

1. Assume that there are two goods, A and B. In 1996, Americans produced 20 units of A at a price of \$10 and 40 units of B at a price of \$50. In 2002, Americans produced 50 units of A at a price of \$20 and 100 units of B at a price of \$50. The **Nominal GDP** for 2002 is:
a. \$2,200 b. \$6,000 c. \$11,000 d. \$20,000 e. \$100,000
2. Using the numbers in question 1, the **Real GDP** for 2002 is:
a. \$1000 b. \$2,000 c. \$5,500 d. \$10,000 e. \$11,000
3. What happens to the **official measure of Nominal Gross Domestic Product (GDP)** if homemakers perform the same jobs but switch houses and charge each other for their services?
a. it rises b. it falls c. it stays the same
- *4. Which of the following is **NOT** considered in Gross Domestic Product (GDP) determination and therefore causes economic welfare to be **under-estimated**?
a. do-it-yourself activities c. government military spending
b. pollution damage d. business investment spending
5. The **American productivity problem** is that productivity has been growing too slowly since the early 1970s. As a **result** of the American productivity problem:
a. More members of American households are in the labor force than in the past
b. Americans have been saving too little and spending too much of their incomes
c. The American trade deficit has become larger
d. All of the above
6. In a typical business cycle, **the expansion** is followed, in order, by the _____ phases.
a. trough and recovery c. peak and recession
b. peak and expansion d. recovery and peak
- *7. Which of the following persons is officially **unemployed**?
a. a housewife c. a resident in an institution
b. a student d. a non-working individual who has looked for a job within the past week
8. Which of the following is an example of **seasonal unemployment**?
a. an auto worker laid off because of increased imports
b. a woman quitting her job to raise children
c. a clerk who had worked for an accounting firm whose job ends April 16
d. a person quitting to look for a higher-paying job
9. **“Full employment”** is:
a. the amount of frictional plus seasonal plus structural unemployment
b. the rate of unemployment that occurs if the economy is producing at Potential Real GDP
c. the lowest unemployment rate before inflation will accelerate
d. all of the above
10. Which of the following groups in the United States is likely to experience the **lowest unemployment rates**?
a. College graduate professionals
b. Automobile factory workers
c. Construction workers
b. Teenage workers

Answers: 1. B 2. C 3. A 4. A 5 D 6. C 7. D 8. C 9. D 10. A

* Adapted from the Study Guide

1. Assume that there are only two goods: A and B

In the base year,	Quantity	Price
A	10	\$1
B	10	\$4

In the current year,	Quantity	Price
A	20	\$ 5
B	25	\$20

The **Consumer Price Index (CPI)** for the current year is:

- a. 50 b. 100 c. 200 d. 500 e. 600
2. **The CPI and the GDP Deflator** differ in that
- the CPI takes into consideration quality differences and the GDP Deflator does not
 - the GDP Deflator measures production while the CPI measures prices
 - the CPI uses prices from a sample of consumer goods & services and the GDP Deflator uses the prices of all final domestic production
 - the GDP Deflator uses 1982 as the base year while the CPI uses 1996
3. Which of the following groups is **most** hurt by unexpected inflation?
- workers with cost of living adjustments in their labor contracts
 - homeowners
 - people with large debts to pay for their homes and cars
 - people with large retirement savings held in savings accounts
4. If the nominal interest rate is 5% and the inflation rate is 2%, the **real interest rate** is:
- a. 2% b. 3% c. 5% d. 7% e. 2 ½%
5. For which of the following reasons might inflation cause **Real GDP to grow slower** than it otherwise would?
- Inflation makes everyone poorer
 - Inflation reduces the value of consumer debt
 - Inflation increases business investment spending
 - Inflation decreases savings in financial form
6. A **movement along** a demand curve can be caused by a change in:
- a. income b. the price of a substitute c. expectations d. the price of the good in question
7. Which of the following probably will lead to a **decrease** in the demand for hamburgers?
- an increase in income
 - an increase in the price of hot dogs
 - a decrease in the price of hamburger buns
 - information that hamburgers contribute to heart disease
8. Which of the following will lead to a **shift in supply to the right**?
- an increase in the price of the good in question
 - a technological improvement that lowers the cost of producing the good in question
 - an increase in the price of labor used to produce the good in question
 - sellers expecting that the price of the product will rise soon

