

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. The market value of all final goods and services produced in the economy in a given year is the
  - A. Net National Product
  - B. National Income
  - C. Personal Income
  - D. Gross Domestic Product
  - E. Producer Price Index
  
2. Which of the following would cause the unemployment rate to increase?
  - I. A man who quits his job to spend more time with his children
  - II. A woman who has not looked for a job in two years and begins looking again
  - III. A woman who quits her job and begins looking for a new job in another city
  - A. I only
  - B. II only
  - C. III only
  - D. I and II only
  - E. II and III only
  
3. Which of the following is an example of structural unemployment?
  - A. A computer programmer who quits his job to move to a warmer climate
  - B. A construction worker who loses his job in the winter
  - C. An autoworker who loses her job during a recession
  - D. A steelworker who is replaced by a robot
  - E. A toymaker who worked for a company that closed because consumers did not buy its toys
  
4. The money supply in the United States is controlled by
  - A. Congress (in particular, the Senate Committee on Banking and Finance)
  - B. the commercial banking industry
  - C. the U.S. Treasury Department
  - D. the Federal Reserve

- E. the New York Stock Exchange
5. If a nation's depreciation exceeds its gross investment, we can say that
- A. net investment is positive
  - B. net investment is zero
  - C. the nation's stock of capital is growing
  - D. the nation's stock of capital is declining
  - E. the nation's GDP will rise
6. The discount rate is the interest rate at which
- A. the Federal Reserve lends to commercial banks
  - B. commercial banks lend to each other
  - C. the public lends to the federal government
  - D. the Federal Reserve lends to the U.S. Treasury
  - E. commercial banks lend to the public
7. Which of these events would likely reduce consumer spending?
- A. A reduction in personal income tax rates
  - B. A general expectation that the rate of inflation will soon begin to rise
  - C. A general decrease in interest rates
  - D. A decrease in stock prices
  - E. A reduction in the rate of unemployment
8. If the rate of growth in an economy is 2 percent, inflation is 3 percent, and the nominal rate of interest is 10 percent, what is the real rate of interest?
- A. 5 percent
  - B. 7 percent
  - C. 8 percent
  - D. 12 percent
  - E. 13 percent
9. According to Keynesian theory, which combination of policies below is consistent (that is, the policies would tend to reinforce instead of offset each other)?
- A. Decrease taxes; increase government spending; increase the money supply
  - B. Decrease taxes; decrease government spending; increase the money supply

- C. Decrease taxes; increase government spending; decrease the money supply
  - D. Increase taxes; increase government spending; increase the money supply
  - E. Increase taxes; decrease government spending; increase the money supply
10. Which of the following is a contractionary economic policy?
- A. The selling of securities by the Federal Reserve
  - B. Reductions in corporate and personal income taxes
  - C. Increases in the size of the federal budget deficit
  - D. Reductions in interest rates
  - E. Increased rate of growth of the money supply
11. Which of the following would expand aggregate demand according to Keynesians (demand-side economists), but stimulate aggregate supply according to supply-siders?
- A. Increasing government purchases of goods and services
  - B. Increasing transfer payments
  - C. Decreasing the money supply
  - D. Increasing the general level of interest rates
  - E. Decreasing personal and corporate tax rates
12. Fiscal policy refers to the control of
- A. interest rates by the Federal Reserve System
  - B. business policies to increase competition
  - C. the government budget to influence total spending
  - D. government spending in order to balance the budget
  - E. the growth of the money supply
13. Which of the following would lead to a decrease in aggregate demand?
- A. An increase in government spending
  - B. A decrease in labor productivity
  - C. An increase in personal income taxes
  - D. An increase in society's total wealth
  - E. Technological advancements
14. Which of the following would be the most likely to cause cost-push inflation?
- A. A reduction in federal income tax rates

- B. A decrease in the general level of interest rates
  - C. An increase in world oil prices
  - D. Wage concessions by large labor unions
  - E. An increase in the growth of the money supply
15. An economy is experiencing low rates of unemployment with high inflation. An appropriate mix of government policies might be to
- A. increase taxes; decrease government spending; increase interest rates
  - B. decrease taxes; increase government spending; decrease interest rates
  - C. decrease taxes; decrease government spending; decrease interest rates
  - D. increase taxes; decrease government spending; decrease interest rates
  - E. decrease taxes; increase government spending; increase interest rates

## Answers

1. Gross Domestic Product
2. II and III only
3. A steelworker who is replaced by a robot
4. the Federal Reserve
5. the nations stock of capital is declining
6. the Federal Reserve lends to commercial banks
7. A decrease in stock prices
8. 7 percent
9. Decrease taxes; increase government spending; increase the money supply
10. The selling of securities by the Federal Reserve
11. Decreasing personal and corporate tax rates
12. the government budget to influence total spending
13. An increase in personal income taxes
14. An increase in world oil prices
15. increase taxes; decrease government spending; increase interest rates