

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Full-employment output is: 1) _____
 - A) the level of output that is produced when there is no voluntary unemployment.
 - B) the level of output that is produced when the unemployment rate is zero.
 - C) the level of output that is produced when the labor market is in equilibrium.
 - D) the level of output that is produced when there is no idle capital stock.

- 2) If the economy is in equilibrium at full employment, an increase in aggregate demand will: 2) _____
 - A) increase the price level and leave the level of output unchanged in the long run.
 - B) decrease the price level and leave the level of output unchanged in the long run.
 - C) increase both the price level and the level of output in the long run.
 - D) decrease both the price level and the level of output in the long run.

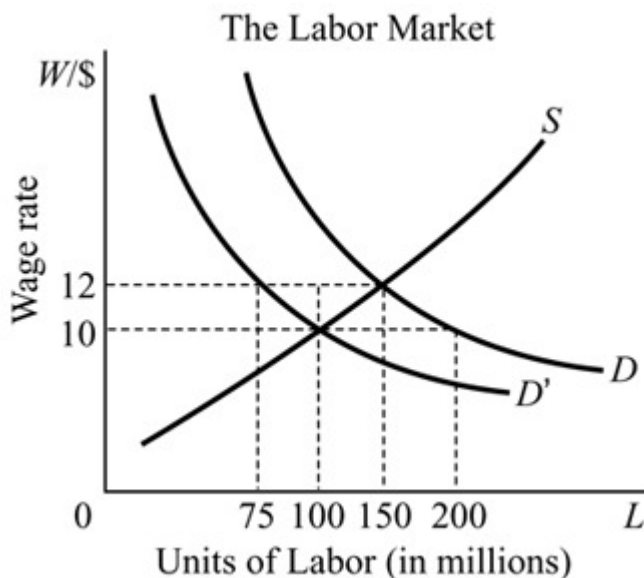


Figure 7.3

- 3) Refer to Figure 7.3. The classical economists argued the wage rate will _____ from _____ if the demand for labor changes from D' to D . 3) _____
 - A) not change; \$12
 - B) fall; \$12 to \$10
 - C) not change; \$10
 - D) rise; \$10 to \$12

TRUE/FALSE. Mark 'A' if the statement is true and 'B' if the statement is false.

- 4) Anticipated inflation hurts the lenders and benefits the borrowers. 4) _____

- 5) Among all age groups, workers 16–19 years old have the highest unemployment rate. 5) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 6) The largest category of federal spending is: 6) _____
 - A) entitlements and mandatory spending.
 - B) net interest.
 - C) discretionary spending.
 - D) none of the above

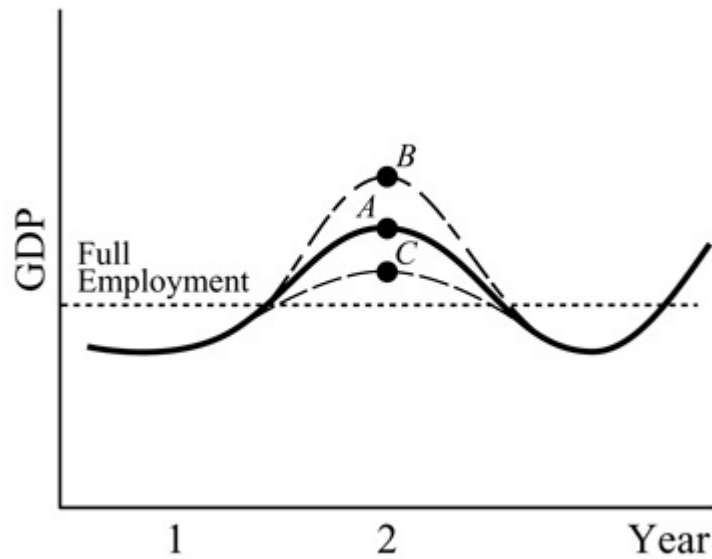


Figure 10.2

- 7) Refer to Figure 10.2 to answer the question below. Points *A*, *B*, and *C* correspond to a GDP level in Year 2. Suppose that in Year 1 the economy was projected to be at Pt. *A* by Year 2. Which of the following policies could bring the economy to Point *B* instead? 7) _____
- A) a correctly timed tax cut
 - B) an ill-timed tax cut
 - C) an ill-timed tax increase
 - D) a correctly timed tax increase

