

Name _____

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

- 1) In an economy with no government or foreign sector, it is always true that: 1) _____
A) saving is positive. B) saving equals investment.
C) investment is positive. D) all of the above.
- 2) Which of the following will not lead to greater economic growth? 2) _____
A) government taxation of the private sector in order to engage in consumption spending
B) more resources
C) government investment in infrastructure
D) technological improvements
- 3) If the capital-labor ratio of an economy decreases, *ceteris paribus*: 3) _____
A) output may increase even without improvements in technology.
B) output per person stays the same.
C) output increases.
D) output decreases because of diminishing marginal returns.
- 4) With the use of growth accounting, which of the following helps explain why the growth rate in the United States has been positive during the 1900s? 4) _____
A) the reduction in oil prices B) the increase in capital per worker
C) the reduction in nominal wages D) the increase in the minimum wage
- 5) In an open economy, a country can accelerate growth by: 5) _____
A) increasing the trade deficit and exporting investment goods.
B) decreasing the trade deficit and importing investment goods.
C) increasing the trade deficit and importing consumption goods.
D) increasing the trade deficit and importing investment goods.
- 6) According to the rule of 70, if Variable A grows at x% each year, then Variable A will double in approximately: 6) _____
A) $70x$ years. B) $x/70$ years. C) $70/x$ years. D) $70(1-x)$ years.

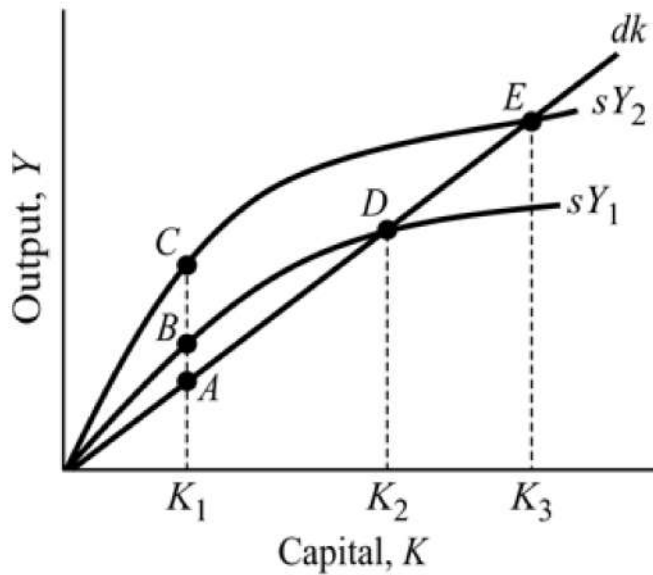


Figure 8.2

- 7) Refer to Figure 8.2 The increase in the equilibrium capital stock from K_2 to K_3 was brought about by: 7) _____
- A) an increase in the saving rate. B) a decrease in the population growth rate.
 C) an improvement in technology. D) an increase in the investment rate.
- 8) Which of the following will not cause the price level to increase in the long run? 8) _____
- A) an increase in government spending B) a decrease in the interest rates
 C) a decrease in income taxes D) a decrease in the money supply
- 9) When output falls below full employment output, we expect that the: 9) _____
- A) wages and prices decrease as the short run aggregate supply curve shifts upward over time.
 B) wages and prices increase as the long run aggregate supply curve shifts upward over time.
 C) wages and prices decrease as the long run aggregate supply curve shifts downward over time.
 D) wages and prices decrease as short run aggregate supply curve shifts downward over time.

