

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

- 1) The market demand curve is: 1) _____
A) always horizontal. B) upward sloping.
C) negatively sloped. D) always vertical
- 2) When the price of peanuts falls: 2) _____
A) the demand for peanuts decreases.
B) the quantity demanded of peanuts increases.
C) the demand for peanuts increases.
D) the quantity demanded of peanuts decreases.
- 3) Suppose that consumption expenditures, investment expenditures, and government purchases are 75 billion, 25 billion and 20 billion, respectively. How large should the GDP be so that the net exports is zero? 3) _____
A) 120 billion B) 70 billion C) -25 billion D) -100 billion
- 4) One major lesson that we learn from the circular flow diagram is that: 4) _____
A) taxes must always be greater than government expenditures.
B) saving must always be less than investment.
C) total income in the economy must always equal total spending.
D) all of the above.
- 5) Some costs associated with anticipated inflation are: 5) _____
A) outsourcing and a larger trade deficit. B) transaction and settlement costs.
C) menu and shoe-leather costs. D) opportunity and marginal costs.
- 6) The number of people unemployed equals: 6) _____
A) the number of people employed divided by the labor force.
B) the labor force minus the number of people employed.
C) the labor force plus the number of people employed.
D) the number of people employed minus the labor force.
- 7) Because GDP must be divided among competing demands in the economy, we should expect: 7) _____
A) increases in consumption to reduce net exports when the economy is in full employment.
B) increases in private saving to reduce private investment when the economy is in full employment.
C) increases in government expenditure to reduce private investment when the economy is in full employment.
D) increases in imports to reduce exports when the economy is in full employment.
- 8) When constructing a production function between labor and output, which is drawn on the x-axis? 8) _____
A) capital B) output C) technology D) labor

Recall Application 1, "Global Warming, Rich Countries and Poor Countries," to answer the following questions:

- 9) Based on what you learned from the application, which countries are negatively affected by global warming? 9) _____
 A) industrialized countries B) poor countries
 C) rich countries D) poor and rich countries

Recall Application 5, "The Role of Political Factors in Economic Growth," to answer the following questions:

- 10) According to the application, which of the following is an example of authoritarian institutions? 10) _____
 A) tightly controlled oligarchies B) limited-monarchies
 C) democracies D) All of the above are correct.
- 11) Can the aggregate demand curve slope upwards? 11) _____
 A) Yes, if the aggregate supply curve is downward sloping.
 B) No.
 C) Yes, if the economy experiences inflation.
 D) Yes, always.
- 12) The largest category of discretionary federal spending is: 12) _____
 A) funding for the State Department.
 B) funding for the Environmental Protection Agency.
 C) funding for the Defense Department.
 D) funding for the Interior Department.

Aggregate Output (\$ billions)	Aggregate Consumption (\$ billions)	Investment (\$ billions)
200	300	50
400	450	50
600	600	50
800	750	50
1,000	900	50

Table 11.2

- 13) Refer to Table 11.2. At an aggregate output level of \$200, inventories will: 13) _____
 A) decrease by 150. B) increase by 50.
 C) decrease by 100. D) increase by 150.
- 14) A variable is considered procyclical if it moves: 14) _____
 A) in a different direction as inflation. B) in the same direction as real GDP.
 C) in the same direction as unemployment. D) in a different direction as real GDP.
- 15) The development of money as a medium of exchange makes trade easier because: 15) _____
 A) money eliminates the "double coincidence of wants" problem.
 B) holding money increases people's wealth.
 C) no other mediums of exchange are available.
 D) holding money increases people's income.