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9. The following are demand and supply schedules for bottle of shampoo:

<u>Price per Bottle of Shampoo</u>	<u>Quantity Demanded</u>	<u>Quantity Supplied</u>
\$6	6	18
\$5	7	15
\$4	8	12
\$3	9	9
\$2	10	6
\$1	11	3

The **equilibrium price** in this table is:

- a. \$1 b. \$2 c. \$3 d. \$4 e. \$5 f. \$6

10. In the table in question 9, if the price is \$1, there is a _____ equal to _____ bottles of shampoo.

- a. surplus; 3 c. shortage; 8
b. shortage; 11 d. surplus; 8

Answers: 1. D 2. C 3. D 4. B 5. D 6. D 7. D 8. B 9. C 10. C

1. Which of the following would cause the **aggregate demand curve** to **shift to the left**?
 - a. an increase in taxes
 - b. a decrease in the real interest rate
 - c. an increase in the money supply
 - d. a decrease in the GDP Deflator (Price Level)
2. Which of the following would cause the **long-run aggregate supply curve** to shift to the **right**?
 - a. an increase in the GDP Deflator (Price Level)
 - b. an increase in the costs of energy
 - c. depreciation of the American dollar which increases the costs of imported materials
 - d. economic growth
3. Assume that something occurs to cause **aggregate demand to increase**. Which of the following should result?
 - a. expansion and inflation
 - b. recession and deflation
 - c. recession and inflation
 - d. expansion and deflation
4. **Disposable Income** is equal to:
 - a. National Income
 - b. Real GDP
 - c. National Income Minus Taxes
 - d. National Income Minus Taxes Plus Transfers
5. Assume that Potential Real GDP equals \$10,000. National Income is therefore \$10,000. Of this, consumers will pay \$2,000 in taxes, save \$1,000, and spend \$7,000 on consumer goods. Business Investment spending is \$2000. In order to avoid recession and inflation (to have equilibrium), the government should have a:
 - a. balanced budget
 - b. budget deficit of \$1000
 - c. budget surplus of \$1000
 - d. budget deficit of \$2000
6. According to **Say's Law of the Classical View**, if there is a recessionary gap,
 - a. wages will fall
 - b. real interest rates will rise
 - c. price will rise
 - d. the recessionary gap will continue indefinitely
7. **Say's Law**
 - a. was developed by Keynes
 - b. maintains that supply creates its own demand
 - c. maintains that demand creates its own supply
 - d. implies that high rates of cyclical unemployment will exist
8. In the equation $MV = PQ$, according to the crude quantity theory of money,
 - a. M has no effect on the price level
 - b. V is the number of times each dollar is spent per year
 - c. Q is the real price level
 - d. P rises as V falls, other things constant
9. To make the equation of exchange into **the quantity theory of money**,
 - a. V and Q are assumed to be constant
 - b. The money supply is assumed to be produced by the banking system and not exclusively in currency
 - c. The quantity of money is assumed to determine the amount of Real GDP
 - d. M and P are considered constant
10. According to the **quantity theory of money**, if there is **inflation**, what must have caused it?
 - a. increased velocity
 - b. higher budget deficits
 - c. higher oil prices
 - d. an increase in the money supply

Answers: 1. A 2. D 3. A 4. D 5. C 6. A 7. B 8. B 9. A 10. D

1. Under the **Gold Standard**, if there were inflation in Great Britain but not in the United States, gold would
 - a. flow out of the United States
 - b. flow into the United States
 - c. not move at all
2. Under the **Gold Standard**, which of the following is/are true?
 - a. exchange rates between countries would change frequently
 - b. a country experiencing inflation would lose money, causing its inflation rate to decrease
 - c. a country experiencing inflation would lose money, causing its inflation to increase
 - d. a country experiencing inflation would gain money, causing its inflation rate to decrease
3. Which of the following could **NOT** be considered as **reasons the Great Depression existed**?
 - a. the stock market crash in 1929
 - b. the decrease in the money supply as the commercial banks failed
 - c. the tax increase of 1932
 - d. the increase in government spending on Public Works programs
4. According to the **Classical Economic Theory**, when the Great Depression started, the government should have:
 - a. done nothing
 - b. gone off the Gold Standard
 - c. had a large increase in government spending
 - d. enacted high tariffs, such as the Smoot-Hawley Tariff
5. According to **Keynes**, if there is a **recessionary gap**,
 - a. wages and prices will not fall
 - b. real interest rates will fall, but consumption and investment spending will not rise
 - c. the gap will persist indefinitely
 - d. all of the above