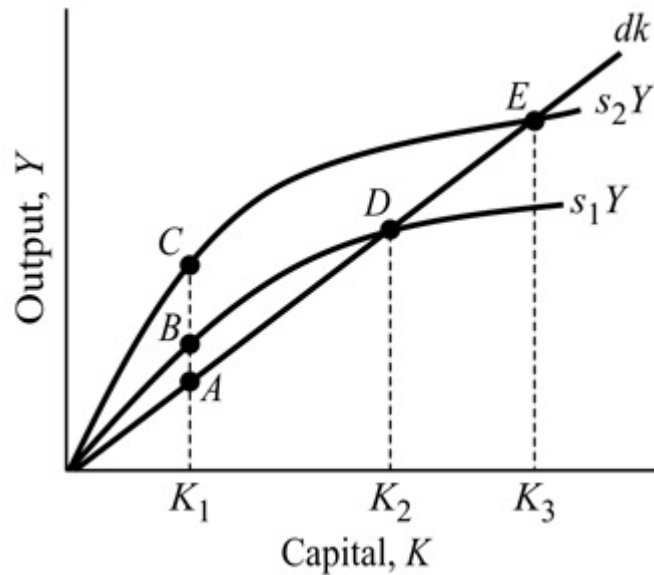


Figure 8.1

- 8) Refer to Figure 8.1. If the saving rate is s_1 , the economy reaches the long run equilibrium at: 8) _____
- A) pt. *C*.
 - B) pt. *A*.
 - C) pt. *D*.
 - D) pt. *E*.
- 9) If the consumption function is $C = 200 + 0.8Y$ and there is a \$10 million increase in investment spending, then the aggregate demand curve will shift horizontally to the right by: 9) _____
- A) \$2 million.
 - B) \$50 million.
 - C) \$8 million.
 - D) \$12.5 million.