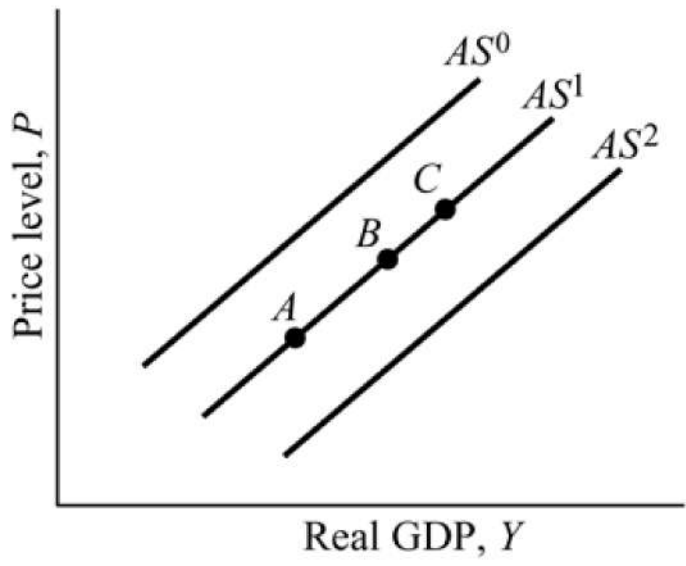


Figure 9.5

- 10) Refer to Figure 9.5. Suppose the economy is a point B. A large _____ in the supply of labor leads to a shift from _____ to _____.
- A) decrease; AS^0 ; AS^1 B) increase; AS^1 ; AS^2
 C) increase; AS^1 ; AS^0 D) decrease; AS^1 ; AS^2

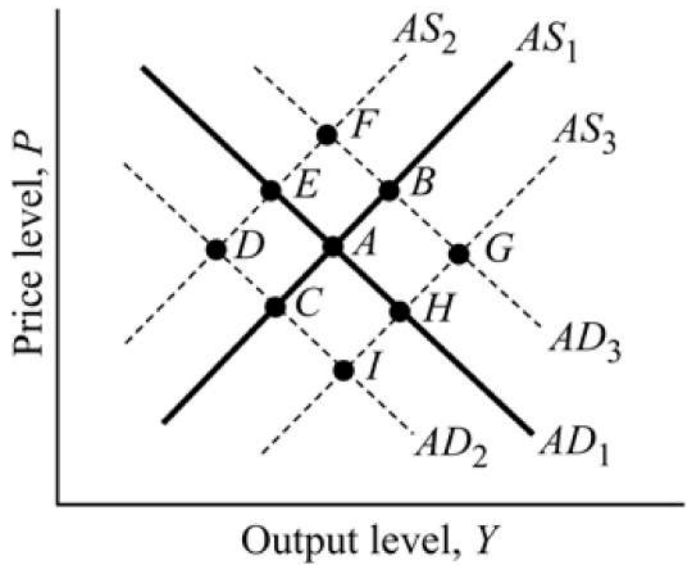


Figure 9.6

- 11) Refer to Figure 9.6. Suppose the equilibrium is at point A. An oil embargo which raises the price of oil would move the equilibrium to:
- A) point D. B) point E. C) point F. D) point H.
- 12) A rightward shift in the aggregate demand curve can be caused by:
- A) a decrease in taxes. B) an increase in the money supply.
 C) an increase in government spending. D) all of the above.

- 13) Suppose there are three economies with 3 different consumption functions: 13) _____
 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 C B) Country A
 C) Country B D) All countries have the same multipliers.
- 14) In the long run, the aggregate supply curve is: 14) _____
 A) vertical at the full employment level of GDP.
 B) horizontal at the full employment level of GDP.
 C) upward sloping.
 D) downward sloping.

- 15) A government policy that leads to a decrease in aggregate demand is called: 15) _____
 A) a contractionary policy. B) an economic growth policy.
 C) a contractual policy. D) a recessionary policy.

- 16) The budget deficit was about _____ percent of GDP in 2011. 16) _____
 A) 4.3 B) 8.7 C) 12.8 D) 6.7

- 17) Which of the following is not true? 17) _____
 A) The federal budget deficit works as a sort of automatic economic stabilizer.
 B) Tax revenues move in the same direction as the business cycle.
 C) The selling of government securities to pay for a deficit spurs private investment spending.
 D) Expenditures on transfer payments move in the opposite direction of the business cycle.

