

- _____ 1. The labor force consists of all
- the people in the economy who are not retired
 - people in the economy over 16 years of age
 - the adults in the economy between 18 and 65 years old who are able to work
 - the noninstitutionalized population over 16 in the economy who hold jobs or are looking for them
- _____ 2. Which of the following is true regarding labor force participation rates in the United States since the 1950s?
- The rates for both men and women have risen.
 - The rate for women has fallen; that for men has risen.
 - The rate for men has fallen; that for women has increased.
 - The rates for both men and women have fallen.
- _____ 3. Which of the following is most likely to reduce structural unemployment?
- a reduction in wage rates
 - increasing efficiency of the job search through better information on local job openings
 - retraining workers in marketable skills
 - promotion of full employment through government stabilization policies
- _____ 4. Inflation can be caused by
- increases in aggregate demand only
 - increases in aggregate supply only
 - decreases in aggregate supply only
 - increases in aggregate demand or decreases in aggregate supply
- _____ 5. If the expected inflation rate is 4 percent and the nominal interest rate is 9 percent, the expected real interest rate is
- 13 percent
 - 5 percent
 - 9 percent
 - 5 percent
- _____ 6. An increase in the interest rate, other things constant, will
- shift the supply of loanable funds curve to the left
 - shift the supply of loanable funds curve to the right
 - increase the quantity of loanable funds supplied
 - shift the demand for loanable funds curve to the left
 - increase the quantity of loanable funds demanded
- _____ 7. The difference between consumption spending and disposable income
- decreases as income increases
 - stays proportionally the same as income increases
 - decreases if the interest rate increases
 - equals saving
- . _____ 8. The marginal propensity to consume
- is the proportion of disposable income consumed
 - is the reciprocal of the ratio of disposable income to saving
 - is the change in consumption relative to a change in disposable income
 - minus the marginal propensity to save must equal 1
- _____ 9. An upward shift of the consumption function might be caused by
- an increase in disposable income
 - a decrease in disposable income
 - a decrease in the price level
 - a decrease in household wealth
- _____ 10. The life-cycle hypothesis suggests that
- people tend to borrow more when they reach middle age
 - people tend to draw down their savings the most when they are young
 - people tend to pay off their debts and save more when they reach old age
 - net saving over a person's lifetime is small

- _____ 11. If the U.S. price level increases, other things equal, U.S. net exports
- increase
 - decrease
 - remain constant, since net exports are assumed to be constant
 - increase only if the marginal propensity to import also increases
- _____ 12. If households save \$40 billion less at each level of income and the $MPC = 0.8$, the aggregate expenditure line will
- not be affected
 - shift upward by \$40 billion
 - shift downward by \$40 billion
 - shift upward by \$200 billion because of the multiplier
- _____ 13. The smaller the marginal propensity to save, other things constant,
- the smaller the marginal propensity to consume
 - the larger the multiplier
 - the smaller the multiplier
 - the flatter the consumption function
- _____ 14. An increase in planned investment would shift the
- aggregate demand curve outward
 - aggregate demand curve inward
 - aggregate supply curve outward
 - aggregate supply curve inward
- _____ 15. Which of the following types of unemployment can exist in an economy that is BELOW its potential output level?
- cyclical unemployment only
 - structural unemployment only
 - frictional, cyclical, and seasonal unemployment only
 - frictional, cyclical, seasonal, and structural
- _____ 16. Potential output will INCREASE if
- there is an increase in the price level
 - there is a decrease in the price level
 - there is a technological change that increases labor productivity
 - workers choose shorter work schedules in order to enjoy more leisure
- _____ 17. If nominal wage rates increase by 3% and the price level increases by 5% per year, which of the following is correct?
- real wages increase by 2 percent per year
 - real wages increase by 3 percent per year
 - real wages decrease by 3 percent per year
 - real wages decrease by 2 percent per year
- _____ 18. The economy is experiencing an expansionary gap, which of the following will occur in the long run?
- Workers will negotiate nominal wage increases that will shift the SRAS curve to the left
 - Workers will negotiate nominal wage increases that will shift the SRAS curve to the right
 - Employers will negotiate lower nominal wages (relative to prices) that will shift the SRAS curve to the right
 - Employers will negotiate lower nominal wages (relative to prices) that will shift the SRAS curve to the left
- _____ 19. Fiscal Policy is concerned with
- government spending and taxation only
 - government spending and money only
 - money and taxation only
 - government spending, taxation, and money
- _____ 20. The distinction between discretionary fiscal policy and the use of automatic stabilization is that
- only discretionary fiscal policy can stimulate the economy
 - only automatic stabilizers can stimulate the economy
 - discretionary fiscal policy, once adopted, is built into the structure of the economy
 - automatic stabilizers, once adopted, are built into the structure of the economy

