

For each of the following questions, select the choice that BEST corresponds with the answer. You will receive 10 points for each correct answer; 5 points will be deducted for each incorrect answer. Points will be neither awarded or taken away if you do not attempt to answer a question.

1. Using the equation $MV = PQ$, if nominal GDP is \$10,000 and velocity is 2, the money supply is
 - A. \$2,500
 - B. \$5,000
 - C. \$1,0000
 - D. \$2,0000

2. “Supply-side economics” refers in part to a theory that when government policies on taxing, spending and regulating increase the incentives for the private sector to work and invest, the potential output of the economy is likely to grow. Which of the following is least compatible with the “supply-side” approach to stimulating economic growth?
 - A. Reducing personal and corporate income taxes.
 - B. Deregulating as much economic activity as possible.
 - C. Not taxing income received from saving or investing.
 - D. Providing government jobs for the unemployed.

3. Which of the following relationships is NOT generally expected to be the case (everything else held constant)?
 - A. Increases in the growth of the money supply lead to decreases in interest rates.
 - B. Increases in interest rates lead to increases in bond prices.
 - C. Increases in the price level lead to decreases in the purchasing power (or value) of money.
 - D. Increases in lending by commercial banks leads to increases in the money supply.

4. The typical results of an adverse supply shock are
 - A. lower prices and an increase in production.
 - B. government subsidies to export industries.
 - C. a fall in output and an acceleration of inflation.
 - D. a stimulus to economic growth and dramatically curbed inflation.

5. To be eligible for unemployment insurance benefits, one must
 - A. be an experienced worker.

- B. not have quit his job.
- C. be looking for a job.
- D. All of the above.

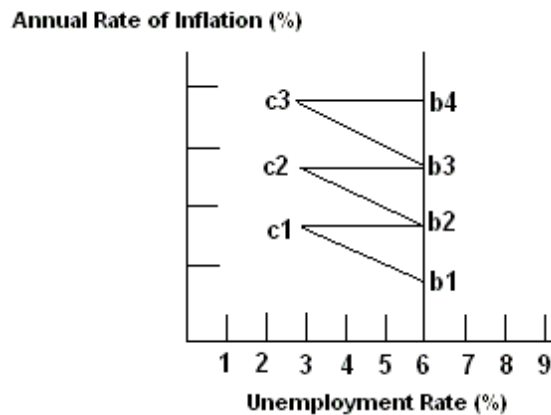
6. In this table, the equilibrium level of GDP is

Income	Consumption	Investment	New Exports
\$1,500	1,350	140	20
\$1,550	1,395	140	20
\$1,600	1,440	140	20
\$1,650	1,485	140	20
\$1,700	1,530	140	20

- A. \$1,500
 - B. \$1,550
 - C. \$1,600
 - D. \$1,650
 - E. \$1,700
7. Antitrust laws are intended to prevent the concentration of industry from occurring as a result of
- A. the anti-competitive use of market power.
 - B. the exploitation of technical advantages.
 - C. the persuasive use of advertising.
 - D. All of the above are correct.
8. Believers in fixed rules assert that
- A. the economy's self-correcting mechanism is slow and not very reliable, even when supplemented by automatic stabilizers. Therefore, the rules need to be fixed only in the short run.
 - B. we should forget about discretionary policy and put the economy on automatic pilot, relying instead on the automatic stabilizers and the economy's natural, self-correcting mechanisms.
 - C. the length of stabilization lags is not important since most fiscal policy actions are taken promptly and the economy feels much of the stimulus from expansionary policy in less than a year after slipping into a recession.
 - D. with good economic forecasts, we can see a recession coming a full year ahead of time.
9. If the Federal Reserve wishes to increase rates it generally would do what with respect to government securities and the discount rate?

- A. Buy government securities and raise the discount rate.
 - B. Buy government securities and lower the discount rate.
 - C. Sell government securities and raise the discount rate.
 - D. Sell government securities and lower the discount rate.
10. Who is most likely to be harmed by unanticipated inflation?
- A. People of businesses which borrow money.
 - B. Governments which have a progressive personal income tax.
 - C. Workers with COLA clauses in their employment contracts.
 - D. Lenders or creditors.
 - E. Everybody fairly equally.
11. Generally the federal government finances a budget deficit by
- A. reducing the national debt.
 - B. increasing the money supply.
 - C. issuing common stock.
 - D. sell bills, notes and bonds.
 - E. borrowing from other countries.
12. Which of the following is an example of structural employment?
- A. a computer programmer who quits her job to search for one in a warmer climate.
 - B. a construction worker who loses his job in the winter.
 - C. a mine worker who loses his job during a recession.
 - D. an economics teacher who decides to retire early.
 - E. a bank teller who is replaced by an ATM machine.
13. Growth in output per worker (labor productivity) of Western nations has been due to all the following except
- A. growth in the quantity of capital.
 - B. technological advance (growth in the quality of capital).
 - C. education and training of the labor force.
 - D. the discovery of new ways to utilize various natural resources.
 - E. growth in the quantity of the labor force.
14. Most modern banking systems are based upon

- A. money of intrinsic value.
 B. commodity money.
 C. 100 percent reserves.
 D. fractional reserves.
15. Which of the following movements is consistent with the traditional conception of the Phillips Curve?