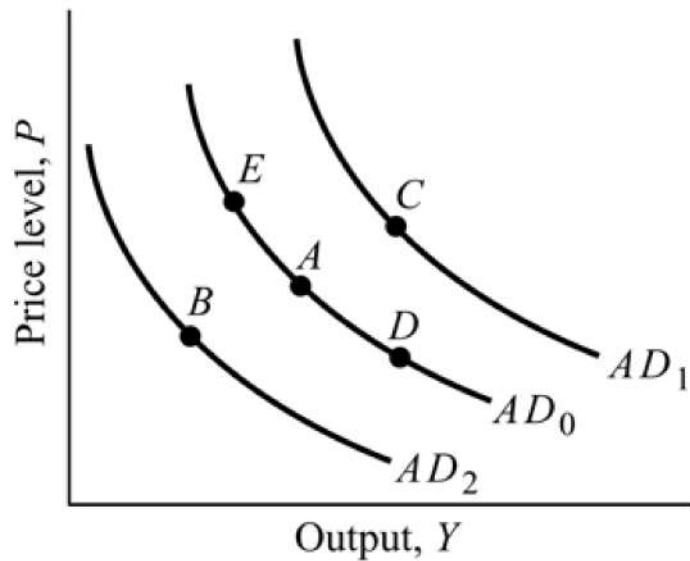


Figure 10.1

- 18) Refer to Figure 10.1 to answer this question. Which of the following fiscal policies would move the economy from point B to point A? 18) _____
 A) lower taxes B) higher taxes
 C) lower government spending D) lower money supply

- 19) An increase in taxes or a decrease in spending will cause: 19) _____
 A) the aggregate demand curve to the left.
 B) the SR aggregate supply curve to the left.
 C) the aggregate demand curve to the right.
 D) the SR aggregate supply curve to the right.
- 20) If a economy's planned expenditures turn out to be greater than production, then inventories will be: 20) _____
 A) increasing, prompting firms to increase production in the future.
 B) decreasing, prompting firms to decrease production in the future.
 C) decreasing, prompting firms to increase production in the future.
 D) increasing, prompting firms to decrease production in the future.
- 21) When the consumption function is expressed as $C = 200 + .75(1-t)y$ where $t=0.2$, then the adjusted MPC is: 21) _____
 A) 0.8. B) 0.6. C) 0.15. D) 0.75.
- 22) If the government collects taxes using a constant income tax rate t , then the adjusted marginal propensity to consume (adjusted MPC) is: 22) _____
 A) $b(1-t)$. B) $1(1-bt)$. C) $t(1-b)$. D) $bt-t$.
- 23) When we graph the 45 degree line, what are the labels on the x-axis and the y-axis? 23) _____
 A) output on the x-axis and income on the y-axis
 B) expenditures on the x-axis and output on the y-axis
 C) output on the x-axis and expenditures on the y-axis
 D) income on the x-axis and interest rates on the y-axis

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

- 24) Refer to Table 11.2. At an aggregate output level of \$200, the unplanned inventory change is: 24) _____
 A) -\$150. B) -\$100. C) -\$50. D) \$100.
- 25) Assume that $C = 150 + 0.9Y$ and $I = 50$. The government spending multiplier is: 25) _____
 A) 6. B) 8. C) 4. D) 10
- 26) If a firm that chooses to use all of its corporate earnings as dividends, then: 26) _____
 A) taxes paid to the government equal zero. B) sales equal zero.
 C) profits equal zero. D) retained earnings equal zero.