- _____ 21. If the MPC equals 0.80 and Government purchases increase by \$100, the real GDP demanded will increase by
- 80 percent
 - 20 percent
 - \$500
 - \$400
- _____ 22. To close a contractionary (recessionary) gap using fiscal policy, the government can
- decrease government spending
 - increase government spending and decrease taxes at the same time
 - increases taxes
 - decrease government spending or increase taxes
- _____ 23. According to Keynes
- fiscal policy should not be used to influences the economy
 - the economy eventually tends toward the potential output
 - to get the economy to potential output, the SRAS curve must shift to the right
 - the economy could be stuck at equilibrium below the potential output for a prolonged period
- _____ 24. Lags in the approval and implementation of fiscal policy
- weaken fiscal policy as a tool of economic stabilization
 - increase the effectiveness of fiscal policy as a tool of economic stabilization
 - help legislators to better assess what policies are most appropriate to adopt
 - make fiscal policy more responsive to the current economic environment
- _____ 25. Under a fractional reserve banking system,
- only a fraction of the banks in the system are allowed to create money
 - only a fraction of the banks in the system have reserves
 - the claims outstanding against the bank are only a fraction of the bank's total reserves
 - each bank must deposit a fraction of its reserves with the Federal Reserve Bank
 - bank reserves represent only a fraction of bank deposits
- _____ 26. The discount rate is the interest rate that
- banks charge on large loans
 - banks charge on loans to other banks
 - the Fed charges on loans to branches of the U.S. government
 - the Fed charges on loans to depository institutions
 - the Fed charges on loans to the public
- _____ 27. The Federal Reserve banks could probably have prevented many of the bank failures in the early 1930s by
- raising the reserve requirement of the commercial banks
 - lending money to the commercial banks
 - improving the system whereby checks are cleared
 - helping to create a commission of experts to engage in a prolonged study of the problem
 - selling large amounts of government bonds
- _____ 28. The Board of Governors of the Federal Reserve
- are elected by the House of Representatives to seven-year terms
 - are appointed for life by the President of the United States
 - are directly responsible to the Secretary of Treasury and the Comptroller's office
 - was disbanded by Roosevelt in the 1930s
 - consist of seven members appointed to 14-year terms by the president
- _____ 29. Open-market operations involve
- clearing checks
 - lending money to member banks
 - accepting deposits from member banks
 - the Fed's purchase and sale of government securities
 - any monetary policy actions