6. According to **Keynes**, when the Great Depression started, the government should have:
 - a. done nothing
 - b. decreased the money supply
 - c. had a large increase in government spending
 - d. enacted high tariffs, such as the Smoot-Hawley Tariff

7. <u>Real GDP (National Income)</u>	<u>Planned Investment</u>	<u>Consumption</u>
\$ 500	500	200
1,000	500	500
1,500	500	800
2,000	500	1,100
2,500	500	1,400
3,000	500	1,700
3,500	500	2,000

Using these numbers, the **equilibrium real GDP** is:

- a. 1,000
 - b. 1,500
 - c. 2,000
 - d. 2,500
 - e. 3,000
 - f. \$3,500
8. Using the numbers in question 7, if real GDP were 1,500, **unintended inventory investment (the shortage or surplus)** would equal:
 - a. 0
 - b. 100
 - c. 200
 - d. 300
 - e. 1000
 9. Using the numbers in question 7, if **potential real GDP** equals 2,000, there would be a/an:
 - a. inflationary gap of \$1000
 - b. recessionary gap of \$1000
 - c. gap of zero
 - d. recessionary gap of \$900
 - e. recessionary gap of \$1500
 10. Using the numbers in question 7, if planned investment spending were to rise by 400 (to 900), the new equilibrium real GDP would be: (hint: use **the multiplier formula**)
 - a. 1,000
 - b. 1,500
 - c. 2,000
 - d. 2,500
 - e. 3,000
 - f. 3,500

Answers: 1. B 2. B 3. D 4. A 5. D 6. C 7. A 8. C 9. B 10. C

Quiz #5

1. The largest **purchase** in the federal budget is for:
a. defense b. welfare c. social security d. education
2. The agency that prepares the federal budget for the President of the United States is:
a. OMB b. CBO c. CEA d. FBI e. CIA
3. The largest source of tax revenue for the **federal government** is:
a. the personal income tax c. the property tax
b. the social security tax d. the sales tax
4. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$30,000 in taxes. My **marginal tax rate** is:
a. 10% b. 15% c. 20% d. 30% e. 40%
5. The tax in question #4 is:
a. progressive b. regressive c. proportional
6. Which of the following taxes is **progressive**?
a. the income tax c. the cigarette tax
b. the sales tax d. the Social Security tax
7. If the marginal propensity to consume is 0.80 (4/5) and the government **decreases taxes** by \$10 billion, Equilibrium Real GDP will rise by
a. \$ 8 billion c. \$ 30 billion e. \$50 billion
b. \$10 billion d. \$ 40 billion
8. Assume that equilibrium real GDP is \$5,000. The government decides to **raise government purchases** by \$1,000. To offset this, the government **raises taxes** by \$1,000. The marginal propensity to consume is 5/6. As a result of both changes, the new Equilibrium Real GDP is:
a. \$4,000 b. \$4,500 c. \$5,000 d. \$5,500 e. \$6,000
9. Which of the following is **NOT** an **automatic stabilizer**?
a. unemployment benefits c. welfare spending
b. defense spending d. social security spending
10. If the unemployment rate is 6%, the natural rate of unemployment is 4%, and the official budget deficit is \$100 billion, what is the **structural budget deficit** equal to?
a. \$30 billion b. \$40 billion c. \$100 billion d. \$160 billion

Answers: 1. A 2. A 3. A 4. C 5. A 6. A 7. D 8. E 9. B 10. B

1. “**Crowding out**” means that
 - a. a government budget deficit raises interest rates and causes investment spending to fall
 - b. a government budget deficit raises the trade deficit
 - c. a government budget deficit lowers interest rates and causes investment spending to rise
 - d. an increase in marginal tax rates lowers production