- 27) If the price of a stock equals the present value of expected future dividend payments, then the price of the firm's stock would be expected to decrease when: 27) _____
- A) firm predicts lower profits in the future.
 - B) the government intends to increase the tax collected from the firm.
 - C) competition increases.
 - D) All of the above can cause the price to decrease.
- 28) If an investment projects offers to pay \$200 in year 1 and \$200 in year 2, and the interest rate is 5%, the investment rule states that you should invest in the project as long as the cost is less than: 28) _____
- A) \$371.9.
 - B) \$410.
 - C) \$186.
 - D) none of the above.
- 29) Today, bank runs are: 29) _____
- A) common because deposit insurance is useless.
 - B) common because individuals have little faith in the banking system.
 - C) uncommon because of the presence of deposit insurance.
 - D) uncommon because people have less funds in their savings accounts.
- 30) The theory that considers real interest rates and taxes as the important determinants of investment spending is the: 30) _____
- A) Keynesian theory of investment.
 - B) Q-theory of investment.
 - C) neoclassical theory of investment.
 - D) classical theory of investment.
- 31) The chairperson of the Board of Governors of the Federal Reserve has terms of what length? 31) _____
- A) 4 years
 - B) 7 years
 - C) 10 years
 - D) 14 years
- 32) The fraction of its deposits that banks keep in the form of reserves as required by law is/are called: 32) _____
- A) federal funds.
 - B) owner's equity.
 - C) required reserves.
 - D) excess reserves.
- 33) Which of the following is considered a liability to a bank? 33) _____
- A) the bank's buildings and equipment
 - B) reserves
 - C) the bank's loans
 - D) customer deposits
- 34) First National Trust has assets of \$900,000 and liabilities of \$600,000. First National Trust's owners' equity is: 34) _____
- A) \$600,000.
 - B) \$0.
 - C) \$300,000.
 - D) \$900,000.

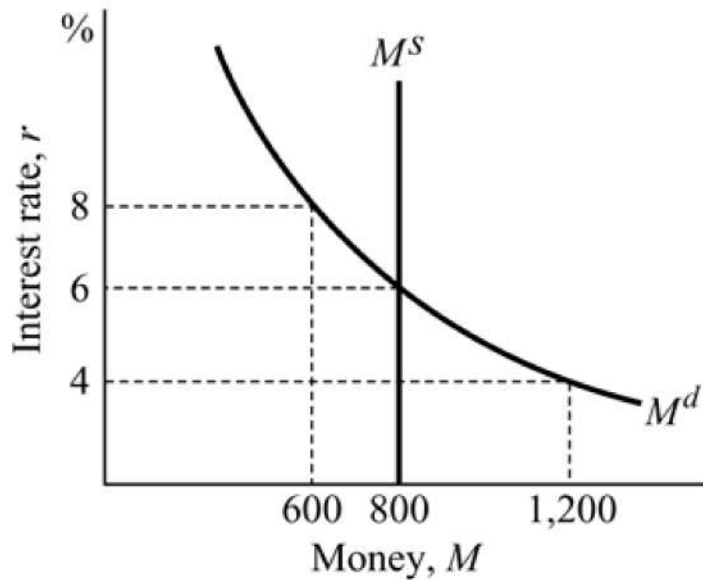


Figure 14.4

- 35) Refer to Figure 14.4. If the Fed wants to raise the economy's market interest rate from 6 percent to 8 percent, and the reserve ratio is 10 percent, then it needs to _____.
- 35) _____
- A) sell \$200 in government bonds
 B) sell \$20 in government bonds
 C) buy \$200 in government bonds
 D) buy \$20 in government bonds
- 36) A reduction in the British interest rate relative to the U.S. interest rate will cause a(n):
- 36) _____
- A) depreciation of the dollar and a depreciation of the British pound.
 B) depreciation of the dollar and an appreciation of the British pound.
 C) appreciation of the dollar and an appreciation of the British pound.
 D) appreciation of the dollar and a depreciation of the British pound.
- 37) Which of the following pairs of events will definitely lead to an increase in the equilibrium interest rate?
- 37) _____
- A) the sale of government bonds by the Federal Reserve and an increase in the price level
 B) the purchase of government bonds by the Federal Reserve and a decrease in the price level
 C) an increase in the required reserve ratio and a decrease in the level of real GDP
 D) a decrease in the discount rate and an increase in the level of real GDP

