption spending) + (tax receipts – government spending)
- ___ 149. The term “liquid asset” means:
- a. that the asset is used in a barter exchange.
 - b. that the asset is used as the medium of exchange.
 - c. that the asset is readily convertible to cash.
 - d. that the asset can be purchased if the market interest rate is low.
 - e. that the asset can be purchased only if the price is below equilibrium.
- ___ 150. When you take out a loan from a bank, it is:
- a. an asset to you and a liability to the bank.
 - b. an asset to you and an asset to the bank.
 - c. a liability to you and a liability to the bank.
 - d. a liability to you and an asset to the bank.
 - e. a liability to you and an asset to the government.
- ___ 151. Financial assets that carry more risk:
- a. usually have a lower rate of return.
 - b. usually have a higher rate of return.
 - c. are purchased by risk-averse buyers.
 - d. are a hedge against the future.
 - e. provide the investor with a guaranteed return on the asset.
- ___ 152. In an open economy, which of the following is true?
- a. $GDP = C + I + G + X - IM$
 - b. $GDP = C + I + G$
 - c. $GDP = T - TR - G$
 - d. $GDP = S_{private} + S_{government}$
 - e. $S_{private} = S_{government}$
- ___ 153. In an open economy:
- a. a country with a positive capital inflow will also have a situation where X are greater than IM .
 - b. savings of foreigners may be supporting investment spending.
 - c. capital inflows are always negative.
 - d. investment spending equals national savings.
 - e. the budget balance is negative.

- ___ 154. Money is:
- any asset the government says is money.
 - any asset that can easily be used to purchase goods and services.
 - any asset that has a positive value.
 - any asset the government says is money and that has a positive value.
 - any asset that can be exchanged in a market.
- ___ 155. Suppose you find a \$50 bill that you put in a coat pocket last winter. If you deposit it in your checking account:
- M1 increases by \$50.
 - M2 increases by \$50.
 - M1 and M2 both increase by \$50.
 - there is no change in M1 or M2.
 - M1 increases by \$50 and M2 decreases by \$50.
- ___ 156. If currency in circulation is \$100 million, demand deposits are \$500, savings deposits are \$300 million and travelers' checks are \$10 million, then the M1 money supply is:
- \$100 million.
 - \$410 million.
 - \$610 million.
 - \$900 million.
 - \$600 million.
- ___ 157. Today the dollar in your pocket is described as:
- commodity money.
 - near-money.
 - fiat money.
 - commodity-backed money.
 - barter money.
- ___ 158. Near-moneys are:
- paper money.
 - fiat money.
 - highly liquid financial assets.
 - any financial assets.
 - equivalent to checking deposits.
- ___ 159. Debit cards are:
- considered part of the money supply since they allow access to a part of the money supply.
 - are not generally accepted as a medium of exchange.
 - are less liquid than stocks and bonds.
 - create a liability for the user of the card.
 - are not considered part of the money supply as they are not paper currency.
- ___ 160. Paper money which has no intrinsic value but can be converted into a valuable good on demand and is used as a medium of exchange is an example of:
- fiat money.
 - commodity-backed money.
 - a stock.
 - a bond.
 - a credit card.

Assets	Liabilities
Reserves \$20,000	Deposits _____
Loans _____	

Table 25-1: Balance Sheet

- ___ 161. Use **Table 25-1**. If the reserve ratio is 25%, loans are:
- \$5,000.
 - \$15,000.
 - \$60,000.
 - \$80,000.
 - \$20,000.
- ___ 162. The reserve ratio is:
- the fraction of its deposits that a bank holds as reserves.
 - the fraction of its loans that a bank is required to hold.
 - the fraction of its loans that a bank holds as reserves.
 - the fraction of its assets that a bank is required to hold.
 - the fraction of its deposits that the bank is required to lend.
- ___ 163. A reserve ratio is the:
- proportion of cash and security reserves the bank needs to hold.
 - fraction of deposits that the bank is required to hold.
 - loan to deposit ratio in the bank's balance sheet.
 - money belonging to the bank's largest depositors.
 - fraction of deposits that the bank has lent to borrowers.
- ___ 164. Banks create money when they:
- make loans.
 - take deposits.
 - hold excess reserves.
 - pay withdrawals to depositors.
 - collect interest on loans.
- ___ 165. Suppose your grandma sends you \$100 for your birthday and you deposit \$100 into your checking account at the local bank. The reserve ratio is 10%. Based upon this deposit, the bank's reserves have increased by ___ and the bank's checkable deposits have increased by ___.
- \$100; \$100
 - \$100; \$90
 - \$90; \$100
 - \$10; \$100
 - \$110; \$100
- ___ 166. Suppose the banking system does NOT hold excess reserves and the reserve ratio is 20%. If Sam deposits \$500 of cash into his checking account, the banking system can increase the money supply by:
- \$5,000.
 - \$2,000.
 - \$2,500.
 - \$400.
 - \$1,000.
- ___ 167. If banks decide to hold some of their excess reserves instead of lending them all out, then:
- the money multiplier will be less than 1 divided by the required reserve ratio.
 - a loan of \$1 will lead to a change in the money supply by a multiple amount equal to 1 divided by the required reserve ratio.
 - the money multiplier becomes 1 divided by the excess reserves.
 - depositors will have to borrow more in order to increase the money supply.
 - the money multiplier will be larger than 1 divided by the required reserve ratio.
- ___ 168. The tools of conducting monetary policy include:
- changes in the reserve requirement.
 - changes in the prime rate.