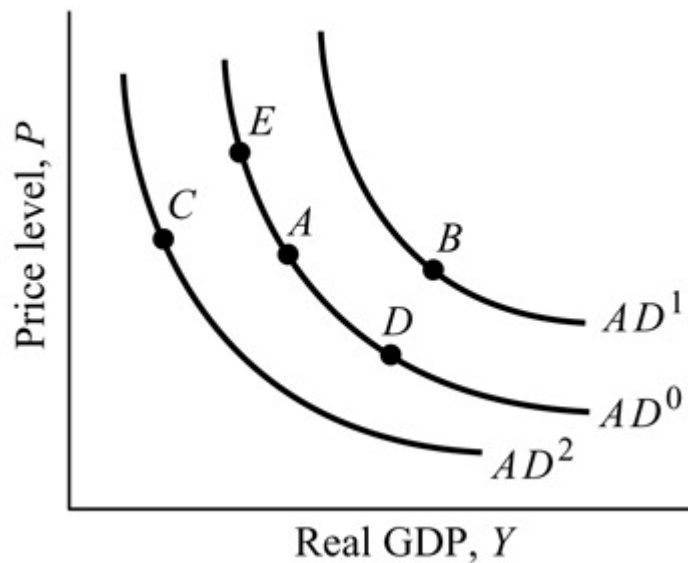


Figure 9.2

- 10) Refer to Figure 9.2. Suppose the economy is at Point A, an increase in the price level causes a movement to Point: 10) _____
 A) D. B) C. C) B. D) E.
- 11) The average growth rate of the US economy in terms of real GDP over the past 80 years is around 11) _____
 A) 5.5 percent B) 2.5 percent C) 3.5 percent D) 1.5 percent
- 12) Suppose there are three economies with 3 different consumption functions: 12) _____
 Country A: $C = 100 + 0.8Y$
 Country B: $C = 200 + 0.75 Y$
 Country C: $C = 75 + 0.9Y$
- In which of these countries is the multiplier the largest?
 A) Country A B) Country C
 C) Country B D) All countries have the same multipliers.
- 13) A tax on labor causes a larger drop in equilibrium employment when: 13) _____
 A) the labor supply curve is flat than when it is steep.
 B) the labor supply curve is steep than when it is flat.
 C) the labor demand curve is steep than when it is flat.
 D) the labor demand curve is flat than when it is steep.

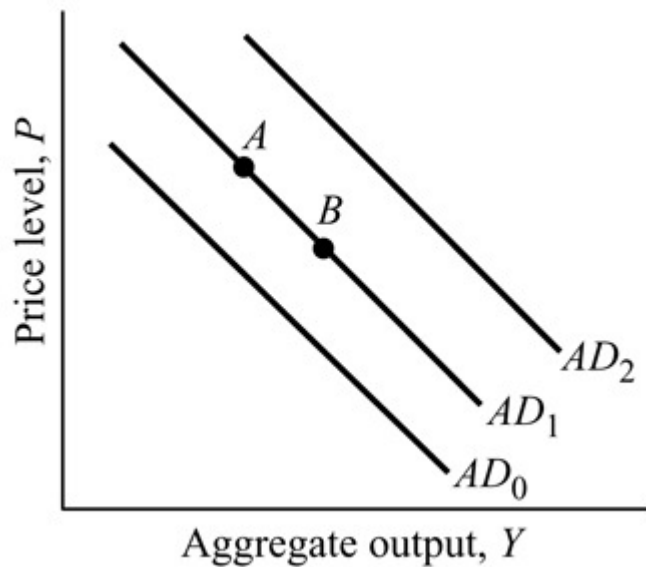


Figure 9.1

- 14) Refer to Figure 9.1. A reduction in government spending causes: 14) _____
- A) the economy to move from Point A to Point B, but will not shift the aggregate demand curve.
 - B) the aggregate demand curve to shift from AD_1 to AD_0 .
 - C) the aggregate demand curve to shift from AD_1 to AD_2 .
 - D) neither a shift of the aggregate demand curve nor a change in real GDP.

- 15) A "menu cost" is the cost associated with: 15) _____
- A) trying to reduce holdings of cash.
 - B) designing a new menu for a restaurant.
 - C) buying new shoes.
 - D) changing price lists when there is inflation.

TRUE/FALSE. Mark 'A' if the statement is true and 'B' if the statement is false.

- 16) According to the Solow Model, an increase in technology will always result in an increase in output. 16) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 17) The economy moves from a short-run equilibrium to the long-run equilibrium through: 17) _____
- A) supply shocks.
 - B) demand shocks.
 - C) adjustments in wages and prices.
 - D) improvements in technology.

- 18) In the long run, an increase in the money supply will cause output: 18) _____
- A) to remain the same.
 - B) to decrease.
 - C) to increase.
 - D) to fluctuate up and down.

- 19) US GDP per capita in 2015 was around 19) _____
- A) 55,000
 - B) 65,000
 - C) 35,000
 - D) 45,000

TRUE/FALSE. Mark 'A' if the statement is true and 'B' if the statement is false.

- 20) Prices of inputs tend to be sticky in the short run because of informal and formal price arrangements between the buyer and seller of inputs. 20) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 21) The labor supply curve is based on the decision of: 21) _____
A) firms on how many workers to hire.
B) firms on how many goods and services to produce.
C) workers on how many hours to work and how much to enjoy as leisure.
D) workers on how much income to spend.
- 22) According to the international effect explanation of the downward slope of the *AD* curve, a lower price level in the U.S. economy causes: 22) _____
A) U.S. imports and U.S. exports to increase.
B) U.S. imports to decrease and U.S. exports to increase.
C) U.S. imports to increase and U.S. exports to decrease.
D) U.S. imports and U.S. exports to decrease.