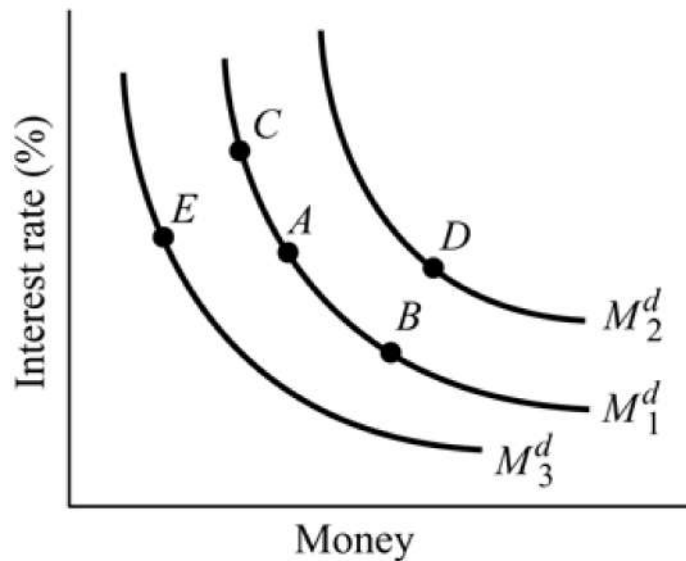


Figure 14.1

- 38) Refer to Figure 14.1. Which of the following events can not cause a movement from Point *E* to Point *A*? 38) _____
- A) an increase in income
 B) a decrease in the interest rate
 C) an increase in the price level
 D) none of the above
- 39) Those who believed in Say's Law believe that saving will: 39) _____
- A) find its way to investors and ultimately will also be spent.
 B) cause the economy to have more spending than production.
 C) cause the economy to have more production than spending.
 D) never be spent.
- 40) Suppose the economy is at full employment. An increase in the money supply will _____ in the short run and _____ in the long run. 40) _____
- A) increase interest rates, increase the price level
 B) decrease interest rates, increase the price level
 C) increase interest rate, have no effect on the price level
 D) decrease interest rates, decrease the price level
- 41) If Say's Law holds true, then if the economy produced \$10 trillion this year: 41) _____
- A) production next year has to be smaller than \$10 trillion.
 B) production next year has to be larger than \$10 trillion.
 C) the demand for goods and services also equals \$10 trillion.
 D) the demand for goods and services must be less than \$10 trillion.
- 42) If the capital stock remains fixed while the supply of labor increases, it is likely that: 42) _____
- A) the average product of labor will fall.
 B) the average productivity of labor will not change.
 C) the marginal productivity of labor will not change.
 D) the average product of labor will increase.

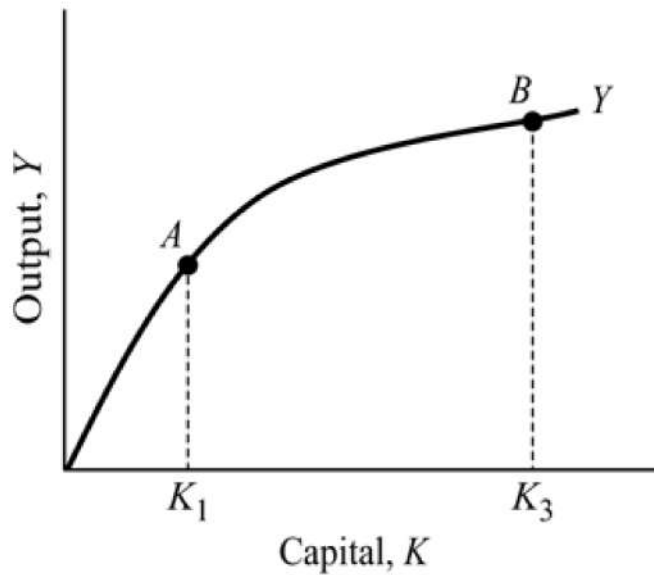


Figure 8.3

- 43) Refer to Figure 8.3. Which of the following will not move the economy from K_1 to K_3 ? 43) _____
- A) a lower depreciation rate
 - B) a higher depreciation rate
 - C) a higher saving rate
 - D) All of the above are correct.