- _____ 30. The M1 money supply consists of
- coins and currency held by the nonbank public
 - coins and currency held by the nonbank public and currency held in banks
 - coins and currency held by the nonbank public, checkable deposits, and traveler's checks
 - coins and currency held in banks and checkable deposits
- _____ 31. Banks are financial intermediaries because they
- receive new Federal Reserve notes from the Fed and put them into circulation
 - bring together the two sides of the market – savers and borrowers
 - bring different savers into contact with each other
 - bring about the merger of smaller banks to make larger ones
- _____ 32. If a customer deposits \$1,000 cash into her checking account, the bank's
- assets rise by \$1,000 and liabilities fall by \$1,000
 - assets fall by \$1,000 and liabilities rise by \$1,000
 - assets and liabilities both fall by \$1,000
 - assets and liabilities both rise by \$1,000
 - profits rise by \$1,000
- _____ 33. The Fed can reduce the money supply by
- buying securities from a bank
 - buying securities from a private citizen
 - selling securities
 - issuing new Federal Reserve notes
 - saving failing banks
- _____ 34. As the price level rises, money _____ causing interest rates to _____ and investment spending to _____.
- demand rises; fall; fall
 - demand rises; rise; fall
 - demand falls; rise; rise
 - supply rises; rise; fall
 - supply falls; fall; rise
- _____ 35. In the aggregate demand-aggregate supply model, an increase in the money supply will cause in the short run a(n)
- increase in both the price level and real GDP
 - decrease in both the price level and real GDP
 - increase in real GDP and a decrease in the price level
 - decrease in real GDP and an increase in the price level
 - increase in the price level only
- _____ 36. If the Fed buys bonds, then the money supply
- increases, the interest rate falls, and the quantity of money demanded increases
 - falls, the interest rate falls, and the quantity of money demanded increases
 - increases, the interest rate increases, and the quantity of money demanded increases
 - falls, the interest rate increases, and the quantity of money demanded falls
 - falls, the interest rate falls, and the quantity of money demanded falls
- _____ 37. To eliminate a contractionary gap, the Fed can _____ the money supply, which would _____.
- increase; increase the interest rate and investment
 - increase; decrease the interest rate and increase investment
 - decrease; increase the interest rate and investment
 - decrease; increase the interest rate and decrease investment
- _____ 38. Hyperinflation
- is always accompanied by extremely rapid growth in the money supply
 - is always accompanied by rapid shrinkage of the money supply
 - occurs when an economy grows too rapidly
 - is really nothing to worry about since it affects only nominal GDP (and not real GDP)

- _____ 39. Long lags make discretionary policy less effective because
- in the long run, we shall all be dead
 - by the time the impact of a policy is felt, the problem it was meant to cure may have been corrected
 - lags are longer in contractions than in expansions
 - lags are longer in expansions than in contractions
- _____ 40. Which of the following is **NOT** a valid criticism of discretionary fiscal policy?
- Implementation of fiscal policy is sometimes difficult.
 - Time lags in fiscal policy are long.
 - Fiscal policy works only during periods of stagflation.
 - Fiscal policy often affects only current income, but many economic decisions are made on the basis of permanent income.
 - Fiscal policy might have undesirable long-term effects on aggregate supply.
- _____ 41. The Fed is not completely independent because
- Congress could rewrite the laws that created the Fed
 - it relies heavily on Congressional appropriations
 - the president sits on the Board of Governors
 - Congress must approve any new monetary policy
- _____ 42. The largest category of federal government expenditures is
- national defense
 - interest on the federal debt
 - direct benefit payments to individuals
 - grants to states and localities
- _____ 43. The federal budget deficit becomes _____ during recessions because _____.
- smaller; transfer payments increase and tax revenues decline
 - larger; transfer payments increase and tax revenues decline
 - larger; both transfer payments and tax revenues increase
 - smaller; both transfer payments and tax revenues increase
 - smaller; both transfer payments and tax revenues decrease
- _____ 44. A disadvantage of having an annually balanced budget is that government spending would have to
- increase in recessions and decrease during expansions
 - decline during a recession to offset the increase in tax revenues
 - rise during a recession to match the increase in tax revenues
 - rise during an expansion to offset the decline in tax revenues
 - decline in a recession to match the decrease in tax revenues
- _____ 45. Asymmetric information in financial markets exists when
- teachers know more about banking than students do
 - borrowers know more about their ability to repay loans than lenders do
 - lenders know more about borrowers than borrowers know about themselves
 - borrowers pay off a loan before it is due
 - borrowers and lenders know more about banking than banks do
- _____ 46. A bank's assets include all but one of the following. Which one is the exception?
- Checkable deposits
 - loans
 - securities
 - mortgages
 - cash
- _____ 47. The liquidity of an asset indicates
- its buying power
 - the ease with which it can be converted into the medium of exchange (cash) without a significant loss of value
 - the ease with which it can be converted into another asset
 - how likely people are to convert it into the medium of exchange without a significant loss of value
 - how easy it is to buy with a check