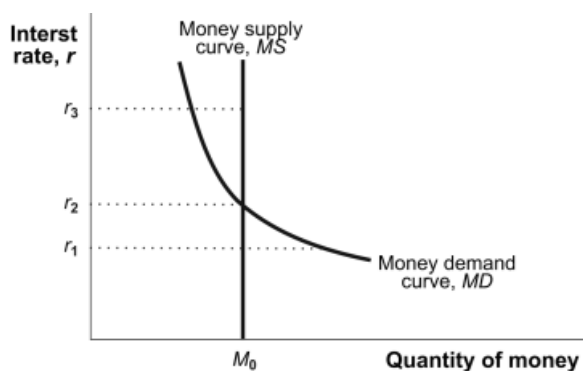
- c. open market purchases of corporate stock.
- d. changing tax rates.
- e. regulating the New York Stock Exchange.

- ___ 169. The Fed's main liabilities are:
- a. currency and bank reserves.
 - b. the facilities of the twelve district banks.
 - c. corporate stocks and bonds.
 - d. U.S. Treasury bills.
 - e. loans to member banks.
- ___ 170. To _____ the money supply, the Fed could _____.
- a. increase; decrease the money multiplier
 - b. decrease; lower the reserve requirements
 - c. increase; conduct open-market purchases
 - d. decrease; lower the discount rate
 - e. increase; increase government spending.
- ___ 171. If the Fed conducts a \$10 million open-market sale and the reserve requirement is 20%, the maximum change in the money supply is:
- a. an increase of \$10 million.
 - b. a decrease of \$10 million.
 - c. a decrease of \$8 million.
 - d. a decrease of \$50 million.
 - e. an increase of \$50 million.
- ___ 172. Suppose that the reserve ratio is 10% when the Fed buys \$100,000 of U.S. Treasury bills from the banking system. If the banking system does NOT want to hold any excess reserves, _____ will be added to the money supply.
- a. \$666,667
 - b. \$111,111
 - c. \$250,000
 - d. \$1,000,000
 - e. \$900,000
- ___ 173. Suppose that the reserve ratio is 10% when the Fed sells \$25,000 of U.S. Treasury bills to the banking system. If the banking system does NOT want to hold any excess reserves, _____ will be _____ the money supply.
- a. \$110,000; added to
 - b. \$110,000; subtracted from
 - c. \$250,000; subtracted from
 - d. \$250,000; added to
 - e. \$25,000; subtracted from
- ___ 174. The federal funds rate is the interest rate at which:
- a. banks borrow funds directly from the Federal Reserve.
 - b. banks borrow excess reserves from other banks.
 - c. influential companies borrow from banks.
 - d. households' savings are invested in the Federal Reserve.
 - e. the government borrows funds from the Federal Reserve.
- ___ 175. Generally, the more liquid an asset is:
- a. the lower its purchasing power.
 - b. the lower its rate of return.
 - c. the higher its capacity to store value over time.
 - d. the higher its rate of return.
 - e. the more difficult it is to convert to cash.
- ___ 176. If inflation increases from 2% to 5%, the money demand curve will:
- a. remain constant, but the quantity of money demanded will increase.

- b. remain constant, but the quantity of money demanded will decrease.
- c. shift to the left.
- d. shift to the right.
- e. be unaffected.