Resource Inputs and Total Output			
Period	Quantity of Labor	Quantity of Capital	Total Output
1	40	40	120
2	40	50	140
3	40	60	156
4	40	70	170

Table 8.3

- 44) Refer to Table 8.3. Diminishing returns to capital most obviously occur between periods _____ and _____. 44) _____
- A) 2; 3
 - B) 1; 2
 - C) 3; 4
 - D) all periods
- 45) The aggregate supply curve depicts the relationship between: 45) _____
- A) the level of prices and the total quantity of goods and services that firms supply.
 - B) the unemployment rate and the total quantity of goods and services that firms supply.
 - C) the cost of inputs and the total quantity of goods and services that firms supply.
 - D) the cost of labor and the total quantity of goods and services that firms supply.
- 46) Suppose an automobile maker producing a certain kind of car suddenly experiences an increase in the demand for the car. In the short run: 46) _____
- A) the demand for steel goes down and the price of steel goes down.
 - B) the demand for steel goes down but the price of steel stays the same.
 - C) the demand for steel goes up but the steel prices remain the same.
 - D) the demand for steel goes up and the price of steel goes up very quickly.
- 47) Which of the following is not included in "Entitlement and mandatory spending"? 47) _____
- A) Defense
 - B) Medicare
 - C) Social Security
 - D) Medicaid

- 48) The Kennedy administration was not concerned about the possible negative effect of large tax cuts because: 48) _____
- A) the ensuing federal deficit was projected to disappear as higher tax revenues would follow from faster GDP growth.
 - B) the tax cuts were initially designed to be temporary.
 - C) the ensuing federal deficit would disappear as government programs would be cut too.
 - D) the assassination of President Kennedy became a much more serious issue.
- 49) If Jack received a \$1,000 bonus and his marginal propensity to save is 0.15, his consumption rises by _____ and his saving rises by _____. 49) _____
- A) \$1,000; \$150
 - B) \$150; \$850
 - C) \$150; \$500
 - D) \$850; \$150
- 50) An increase in the marginal propensity to consume will: 50) _____
- A) shift the consumption function upwards.
 - B) shift the consumption function downwards.
 - C) cause the consumption function to be flatter.
 - D) cause the consumption function to be steeper.
- 51) Which of the following increases the real interest rate? 51) _____
- A) a decrease in the inflation rate, holding the nominal interest rate constant
 - B) an increase in both the nominal interest rate and the inflation rate by the same percentage points
 - C) a decrease in the nominal interest rate, holding the inflation rate constant
 - D) a decrease in both the nominal interest rate and the inflation rate by the same percentage points
- 52) M1 excludes which of the following? 52) _____
- A) demand deposits
 - B) traveler's checks
 - C) currency held by the public
 - D) none of the above
- 53) Excess supply in the money market causes: 53) _____
- A) a decrease in the money supply.
 - B) a decrease in the equilibrium interest rate.
 - C) an increase in the equilibrium interest rate.
 - D) an increase in the demand for money.