- _____ 48. A bank finds itself short of required reserves and therefore borrows from another commercial bank. The interest rate on this loan is
- zero
 - the prime rate
 - the discount rate
 - the federal funds rate
 - the required reserve ratio
- _____ 49. Banks differ from other types of businesses because banks
- earn profits
 - combine economic resources to produce services
 - can go out of business
 - can create money
 - are regulated by the government
- _____ 50. In order to increase the money supply, the banking system must have
- required reserves
 - the authority to buy corporate stocks
 - the authority to print U.S. currency
 - excess reserves
 - the authority to engage in interstate banking
- _____ 51. The banking system creates money in the sense that it
- prints money
 - creates excess reserves from loans
 - creates loans from excess reserves
 - creates required reserves from loans
 - creates loans from required reserves
- _____ 52. The Fed's most important and most frequently used monetary policy tool is
- printing money
 - clearing checks
 - setting the required reserve ratio
 - setting the discount rate
 - conducting open market operations
- _____ 53. The money demand curve describes how the quantity of money demanded varies with
- nominal GDP
 - real GDP
 - the price level
 - the interest rate
 - consumption
- _____ 54. If the interest rate rises, people hold
- less money because its opportunity cost has increased
 - more money because its opportunity cost has increased
 - less money because its opportunity cost has declined
 - more money because its opportunity cost has declined
 - the same amount of money
- _____ 55. If the Fed sells U.S. government securities to drain reserves from banks, which of the following will probably occur?
- The demand for money will increase and the interest rate will rise
 - The money supply will increase and the interest rate will fall
 - The interest rate will rise and the quantity of money demand will fall
 - The money supply will decrease and the interest rate will fall
 - The interest rate will fall and the quantity of money demanded will increase
- _____ 56. Which monetary policy would be appropriate to close a contractionary gap?
- a tax cut
 - a decrease in government purchases
 - an increase in reserve requirements
 - the Fed's purchase of U.S. government securities
 - The Fed's raising the discount rate

- _____ 57. The equation of exchange states that the quantity of money multiplied by the velocity of money equals
- real Gross Domestic Product
 - the price level
 - nominal Gross Domestic Product
 - the turnover rate
 - the demand for money
- _____ 58. If the money supply increases when there is much idle capacity in the economy,
- most of the resulting rise in nominal GDP will be a result of price increases
 - most of the resulting rise in nominal GDP will be a result of price increases
 - most of the resulting rise in real GDP will be a result of increases in the price level
 - most of the resulting rise in real GDP will be a result of increases in the interest rate
 - only nominal GDP will change; real GDP will be unaffected
- _____ 59. If interest rates are to remain constant, the money supply should change
- in the opposite direction to a change in aggregate demand
 - in the same direction as a change in money demand
 - only when investment changes
 - only when the demand for money decreases
 - only when the inflation rate changes
- _____ 60. If the Fed targets the interest rate (wants to keep the interest rate stable), then
- the money supply will grow at a more controlled rate
 - monetary policy will reinforce fluctuations in economic activity
 - the price level will be more stable in the long run
 - money demand will be more stable
 - velocity will be less stable
- _____ 61. When self-correcting forces cure a contractionary gap
- money wages and real wages both increase
 - money wages remain constant while real wages fall
 - money wages and real wages both decrease
 - money wages fall while real wages increase
 - real wages must increase regardless of what happens to money wages
- _____ 62. According to the active policy position, eliminating a contractionary gap
- can only be achieved by decreasing wages
 - requires a public policy of wage and price controls
 - should be accomplished by stimulating aggregate demand
 - will increase unemployment
 - will cause a recession
- _____ 63. If the advice of those who favor a passive approach to policy is correct, how would a contractionary gap eventually close?
- The Aggregate demand curve would shift rightward
 - The aggregate demand curve would shift leftward
 - The short-run aggregate supply curve would shift rightward
 - The short-run aggregate supply curve would shift leftward
 - There would be a movement upward along the aggregate demand curve
- _____ 64. To favor a passive approach to policy is to believe that the private sector is
- relatively stable and both wages and prices adjust quickly to eliminate excess supply or excess demand for labor
 - basically unstable, although both wages and prices adjust quickly to eliminate excess supply or excess demand for labor
 - relatively stable, although both wages and prices tend to be very sticky downward
 - basically unstable and both wages and prices tend to be very sticky downward
 - so stable that wages and prices rarely change