2. In 1981 and in 1986, President Reagan proposed a **reduction in marginal tax rates**. Which of the following was a stated purpose of his proposal?
 - a. to increase savings
 - b. to increase consumer spending
 - c. to increase government spending
 - d. to increase net exports

3. The **Laffer Curve** says that
 - a. as the GDP Deflator rises, aggregate demand falls
 - b. as unemployment falls, inflation rises
 - c. as marginal tax rates fall, tax revenues rise
 - d. as real interest rates rise, investment spending falls

4. Which of the following statements is **true** about the **national debt**?
 - a. It has grown in total since 1980
 - b. It declined as a percent of GDP from 1980 to 1999
 - c. All of it is owed to foreigners
 - d. It is causing the United States to be on the verge on bankruptcy

5. Which of the following **IS a function of money**?
 - a. medium of exchange
 - b. store of value
 - c. unit of accounting
 - d. all of the above

6. Which of the following **is** a component of **M-1**?
 - a. savings deposits
 - b. gold
 - c. checkable deposits
 - d. CDs

7. Which of the following is a component of **M-2, but not a component of M-1**?
 - a. CDs
 - b. stocks
 - c. gold
 - d. credit cards

8. Which of the following is true about the **Federal Reserve System (Fed)**?
 - a. it is a system of 12 central banks
 - b. its Board of Governors is appointed by the President of the United States
 - c. its main policy-making body is the FOMC
 - d. all of the above

9. Which of the following is the most **liquid**?
 - a. a savings account
 - b. a one year CD
 - c. a home
 - d. water

10. An **IOU of Bank of America to the Federal Reserve Bank of San Francisco** is called:
 - a. discounts
 - b. federal funds
 - c. reserves
 - d. collateral

11. The agency that insures the deposits in a bank against bank failure is called the
 - a. FOMC
 - b. FDIC
 - c. OMB
 - d. FRB
 - e. FBI

Answers: 1. A 2. A 3. C 4. A 5. D 6. C 7. A 8. D 9. A 10. A 11. B

1. The **demand for money** will **increase** if:
 - a. Real GDP increases
 - b. The GDP Deflator (prices) decreases
 - c. real interest rates increase
 - d. people expect greater inflation
2. If the demand for money is increasing, the **velocity** must be
 - a. increasing
 - b. decreasing
 - c. staying constant
3. Which of the following describes the **monetarist transmission mechanism**?
 - a. an increase in the money supply causes interest rates to fall which causes consumption and investment spending to increase
 - b. an increase in the money supply gives people money they do not wish to hold as part of their wealth; so the money is converted into goods or services by being spent
 - c. an increase in government spending causes interest rates to rise which causes consumption and investment spending to fall
 - d. an increase in the money supply causes the velocity to fall
4. The **Phillips Curve** shows an inverse relation between
 - a. tax rates and tax revenues
 - b. the money supply and velocity
 - c. inflation and unemployment
 - d. fiscal policy and monetary policy
5. The **oil shocks of the 1970s** caused
 - a. inflation and expansion
 - b. deflation and expansion
 - c. recession and inflation
 - d. recession and deflation
6. Believing that the future will be similar to the present and recent past is called
 - a. adaptive expectations
 - b. rational expectations
 - c. past expectations
 - d. reservation wages
7. According to **monetarists**,
 - a. the "short-run" is a period of time during which workers' expected inflation is NOT equal to actual inflation
 - b. in the short-run, workers are unemployed for a shorter period of time because they are "fooled" by inflation
 - c. in the short-run, the actual unemployment rate can fall below the natural rate of unemployment
 - d. all of the above
8. According to **monetarists**:
 - a. the "long-run" is a period of time when workers' expected inflation equals actual inflation
 - b. in the long-run, the actual unemployment rate will return to the natural rate of unemployment
 - c. in the long-run, the only result of increasing the money supply is inflation
 - d. all of the above
9. According the **monetarists**, if the Fed tries to keep the unemployment rate permanently below the natural rate of unemployment, the result will be
 - a. greater unemployment
 - b. accelerating inflation
 - c. budget deficits
 - d. trade deficits
10. According to **monetarists**, the **long-run Phillips Curve** and the **long-run Aggregate Supply** are
 - a. horizontal
 - b. vertical
 - c. upward-sloping
 - d. downward-sloping