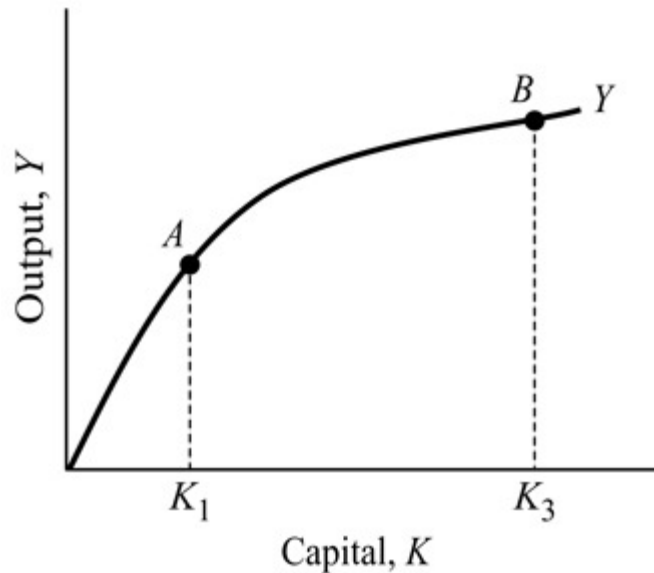


Figure 8.3

- 23) Refer to Figure 8.3. Compared to point A, being at point B implies: 23) _____
A) a higher level of investment. B) a higher level of capital.
C) a higher income level. D) all of the above
- 24) When the economy is in a boom, the intersection between the: 24) _____
A) long run *AS* and the *AD* occurs at an output level higher than potential output.
B) long run *AS* and the *AD* occurs at an output level lower than potential output.
C) short run *AS* and the *AD* occurs at an output level lower than potential output.
D) short run *AS* and the *AD* occurs at an output level higher than potential output.

- 25) When we draw the aggregate demand curve, _____ should be on the x-axis and _____ should be on the y-axis. 25) _____
 A) price; quantity B) real GDP; inflation
 C) quantity; price D) real GDP; the price level
- 26) If the marginal propensity to consume is 0.2, the value of the marginal propensity to save is: 26) _____
 A) 5. B) 1.25. C) 2. D) 0.8.
- 27) An increase in the government expenditures will: 27) _____
 A) shift the aggregate expenditures line downwards and shift the aggregate demand curve to the right.
 B) shift the aggregate expenditures line upwards and shift the aggregate demand curve to the left.
 C) shift the aggregate expenditures line downwards and shift the aggregate demand curve to the left.
 D) shift the aggregate expenditures line upwards and shift the aggregate demand curve to the right.
- 28) When the economy experiences a recession, the: 28) _____
 A) labor demand increases and the equilibrium wage drops.
 B) the supply increases and the equilibrium wage increases.
 C) labor demand decreases and the equilibrium wage drops.
 D) the supply decreases and the equilibrium wage decreases.

TRUE/FALSE. Mark 'A' if the statement is true and 'B' if the statement is false.

- 29) Higher taxes is an example of an expansionary fiscal policy. 29) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 30) Entitlement and mandatory spending consist of: 30) _____
 A) interest payments on government debt held by the public.
 B) all the programs authorized by Congress on an annual basis.
 C) all the spending that Congress authorized by prior laws.
 D) all of the above.
- 31) Cyclical unemployment is the: 31) _____
 A) unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.
 B) portion of unemployment that is due to mismatches between skills and jobs that result in a significant loss of jobs in certain industries.
 C) unemployment that occurs during recessions and depressions.
 D) portion of unemployment that is due to the normal working of the labor market.
- 32) The official unemployment rate in the US in 2015 was around 32) _____
 A) 4.5 percent B) 5.5 percent C) 7.5 percent D) 6.5 percent