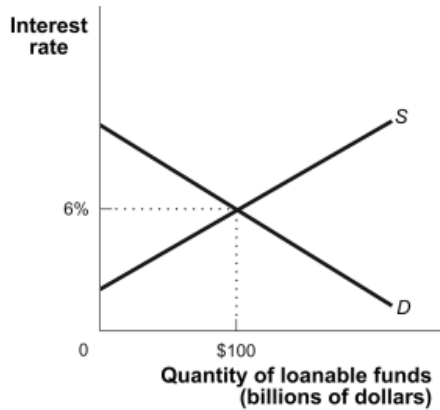
- ___ 177. Improvements in information technology have:
- a. shifted the demand for cash to the right.
 - b. decreased the demand for money.
 - c. not affected the demand for money
 - d. increased the demand for money.
 - e. increased the transaction demand for money.
- ___ 178. If the equilibrium interest rate in the money market is 5%, at an interest rate of 2%:
- a. sellers of interest-bearing financial assets must offer higher interest rates to find willing buyers.
 - b. sellers of interest-bearing financial assets must offer lower interest rates to find willing buyers.
 - c. sellers of interest-bearing financial assets can offer 2% interest and still find willing buyers.
 - d. There is a surplus of money in the money market.
 - e. the money market is in equilibrium.
- ___ 179. According to the liquidity preference model, the equilibrium interest rate is determined by:
- a. the supply and demand for loanable funds.
 - b. the supply and demand for money.
 - c. the government.
 - d. the U.N.
 - e. the central bank.
- ___ 180. If the federal reserve wants to lower the interest rate, it will:
- a. decrease the money supply.
 - b. increase the money supply.
 - c. Increase the money demand.
 - d. mandate a lower interest rate.
 - e. decrease the money demand.

Figure 28-2: A Money Market



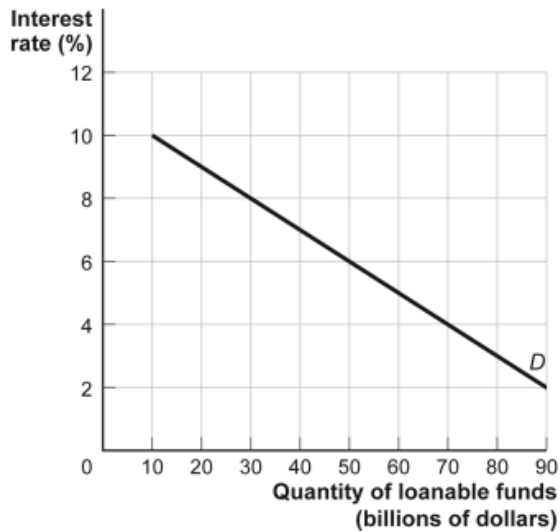
- ___ 181. Use the “A Money Market” Figure 28-2. The accompanying graph shows the money market in equilibrium at an interest rate of r_2 . Holding money supply constant, which of the following might cause the interest rate in the market to decrease to r_1 ?
- a. The inflation rate falls to historically low levels.
 - b. Higher payroll taxes cause employers to pay workers cash “under the table.”
 - c. There is a recession that decreases real GDP.
 - d. There is a significant increase in value of wealth in the stock market.
 - e. Congress increases ATM fees for withdrawing money.

Figure 29-1: Loanable Funds



182. Use the “**Loanable Funds**” **Figure 29-1**. The accompanying graph shows the market for loanable funds in equilibrium. Which of the following might produce a new equilibrium interest rate of 8% and a new equilibrium quantity of loanable funds of \$150?
- Consumers have increased consumption as a fraction of disposable income.
 - Businesses have become more optimistic about the return on investment spending.
 - The federal government has a budget surplus rather than a budget deficit.
 - There has been an increase in capital inflows from other nations.
 - Forecasts for future corporate profits are gloomier than expected.

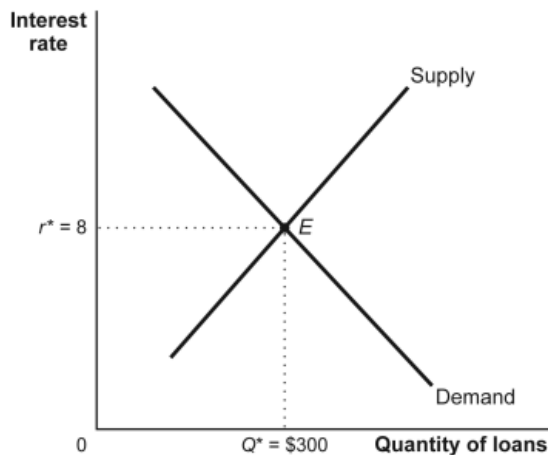
Figure 29-2: Demand for Loanable Funds



183. Use the “**Demand for Loanable Funds**” **Figure 29-2**. According to the accompanying figure, when the interest rate is 6%, the quantity demanded of loanable funds will equal:
- \$30 billion.
 - \$40 billion.
 - \$50 billion.
 - \$60 billion.
 - \$70 billion.
184. If a one-year project costs \$100,000 and is expected to return the firm \$105,000, then the rate of return of the project is:
- 4.8%.
 - 5%.