Answers: 1. A 2. B 3. B 4. C 5. C 6. A 7. D 8. D 9. B 10. B

Random Quiz

1. Which of the following will result if there is a decrease in aggregate demand?
 - a. expansion; inflation
 - b. recession; deflation
 - c. expansion; deflation
 - d. recession; inflation

2. Which of the following scenarios can cause cost-push inflation (and therefore stagflation)?
 - a. an increase in taxes on individuals
 - b. a decrease in real interest rates
 - c. a union settlement that increases wage levels
 - d. an increase in government purchases

- 3*. Which of the following assumptions is crucial to the classical macroeconomic model's assertion that the economy has built-in forces that automatically eliminate unemployment and quickly move the economy to its potential level of real GDP?
 - a. profit motive
 - b. rigid wages and prices
 - c. flexible wages and prices
 - d. natural rate of unemployment

- 4*. The classical long-run aggregate supply curve is:
 - a. downward sloping
 - b. upward sloping
 - c. horizontal
 - d. vertical at the level of potential real GDP

5. According to John Maynard Keynes:
 - a. Downward nominal wage rigidity prevented the classical self-correction mechanism from eliminating recessionary GDP gaps
 - b. The automatic forces of the market would restore the economy to full-employment very quickly
 - c. If there is a recessionary GDP gap, government should do nothing
 - d. The Great Depression was caused by adverse supply shocks

6. Which of the following functions does money fulfill?
 - a. medium of exchange
 - b. store of value
 - c. standard of value
 - d. all of the above

7. Which of the following will shift the demand for money curve to the right?
 - a. a decrease in real GDP
 - b. an increase in the GDP Deflator
 - c. an increase in real interest rates
 - d. people expecting inflation soon

- 8*. A decrease in the supply of money causes interest rates to:
 - a. fall
 - b. rise
 - c. not change

Answers: 1. B 2. C 3. C 4. D 5. A 6. D 7. B 8. B

1. If **Indonesian inflation rates are much greater than American inflation rates**, what will result?
 - a. the demand for rupiahs by Americans will fall
 - b. the supply of rupiahs sold by Indonesians will rise
 - c. the rupiah will depreciate in value
 - d. all of the above

2. Suppose the American interest rates **fall** and thus become **lower** than other nations' interest rates. We would see a _____ shift of American demand curves for foreign exchange, a _____ shift of the foreign supply curves of foreign exchange, and a _____ of the dollar.
 - a. rightward; leftward; appreciation
 - b. rightward; leftward; depreciation
 - c. leftward; rightward; appreciation
 - d. leftward; rightward; depreciation

3. Which of the following will cause the **dollar to depreciate relative to the yen**? (Miller,P774)
 - a. American incomes fall while Japanese incomes rise
 - b. It is expected that, in the future, the yen will depreciate relative to the dollar
 - c. Japanese decide to build companies in the United States
 - d. Tastes change so that Americans prefer more Japanese made products

4. If **both Americans and Mexicans expect that the Mexican peso will depreciate**, the American demand for Mexican pesos will _____, the Mexican supply of Mexican pesos will _____, causing the Mexican peso to _____.
 - a. increase; decrease; appreciate
 - b. increase; decrease; depreciate
 - c. decrease; increase; appreciate
 - d. decrease; increase; depreciate

5. Which of the following is an example of "**portfolio investment**"?
 - a. American savers place their money in savings accounts at Barclays Bank in England
 - b. Disney builds EuroDisney, a theme park, in France
 - c. Mexican citizens, living in the United States, send part of their wages back to relatives in Mexico
 - d. An American decides to travel to France as a tourist

6. Which of the following might result if **rent controls** are imposed?
 - a. an increase in the supply of apartments available
 - b. tenants who desire to rent an apartment cannot find one at the going rents
 - c. landlords providing services for free that had been previously been provided for a fee
 - d. all of the above

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7. Assume that entry level workers earn \$5.75 per hour. Because of minimum wage laws, **wages can rise but cannot fall** from this amount. From 1990 through 1994, the economy went through a severe recession, with **buyers' incomes falling**. The demand for many products fell.