- 33) As a large proportion of the population retire in the next few years, what would happen to the federal revenue? 33) _____
- A) It would decrease, as social security tax revenues decrease.
 - B) It would decrease, as estate and excise taxes decrease.
 - C) It would increase, as social security payments increase.
 - D) It would increase, as corporate tax revenues increase.
- 34) The idea that wages and prices adjust freely and quickly to changes in the demand and supply is adopted and defended by: 34) _____
- A) classical economists.
 - B) Keynesian economists.
 - C) fine-tuning economists.
 - D) demand-side economists.

TRUE/FALSE. Mark 'A' if the statement is true and 'B' if the statement is false.

- 35) An increase in the price level lowers the real value of wealth. 35) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 36) Using the rule of 70, how many years would it take for David's income to double if he was to experience a 4 percent increase in income each year? 36) _____
- A) 28
 - B) 17.5
 - C) 35
 - D) 22
- 37) Which of the following will not cause the price level to increase in the long run? 37) _____
- A) a decrease in income taxes
 - B) a decrease in the interest rates
 - C) an increase in government spending
 - D) a decrease in the money supply

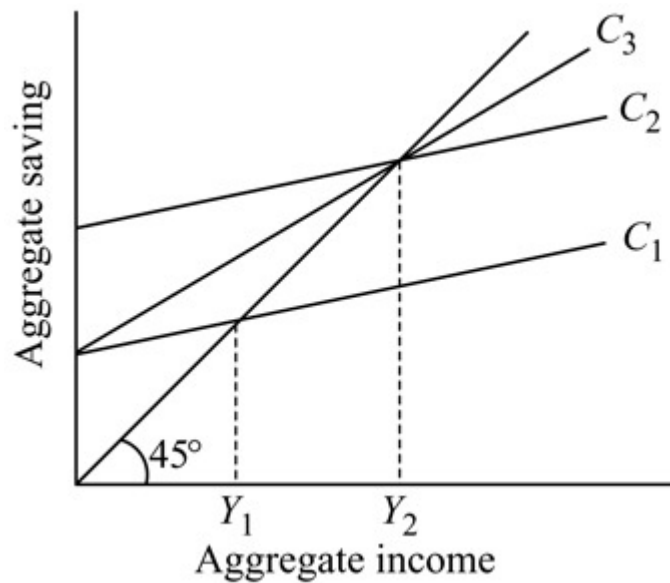


Figure 11.2

- 38) Refer to Figure 11.2. Which consumption function has the largest marginal propensity to consume? 38) _____
- A) C₁
 - B) C₂
 - C) C₃
 - D) cannot be determined from the figure
- 39) US GDP in 2015 was around 39) _____
- A) 18.9 trillion
 - B) 17.9 trillion
 - C) 16.9 trillion
 - D) 15.9 trillion

40) The aggregate demand curve shows a(n) _____ relationship between the _____.

40) _____

- A) positive; price level and real GDP
- B) positive; interest rate and investment
- C) negative; price level and real GDP
- D) negative; level of real GDP and investment

Answer Key

Testname: 2016-FALL-HYBRID-MT2

- 1) C
- 2) A
- 3) D
- 4) FALSE
- 5) TRUE
- 6) A
- 7) B
- 8) C
- 9) B
- 10) D
- 11) B
- 12) B
- 13) A
- 14) B
- 15) D
- 16) TRUE
- 17) C
- 18) A
- 19) A
- 20) TRUE
- 21) C
- 22) B
- 23) D
- 24) D
- 25) D
- 26) D
- 27) D
- 28) C
- 29) FALSE
- 30) C
- 31) C
- 32) B
- 33) A
- 34) A
- 35) TRUE
- 36) B
- 37) D
- 38) C
- 39) B
- 40) C