- A. the movement from b1 to b2
 B. the movement from b1 to c1.
 C. the movement from c1 to b2.
 D. the movement from b2 to b1.
 E. none of the above.
16. A reduction in aggregate demand is likely to result in
- A. inflation.
 B. recession.
 C. a sudden spurt of growth in production.
 D. increased consumption of crushed rock for concrete foundations.
17. Many economists would argue that, all things being equal, a large budget deficit could likely
- A. decrease domestic interest rates, decrease the value of the dollar on international exchange markets, and increase American net exports.
 B. increase domestic interest rates, increase the value of the dollar on international exchange markets, and decrease American net exports.

- C. increase domestic interest rates, decrease the international value of the dollar, and increase American net exports.
- D. increase domestic interest rates, increase the international value of the dollar, and increase American net exports.
18. If the general level of money wage rates increases by 6 percent and the productivity of labor increases by 2 percent in a given year, then labor costs per unit of output will
- A. either increase or decrease, depending upon what happens to the price level.
- B. increase by about 8 percent.
- C. decrease by about 8 percent.
- D. increase by about 4 percent.
- E. decrease by about 4 percent.
19. The development of a nationwide, computerized job bank listing all job openings would be most likely to reduce
- A. structural unemployment.
- B. frictional unemployment.
- C. seasonal unemployment.
- D. cyclical unemployment.
20. "When the Federal Reserve announces that it intends to increase the money supply, people will expect inflation to occur. Therefore inflationary premiums will immediately get built into interest rates, wage demands, prices of raw materials, etc. and the price level will rise."
- This quotation best represents
- A. rational expectations.
- B. old classical economics
- C. Keynesian economics.
- D. monetarism.
21. To tighten the money supply, the Federal Reserve
- A. decreases the reserve ratio.
- B. purchases government securities in the open market.
- C. sells government securities in the open market.
- D. decreases the discount rate.
22. Usury laws set limits on how

- A. much money can be borrowed.
B. much interest can be charged.
C. much money can be loaned.
D. borrowed money can be used.
23. Suppose that a person's nominal income rises from \$10,000 to \$12,000 and the consumer price index rises from 100 to 105. The person's real income will
- A. fall by about 20 percent.
B. fall by about 2 percent.
C. rise by about 15 percent.
D. rise by about 25 percent.
24. Which of the following would be included in the GDP?
- A. diesel fuel bought for a delivery truck
B. fertilizer purchased by a farm supplier
C. a haircut
D. Acura windows purchased by a Honda assembly plant
25. Which of the following holds the largest proportion of the public debt?
- A. the American public, that is individuals, businesses and commercial banks, and federal government agencies
B. foreign individuals and governments
C. our central bank
D. None of the above.
26. The crowding-out effect suggests that
- A. government spending is increasing at the expense of private investment.
B. imports are replacing domestic production.
C. private investment is increasing at the expense of government spending.
D. consumption is increasing at the expense of investment.
27. $Y = C + I + G$
 $C = 200 + 1/2DI$
 $I = 200$
 $G = 250$
 $T = 200$
 $DI = Y - T$
 $X = IM$
- What is the equilibrium level of income (Y) for the above macro model?

- A. 1,100
 - B. 1,000
 - C. 550
 - D. 1,200
28. The reserves of a commercial bank consist of
- A. the amount of money market funds it holds.
 - B. deposits at the Federal Reserve Bank and vault cash.
 - C. government bonds which the bank holds.
 - D. the bank's net worth.
29. A \$175 price tag on a cashmere sweater in a department store window is an example of money functioning as a
- A. measure of value.
 - B. standard of deferred payment.
 - C. store of value.
 - D. medium of exchange.
30. Other things being equal and beginning with a balanced budget, which of the following policies will tend to have the most contractionary effect on the economy?
- A. Continue a balanced budget.
 - B. A budget surplus held as an idle money balance.
 - C. A budget deficit financed by creating new money.
 - D. A budget surplus used for debt retirement.
 - E. A budget deficit financed by borrowing from the public.

Answers

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| 1. B | 16. B |
| 2. D | 17. B |
| 3. B | 18. D |
| 4. C | 19. B |
| 5. D | 20. A |
| 6. C | 21. C |
| 7. A | 22. B |
| 8. B | 23. C |
| 9. C | 24. C |
| 10. D | 25. A |
| 11. D | 26. A |
| 12. E | 27. A |
| 13. E | 28. B |
| 14. D | 29. C |
| 15. B | 30. B |