- c. \$5,000.
- d. \$105,000.
- e. 105%.

Figure 29-8: Market for Loanable Funds II



- ___ 185. Use the “**Market for Loanable Funds II**” **Figure 29-8**. A decrease in government borrowing will shift the demand for loanable funds to the:
- a. left and increase the interest rate.
 - b. right and decrease the interest rate.
 - c. right and increase the interest rate.
 - d. left and decrease the interest rate.
 - e. left and have no impact on the interest rate.
- ___ 186. The Fisher Effect states that:
- a. the nominal rate of interest is unaffected by the change in expected inflation.
 - b. the nominal rate of interest is unaffected by the change in unexpected inflation.
 - c. the expected real rate of interest is unaffected by the change in expected inflation.
 - d. the expected real rate of interest increases by one percentage point for each percentage point change in expected inflation.
 - e. the nominal rate of interest increases by one percentage point for each one percentage point decrease in expected inflation.
- ___ 187. Crowding out negatively affects the economy by:
- a. decreasing government borrowing.
 - b. decreasing consumption.
 - c. increasing private borrowing.
 - d. reducing investment spending on physical capital.
 - e. decreasing government deficits.

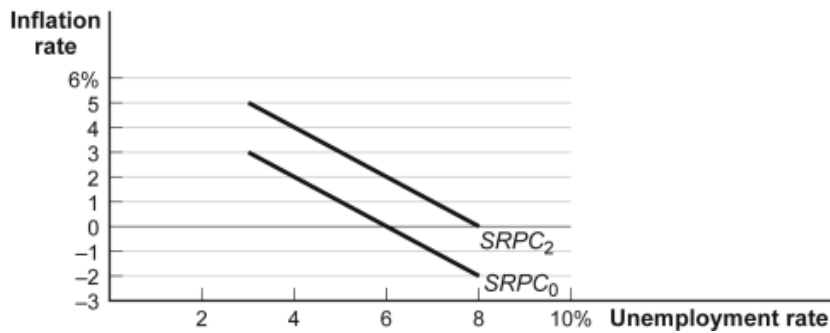
Project	Rate of Return on investment	Cost of investment
F	20%	\$500
G	18	300
H	16	1,000
I	14	200
J	12	2,000
K	10	1,500
L	8	1,200
M	6	800

Table 29- 2: Investment Projects

- ___ 188. Use **Table 29- 2**. If the market interest rate is 13%, the amount of planned investment spending is:
- \$200.
 - \$800.
 - \$1,000.
 - \$2,000.
 - \$3,500.
- ___ 189. According to the short-run Phillips curve, when actual real GDP is _____ potential output, the price level _____ and the unemployment rate falls.
- below; increases
 - above; decreases
 - below; decreases
 - above; increases
 - equal to; increases
- ___ 190. The short-run Phillips curve shows:
- a direct relationship between unemployment and inflation.
 - an inverse relationship between unemployment and inflation.
 - consequences of the misperceptions theory.
 - the optimum level of employment.
 - an inverse relationship between unemployment and the real interest rate.

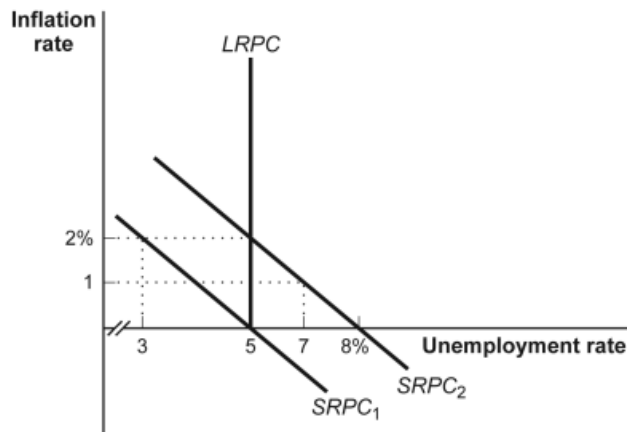
Figure 34-1: Expected Inflation and the Short-Run Phillips Curve

$SRPC_0$ is the Phillips curve with an expected inflation rate of 0%; $SRPC_2$ is the Phillips curve with an expected inflation rate of 2%.