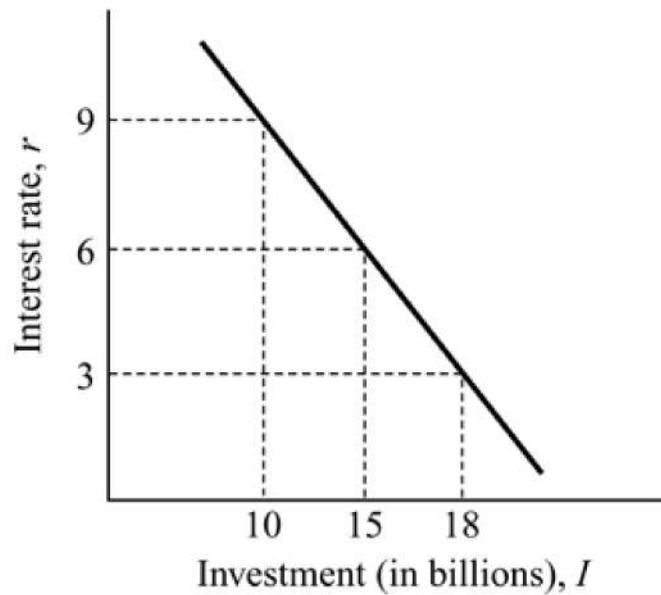


Figure 15.3

- 54) Refer to Figure 15.3. At full employment equilibrium, investment would decrease from \$18 million to \$15 million if: 54) _____
- A) the government reduces government expenditures.
 - B) firms expect their sales to increase in the future.
 - C) the Fed buys bonds in the open market.
 - D) the government reduces taxes.
- 55) If total output grows at 4 percent per year while labor and capital grow at 1.5 percent and 2.1 percent pre year, respectively, then: 55) _____
- A) technology grew by 3.6 percent per year.
 - B) technology declined by 0.4 percent per year.
 - C) technology grew by 0.4 percent per year.
 - D) there was no technological progress.
- 56) The aggregate demand curve: 56) _____
- A) may slope upward or downward.
 - B) is horizontal.
 - C) slopes downward.
 - D) slopes upward.
- 57) An increase in the federal budget deficit during a recession serves as an automatic economic stabilizer because: 57) _____
- A) lower personal income translates into a lower tax load and so consumption spending declines slightly less.
 - B) lower corporate profits translate into a lower tax load and so investment spending declines slightly less.
 - C) increased transfer payments from unemployment insurance partly offset the fall in household income.
 - D) All of the above are correct.

- 58) If the government collects taxes using a constant income tax rate t , then an increase in t will result in: 58) _____
- A) a lower disposable income.
 - B) an unknown change in disposable income.
 - C) no change to disposable income.
 - D) a higher disposable income.
- 59) Actions by business today that have costs today and provide benefits in the future are: 59) _____
- A) savings.
 - B) investments.
 - C) revenues.
 - D) none of the above.
- 60) The two sides of a bank's balance sheet are labeled: 60) _____
- A) assets and liabilities.
 - B) assets and net worth.
 - C) deposits and loans.
 - D) liabilities and net worth.
- 61) Which of the following is true when the US dollar depreciates against the euro? 61) _____
- A) It takes fewer euros to buy the dollar.
 - B) It takes more dollars to buy the euro.
 - C) It becomes more expensive for Americans to buy goods from Germany.
 - D) All of the above are correct.
- 62) Monetary neutrality implies that an increase in the money supply will: 62) _____
- A) increase the price level.
 - B) increase real interest rates.
 - C) lower real GDP.
 - D) lower the unemployment rate.
- 63) If Julie expects that her salary will increase by 10 percent per year, how many years will it take for her salary to double? 63) _____
- A) 10
 - B) 5
 - C) 7
 - D) 20
- 64) If the economy is in long run equilibrium at full employment, the level of overall economic activity is not affected by changes in the price level due to: 64) _____
- A) the fact that prices and input costs change simultaneously and in the same direction.
 - B) the fact that prices increase more slowly than input costs.
 - C) the existence of sticky prices.
 - D) the fact that firms' profits increase with the price level.
- 65) The length of time that the U.S. Treasury Department takes to print and mail tax rebate checks to help the economy out of a recession is part of the: 65) _____
- A) inside lag.
 - B) outside lag.
 - C) identification lag.
 - D) inside-outside lag.
- 66) If the marginal propensity to import is 0.2, then a \$1,000 decrease in income will: 66) _____
- A) decrease net exports by 200.
 - B) decrease net exports by 200.
 - C) increase net exports by 1000.
 - D) increase net exports by 200.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 67) Using aggregate supply and aggregate demand curves, indicate the impact of an increase in government spending on the price level and on the equilibrium level of real GDP in the short run. 67) _____

- 68) Explain why budget deficits are very sensitive to the state of the economy. 68) _____
- 69) Suppose that planned expenditure is less than aggregate output. Explain the process by which the economy moves toward equilibrium. 69) _____
- 70) What is the primary reason why the U.S. government intervenes in financial markets when the economy experiences a financial crisis similar to the one that was experienced in 2008? How do they achieve this objective? 70) _____