- 16) Assume that total deposits in the banking system are \$200 million. If the required reserve ratio is increased, then the money supply will: 16) _____
 A) increase.
 B) decrease.
 C) not change because there was no change in deposits.
 D) not change because the required reserve ratio has no impact on the money supply.
- 17) If wages are sticky downward, then a decrease in the demand for labor: 17) _____
 A) will bring the economy back to full employment.
 B) will cause wages to drop in the short run.
 C) will cause more unemployment in the short run.
 D) will cause an increase in production in the short run.
- 18) Hyperinflation causes inefficiency in the economy because: 18) _____
 A) people spend none of their time hunting for bargains.
 B) people spend all their time working.
 C) people spend all their time hunting for bargains.
 D) people spend all their time hunting for jobs.
- 19) Replacing the personal income tax with a consumption tax would: 19) _____
 A) increase overall federal revenues from taxation.
 B) favor all taxpayers equally, regardless of their personal wealth.
 C) favor poor and low income individuals.
 D) favor wealthy and high income individuals.
- 20) During the 1980s, firms from _____ were accused of dumping VCRs in Europe. 20) _____
 A) Mexico B) Taiwan C) Korea D) Japan
- 21) Which of the following units of measurement would be appropriate for a real exchange rate? 21) _____
 A) 10 percent per year
 B) 1 Mexican T-shirt per \$5
 C) 3 bushels of Mexican corn per bushel of U.S. corn
 D) 150 yen per U.S. dollar
- 22) If at a price of \$1000, 8 different laptop manufacturers are willing to sell 20 laptops each. If the 8 manufacturers are the only sellers of laptops in the market, then at a price of \$1000, there are _____ laptops supplied in the market. 22) _____
 A) 8 B) 820 C) 160 D) 20

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	150	200	230	\$1.00	\$1.20	\$1.30
Good Y	100	120	180	\$0.80	\$1.00	\$1.10

Table 5.4

- 23) Refer to Table 5.4. Suppose this economy produces only the two goods X and Y. Nominal GDP in year 2 is: 23) _____
 A) \$497. B) \$448. C) \$360. D) \$296.

- 24) A person who is currently actively looking for a job, but has a job that pays for 5 hours a week only is classified by the BLS as: 24) _____
 A) under 16. B) employed.
 C) unemployed. D) not in the labor force.
- 25) In a production function that is graphed with output on the y-axis and labor on the x-axis, an increase in the labor stock is illustrated as: 25) _____
 A) a downward shift in the production function.
 B) a downward movement along the production function.
 C) an upward movement along the production function.
 D) an upward shift in the production function.

Recall Application 1, "Global Warming, Rich Countries and Poor Countries," to answer the following questions:

- 26) Based on what you learned from the application, which industries are negatively affected by global warming? 26) _____
 A) agriculture and light manufacturing in poor and rich countries
 B) agriculture and light manufacturing in rich countries
 C) agriculture in rich countries and light manufacturing in poor countries
 D) agriculture and light manufacturing in poor countries
- 27) In the short run, the primary determinant of output of firms is the: 27) _____
 A) level of prices. B) future price.
 C) level of demand. D) availability of inputs.
- 28) Although running a budget deficit during a recession should not be a source of concern, running a budget deficit when there is no recession is a bad policy due to: 28) _____
 A) long inside lags. B) crowding out.
 C) crowding in. D) long outside lags.
- 29) Assume there is no government or foreign sector. If the multiplier is 5, a \$10 billion increase in investment will cause equilibrium output to increase by: 29) _____
 A) \$5 billion. B) \$200 billion. C) \$10 billion. D) \$50 billion.
- 30) The Q-theory of investment: 30) _____
 A) suggests that taxes and the real interest rate are the most important determinants of investment spending.
 B) links investment spending to stock prices.
 C) says that an increase in real interest rates will cause an increase in investment.
 D) was developed by John Maynard Keynes.
- 31) The gold standard is an example of which type of a monetary system? 31) _____
 A) commodity money system B) fiat money system
 C) barter system D) All of the above are correct.
- 32) An increase in the British interest rate relative to the U.S. interest rate will cause a(n): 32) _____
 A) depreciation of the dollar and an appreciation of the British pound.
 B) appreciation of the dollar and a depreciation of the British pound.
 C) appreciation of the dollar and an appreciation of the British pound.
 D) depreciation of the dollar and a depreciation of the British pound.