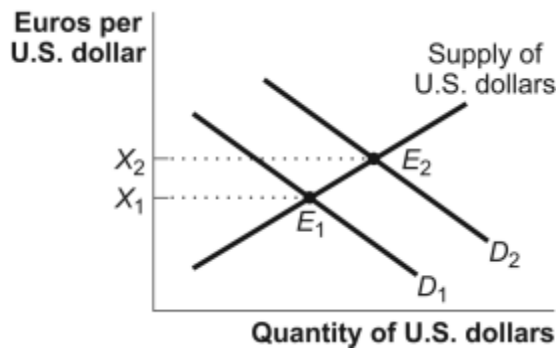
- ___ 191. Use the “**Expected Inflation and the Short-Run Phillips Curve**” **Figure 34-1**. Suppose that this economy currently has an unemployment rate of 6%, inflation of 0%, and no expectation of future inflation. If the central bank increases the money supply such that aggregate demand shifts to the right and unemployment falls to 4%, then inflation would:
- decrease to -2%.
 - not change.
 - increase to 2%.
 - increase to 4%.
 - increase to 8%.
- ___ 192. Along a Phillips curve:
- consumption depends on prices.
 - the inflation rate varies inversely with the unemployment rate.
 - the inflation rate varies directly with the unemployment rate.
 - prices and tax rates are directly related.
 - the interest rate varies inversely with investment spending.

Figure 34-2: Short-Run Phillips Curve



- ___ 193. Use the “**Short-Run Phillips Curve**” Figure 34-2. $SRPC_1$ is based on an expected inflation rate of:
- 0%.
 - 1%.
 - 2%.
 - 3%.
 - 5%.
- ___ 194. When economists state that there is a zero bound on nominal interest rates, they mean that:
- the real interest rate cannot go below zero, but the nominal rate can go below zero.
 - the nominal interest rate cannot go below zero, but the real interest rate can go below zero.
 - both the real and nominal interest rates can go below zero.
 - the nominal interest rate can go below zero, while the real interest rate is equal to zero.
 - neither the nominal nor the real interest rate can go below zero.
- ___ 195. If an economy's short-run Phillips curve shifts up, this is most likely due to:
- a change in the inflation rate.
 - an increase in the unemployment rate.
 - an increase in expected inflation.
 - a contractionary fiscal policy.
 - an expansionary fiscal policy.
- ___ 196. When the value of a sterling pound changes from US\$1.50 to US\$2.00, it follows that the:
- U.S. dollar has depreciated.
 - British pound has depreciated.
 - U.S. dollar has appreciated.
 - value of a U.S. dollar has gone from £0.5 to £0.6. E. products made in Britain have just doubled in price for American consumers.
- ___ 197. When the U.S. dollar appreciates relative to the Canadian dollar, then:
- Canadian goods become more expensive here.
 - American goods become more expensive in Canada.
 - the US will tend to buy more from Canada.
 - the US will sell more goods to Canada.
 - the US will import fewer goods from Canada.
- ___ 198. The market in which currencies can be exchanged for each other is known as the:
- loanable funds market.
 - money market
 - global stock market.
 - bond market.
 - foreign exchange market.

Figure 42-1: Change in the Demand for U.S. Dollars



- ___ 199. Use the “**Change in the Demand for U.S. Dollars**” **Figure 42-1**. The change from D_1 to D_2 would occur, all other things being equal, if the:
- supply of euros decreases.
 - demand for euros increases.
 - demand for euros decreases.
 - demand for dollars increases.
 - demand for dollars decreases
- ___ 200. Use the “**Change in the Demand for U.S. Dollars**” **Figure 42-1**. A flow of capital from Europe to the United States would cause a movement in this foreign exchange market that is best represented by the shift from:
- D_2 to D_1 .
 - E_2 to E_1 .
 - D_1 to D_2 .
 - There would be no shift in the foreign exchange market.
 - X_2 to X_1 .
- ___ 201. In the foreign exchange market, when the demand for the euro increases, the equilibrium U.S. dollar price of the euro _____ and the U.S. dollar _____.
- rises; appreciates
 - falls; depreciates
 - falls; appreciates
 - rises; depreciates
 - remains constant; remains constant
- ___ 202. In the foreign exchange market, an increase in the rate of return available in the European Union, all other things equal, will shift the _____ and the euro will _____.
- supply curve of the U.S. dollar to the left; depreciate
 - supply curve for the euro to the right; depreciate
 - demand curve for the euro to the left; depreciate
 - demand curve for the U.S. dollar to the right; appreciate
 - demand curve for the euro to the right; appreciate