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 71) Foreign investment can increase a country's capital stock. 71) _____
- 72) According to the Solow Model, an increase in technology will always result in an increase in output. 72) _____
- 73) Along the short run supply curve, when the price level rises, there is an increase in aggregate quantity supplied. 73) _____
- 74) Proponents of the estate tax argue that the tax is necessary to prevent "unfair" accumulation of wealth across generations. 74) _____
- 75) If households base their consumption spending on permanent income, then a temporary tax increase will cause a decrease in consumption. 75) _____
- 76) The higher the marginal propensity to consume, the steeper is the slope of the consumption function. 76) _____
- 77) Investment is highly procyclical because it decreases during booms and rises during recessions. 77) _____
- 78) All presidents of the 12 district banks of the Federal Reserve can vote during FOMC meetings. 78) _____
- 79) An increase in the price level increases the transaction demand for money. 79) _____
- 80) According to Keynesian economics, aggregate supply determines the level of economic activity in the economy. 80) _____
- 81) For most firms, payments to capital inputs are the biggest cost of doing business in the U.S. 81) _____
- 82) Higher taxes is an example of an expansionary fiscal policy. 82) _____
- 83) The higher your income, the lower your consumption is likely to be. 83) _____
- 84) When interest rates fall, the present value of a given payment in the future increases. 84) _____
- 85) Excess reserves plus required reserves equal total reserves. 85) _____
- 86) A depreciation of a country's currency is likely to decrease its GDP. 86) _____

87) According to Keynesian economics, prices and wages determine the level of output in the economy. 87) _____

88) The only source of economic growth is growth in the number of workers in the economy. 88) _____

Answer Key

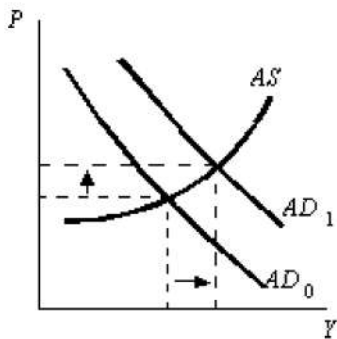
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- 1) B
- 2) A
- 3) D
- 4) B
- 5) D
- 6) C
- 7) C
- 8) D
- 9) D
- 10) B
- 11) B
- 12) D
- 13) A
- 14) A
- 15) A
- 16) B
- 17) C
- 18) A
- 19) A
- 20) C
- 21) B
- 22) A
- 23) C
- 24) A
- 25) D
- 26) D
- 27) D
- 28) A
- 29) C
- 30) C
- 31) A
- 32) C
-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

Answer Key

Testname: FINALPRACTICE2

- 51) A
- 52) D
- 53) B
- 54) D
- 55) C
- 56) C
- 57) D
- 58) A
- 59) B
- 60) A
- 61) D
- 62) A
- 63) C
- 64) A
- 65) B
- 66) D
- 67) Aggregate demand will increase and the price level and the equilibrium level of real GDP will increase.



- 68) Since tax collections are largely based on individual and corporate income, tax revenues will fall sharply during a recession as national income falls. At the same time, government transfer payments for things like unemployment insurance and food stamps will also tend to increase during a recession. The result of lower tax revenues and higher government spending will be a larger budget deficit.

During a boom, the opposite would be true. Tax revenues increase as incomes increase and spending decreases as transfer payments decrease.

- 69) If planned aggregate expenditure is less than aggregate output, there is unplanned inventory increase. Firms planned to sell more of their goods than they did, and the difference shows up as an unplanned increase in inventories. Firms will respond to this unplanned increase in inventories by reducing production. Production will continue to be reduced until planned expenditure equals aggregate output.
- 70) When financial markets are in crisis, the biggest problem that the U.S. government wants to prevent is a bank run, which is caused by the lack of confidence by investors in the banking system. In order to prevent a bank run, the government must implement policies that restores the solvency of banks in question, in the hopes of restoring the confidence of investors in the financial system.

Some of the policies that the U.S. implemented in 2008 were: a \$700 billion bailout of the financial system (TARP), the purchase of preferred stock in banks, the government takeover of the operations of Fannie Mae and Freddie Mac and an increase in the FDIC deposit insurance coverage from \$100,000 to \$250,000.

- 71) TRUE
- 72) TRUE
- 73) TRUE

Answer Key

Testname: FINALPRACTICE2

- 74) TRUE
- 75) FALSE
- 76) TRUE
- 77) FALSE
- 78) FALSE
- 79) TRUE
- 80) FALSE
- 81) FALSE
- 82) FALSE
- 83) FALSE
- 84) TRUE
- 85) TRUE
- 86) FALSE
- 87) FALSE
- 88) FALSE