33) When generating a political business cycle, a politician chooses lower unemployment in the _____ over inflation and crowding out in the _____. 33) _____
A) long run; short run B) short run; long run
C) short run; short run D) long run; long run

34) The reason why individuals have more money demand when their inflation expectations increase is because: 34) _____
A) they need more money in their pockets when prices go up so that they could buy the same goods and services.
B) they need less money in their pockets when prices go up so that they could buy the same goods and services.
C) they need to find another job when prices go up so that they could buy the same goods and services.
D) they need a higher wage when prices go up so that they could buy the same goods and services.

Recall Application 3, "Is a VAT in our Future?" to answer the following questions.

35) According to the application, what is the difference between a VAT and a sales tax? 35) _____
A) The sales tax is regressive while the VAT is not.
B) The sales tax is easy to collect while the VAT is not.
C) The VAT is already embedded in the price of the good, while sales taxes are paid upon purchase.
D) The sales tax is a consumption tax while the VAT is not.

36) Do most infant industries become as efficient as their international competition? 36) _____
A) Yes, but only after decades of protection.
B) No. This rarely happens.
C) Yes, but only if they get very large protection.
D) Yes, it always happens.

37) The Asian financial crisis of 1997 was due to the fact: 37) _____
A) that Asian inflation rates were out of control.
B) that Asian countries experienced increasingly larger trade deficits.
C) that loss of confidence in several economies resulted in the massive selling of their currencies.
D) that the U.S. continuously raised its interest rates.

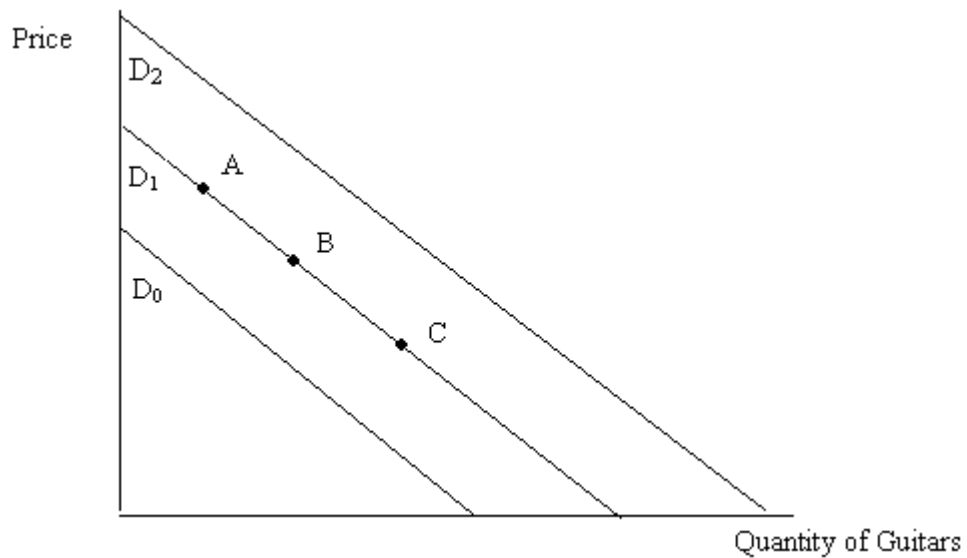


Figure 4.4

- 38) Figure 4.4 illustrates the demand for guitars. Assume that guitars and guitar strings are complements. A decrease in the price of guitar strings would bring about a movement from: 38) _____
- A) point B to point C. B) point B to point A.
 C) D_1 to D_0 . D) D_1 to D_2 .
- 39) If a farmer buys a new tractor from John Deere for use on her cotton farm, it is included in GDP as: 39) _____
- A) a nondurable consumption good. B) part of private investment.
 C) a durable consumption good. D) a service.
- 40) Which of the following individuals are hurt when the economy experiences unanticipated inflation? 40) _____
- A) fixed income earners
 B) lenders
 C) savers
 D) All of the above are hurt by unanticipated inflation.

Answer Key

Testname: FINALOLD

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