You would expect to observe:

- a. gray markets
- b. shortages of entry level workers
- c. unemployed entry level workers
- d. government deciding which workers must be hired by employers

8. In **the circular flow model**, Nominal Gross Domestic Product must be equal to:

- a. consumption of durable goods
- b. consumption of non-durable goods
- c. savings
- d. national income

Answers: 1. D 2. B 3. D 4. D 5. A 6. B 7. C 8. D

1. The 1968 tax surcharge and the 1975 tax rebate had little effect on consumption because:
 - a. they affected only permanent income
 - b. they did not affect disposable income
 - c. they affected only people over age 60
 - d. they affected only transitory income

2. According to the **life cycle theory**, consumption will **rise** if more of the population is between ages:
 - a. 20 to 30
 - b. 35 to 45
 - c. 50 to 60

3. If disposable income is taken from very rich people and given to very poor people, aggregate consumption will:
 - a. rise
 - b. fall
 - c. not be affected

4. Which of the following will cause **consumption to rise**?
 - a. consumers expect a large recession soon
 - b. consumer debt is 5% of disposable income
 - c. real interest rates rise
 - d. the GDP Deflator rises

5. **Net Investment** is defined as:
 - a. Total business spending on capital goods
 - b. Total business spending on capital goods after subtracting taxes paid
 - c. Total business spending on capital goods adjusted for inflation
 - d. Total business spending on capital goods after subtracting depreciation

6. Which of the following would cause **net investment spending to rise**?
 - a. the prices of capital goods fall
 - b. real interest rates rise
 - c. corporate profits fall
 - d. accelerated depreciation

7. Which of the following would cause **net investment spending to rise**?
 - a. the investment tax credit goes to zero
 - b. capacity utilization rises
 - c. the expected price of labor rises
 - d. inflation is very high

Answers: 1. D 2. A 3. A 4. B 5. D 6. A 7. B

Random Questions

1. The sum of **currency in circulation and total bank reserves** equals the:
 - a. monetary base
 - b. total required reserves
 - c. money supply (M-2)
 - d. money supply (M-1)

2. A commercial bank can make a **new loan** only if it has:
 - a. required reserves
 - b. excess reserves
 - c. Treasury securities
 - d. gold

- 3*. Suppose the Federal Reserve hands \$10,000 in crisp, new currency to Louisa, who deposits it in her checking account. Under a required reserve ratio of $1/7$, what is the maximum increase in the money supply (currency plus checkable deposits) brought about by the banking system?
 - a. \$100,000
 - b. \$70,000
 - c. \$1,428
 - d. \$8,572

4. If people choose to **hold less currency and more checkable deposits**, the money supply
 - a. increases
 - b. decreases
 - c. remains unchanged

* Based on Practice Quizzes to Chapter 9

Answers: 1. A 2. B 3. B 4. A

1. Which of the following might cause an **increase in the demand for money**?
 - a. a higher real interest rate
 - b. a lower expected rate of inflation
 - c. a shorter time period between paychecks
 - d. all of the above
2. In order to **increase (ease)** the money supply, the Fed should
 - a. raise the reserve requirement
 - b. raise the discount rate
 - c. buy Treasury securities in the open market
 - d. all of the above
3. The interest rate charged by a commercial bank to **the least risky borrower** is the:
 - a. discount rate
 - b. prime rate
 - c. federal funds rate
 - d. Treasury bill rate
4. The interest rate charged by a commercial bank to another commercial bank is called the:
 - a. discount rate
 - b. prime rate
 - c. federal funds rate
 - d. Treasury bill rate
5. If the **price of a security** is falling, the **interest rate** on it must be:
 - a. rising
 - b. falling
 - c. staying the same
6. If the **velocity** is falling, the **demand for money** must be:
 - a. rising
 - b. falling
 - c. staying the same
7. Which of the following statements is/are true?
 - a. An increase in the money supply will raise interest rates which will depreciate the dollar, decreasing exports and increasing imports
 - b. An increase in the money supply will raise interest rates which will appreciate the dollar, decreasing exports and increasing imports
 - c. An increase in the money supply will lower interest rates which will depreciate the dollar, increasing exports and decreasing imports
 - d. An increase in the money supply will lower interest rates which will appreciate the dollar, increasing exports and decreasing imports

Answers: 1. B 2. C 3. B 4. C 5. A 6. A 7. C