- _____ 65. Which of the following is consistent with an active approach to policy?
- The natural rate of unemployment is uncertain
 - Wages and prices adjust relatively quickly
 - The short-run aggregate supply curve is slow to shift in the presence of a contractionary gap
 - The size of the multiplier is irrelevant
 - Self-correction lags are not a problem
- _____ 66. Policy makers may not know that the economy is in a recession until six months after the recession starts; this is a phenomenon known as the
- implementation lag
 - policy coordination problem
 - decision-making lag
 - recognition lag
 - effectiveness lag
- _____ 67. Some economists believe that when workers and firms come to expect an expansionary monetary policy and the resulting inflation,
- they act so as to prevent the inflation from occurring
 - their actions lead to a further increase in output
 - the expansionary monetary policy will have no effect on either output or employment
 - the monetary authority will be forced to cancel its planned expansionary policy
 - both output and employment will increase even more than was originally planned
- _____ 68. The inflation associated with the oil embargoes of the 1970s resulted in
- reduced unemployment because aggregate demand increased
 - reduced unemployment because aggregate demand fell
 - increased unemployment because aggregate demand increased
 - increased unemployment because aggregate demand fell
 - increased unemployment because aggregate supply fell
- _____ 69. In Keynes' philosophy of government budgets
- permanent deficits are desirable
 - permanent surpluses are desirable
 - the goal is to have a budget surplus
 - surpluses are appropriate during recessions
 - deficits are appropriate during recessions
- _____ 70. A possible explanation for the persistence of the U.S. federal budget deficits is that
- it is easier politically to increase government spending than to decrease taxes
 - it is easier politically to decrease government spending than to decrease taxes
 - it is easier politically to increase government spending than to increase taxes
 - the economy naturally tends toward recessions
 - the economy naturally tends toward full employment
- _____ 71. The *crowding out* of private investment is associated with
- a reduction in profitable investment opportunities due to a recession
 - increased competition from foreign investors in U.S. markets
 - higher interest rates resulting from a declining rate of saving
 - higher interest rates resulting from increased borrowing by the federal government
 - higher interest rates resulting from restrictive monetary policy
- _____ 72. The difference between the federal budget deficit and the national debt is that the
- deficit is a stock and the debt is a flow
 - deficit is a flow and the debt is a stock
 - debt includes interest payments and the deficit does not
 - deficit can be positive but the debt cannot
 - debt can be negative but the deficit cannot

- _____ 73. One economic truism is that any nation's restriction of imports ultimately leads to
- an increase in exports
 - a reduction in exports
 - an economic upswing
 - an increase in GDP
- _____ 74. The foreign exchange rate describes the
- balance of trade
 - balance of payments
 - law of comparative advantage
 - price of foreign currency in terms of domestic currency
- _____ 75. Flexible exchange rates are determined by the
- government of the exporting country
 - government of the importing country
 - forces of supply and demand
 - IMF
- _____ 76. The demand for foreign currency in the United States is a
- direct demand
 - derived demand based on the demand for U.S. products
 - derived demand based on the demand for foreign products
 - direct demand based on the demand for U.S. dollars
- _____ 77. Under a flexible exchange rate system, an increase in the value of a domestic currency in terms of other currencies is referred to as
- an appreciation
 - a depreciation
 - a devaluation
 - a revaluation
- _____ 78. The balance of payments is
- the value of goods and services bought and sold in the world market
 - a summary record of a country's economic transactions with foreign residents and governments
 - a summary record of a country's purchases and sales of goods and services in the world
 - the value of merchandise goods bought and sold in the world market

The End !!