

MACROECONOMICS
Practice Exam #1

- 1 The central problem in economics is
 - (A) promoting economic growth.
 - (B) ensuring stable prices; limiting inflation
 - (C) promoting private ownership and protection of private property rights.
 - (D) scarcity; the use of limited resources.
 - (E) limiting unemployment.
- 2 Stagflation is the result of which of the following shifts in the AD/AS model?
 - (A) The aggregate demand curve shifting to the left
 - (B) The aggregate demand curve shifting to the right
 - (C) The aggregate supply curve shifting to the left
 - (D) The aggregate supply curve shifting to the right
 - (E) The long run aggregate supply curve shifting to the left
- 3 The natural rate of unemployment is
 - (A) The number of unemployed divided by the labor force
 - (B) The rate of unemployment when there is no frictional unemployment
 - (C) The rate of unemployment when the economy is in long run equilibrium
 - (D) The labor force divided by the working-age non-institutionalized population
 - (E) The rate of unemployment when the price level meets the Federal Reserve target for inflation
- 4 Skip this question. If your teacher gave this exam to you but he/she didn't buy a class set of Clifford's Ultimate Review Packet then you
 - (A) should tell your teacher that they are decreasing GDP and economic growth
 - (B) should cheat since your teacher is clearly a cheater
 - (C) yell "my econ teacher doesn't get econ!"
 - (D) remind your teacher to do the right thing
 - (E) should do all of the above
- 4 An increase in the expected rate of inflation is most likely to cause which of the following changes in the Phillips curve?
 - (A) a move downward to a new point along the short run Phillips curve
 - (B) a move upward to a new point along the short run Phillips curve
 - (C) a shift of the long run Phillips curve to the right
 - (D) a shift of the entire short run Phillips curve to the left
 - (E) a shift of the entire short run Phillips curve to the right
- 5 If foreign investors purchase U.S. government treasury bills, those purchases will be included in their nation's
 - (A) balance of trade
 - (B) current account
 - (C) financial account
 - (D) gini coefficient
 - (E) net cash transfers
- 6 A rightward shift in the aggregate demand curve could most likely be caused by which of the following?
 - (A) a decrease in consumer confidence
 - (B) a decrease in investment spending
 - (C) an increase in the price level
 - (D) the purchase of government securities by the central bank
 - (E) an increase in personal income taxes
- 7 If nominal wages and prices are not flexible, which of the following must be true when the economy has a severe recessionary gap?
 - (A) The aggregate demand curve is vertical
 - (B) The aggregate demand curve is horizontal
 - (C) The short run aggregate supply curve is vertical
 - (D) The short run aggregate supply curve is upward sloping
 - (E) The short run aggregate supply curve is horizontal

- 8 Which of the following groups would benefit in the short run from an unanticipated rise in the inflation rate?
- (A) Retirees on a fixed income
 - (B) Young people repaying fixed-interest-rate student loans
 - (C) Union workers whose contracts do not include a cost-of-living-adjustment (COLA)
 - (D) Homeowners with adjustable mortgage rate loans from banks
 - (E) Financial institutions that have more fixed interest outstanding loans than adjustable rate loans on their books
- 9 What must be true if a nation's economy is operating inside of its production possibilities curve?
- (A) The nation is utilizing all resources as efficiently as possible
 - (B) The nation currently lacks the resources and technology to operate at a point on the production possibilities curve
 - (C) The nation is using resources and technology inefficiently
 - (D) The nation must increase investment spending on capital stock to produce on the curve
 - (E) The nation's nominal gross domestic product is growing at a faster rate than real gross domestic product
- 10 Which of the following is most likely to improve an economy's productivity?
- (A) Positive net capital stock investment
 - (B) A decrease in cyclical unemployment
 - (C) An increase in government discretionary expenditures
 - (D) An increase in paid maternity leave
 - (E) An increase in the velocity of money
- 11 If the aggregate supply curve is upward sloping and there is an increase in exports to foreign countries, what will be the resulting change in real gross domestic product (RGDP) and price level in the short run?
- | | <u>RGDP</u> | <u>Price Level</u> |
|-----|-------------|--------------------|
| (A) | Increase | Decrease |
| (B) | Increase | Increase |
| (C) | Unchanged | Increase |
| (D) | Decrease | Decrease |
| (E) | Decrease | Increase |
- 12 What will happen to the equilibrium price and equilibrium quantity of a good if there is a simultaneous increase in input costs while the product is gaining popularity among consumers?
- | | <u>Equilibrium Price</u> | <u>Equilibrium Quantity</u> |
|-----|--------------------------|-----------------------------|
| (A) | Increase | Increase |
| (B) | Increase | Indeterminate |
| (C) | Increase | Decrease |
| (D) | Decrease | Increase |
| (E) | Decrease | Decrease |
- 13 Which of the following is true of the short run Phillips curve, but not true for the long run Phillips curve?
- (A) There is a tradeoff between the unemployment rate and the inflation rate
 - (B) It is vertical at the natural rate of unemployment
 - (C) It is upward sloping
 - (D) There is not a tradeoff between the unemployment rate and the inflation rate
 - (E) Shifts of the curve are the result of a change in aggregate demand

- 14 Which of the following groups would most likely be hurt by the depreciation of the Canadian dollar in the international market?
- Canadian banks holding large amounts of foreign currencies
 - Canadian lumber producers who sell to firms in other nations
 - Europeans planning on traveling in Canada for their vacations
 - Retired Americans living in Canada on their US government pensions
 - Swiss ski manufacturers that market their products in Canada
- 15 Which of the following would cause an inward shift of the production possibilities curve?
- A decrease in real interest rates
 - An increase in personal income taxes
 - A decrease in the price level
 - A decrease in the size of the labor force
 - An increase in unemployment related to a recessionary gap
- 16 If the reserve requirement increases from 5 percent to 10 percent, and assuming the general public holds a portion of its money in cash, what will happen to the money multiplier and the money supply?
- | | <u>Money</u> | <u>Money</u> |
|--------------|-------------------|---------------------|
| | <u>Multiplier</u> | <u>Supply</u> |
| (A) Increase | Increase | by double |
| (B) Increase | Increase | by less than double |
| (C) Decrease | Decrease | by more than half |
| (D) Decrease | Decrease | by half |
| (E) Decrease | Decrease | by less than half |
- 17 The short run aggregate supply curve would shift to the left in response to which of the following?
- An increase in net capital stock
 - A decrease in the corporate income tax rate
 - An increase in sovereign debt
 - A decrease in the price level
 - An increase in the cost of resources
- 18 If a country is experiencing a significant recessionary gap, which of the following combinations of fiscal and monetary policies would be most likely to move the nation toward long-run equilibrium?
- | <u>Fiscal Policy</u> | <u>Monetary Policy</u> |
|----------------------------------|---|
| (A) Increase taxes | Increase the federal funds rate |
| (B) Decrease taxes | Sell government securities in the open market |
| (C) Decrease Government spending | No change in the money supply |
| (D) Increase Government spending | Buy government securities in the open market |
| (E) Decrease Government spending | Sell government securities in the open market |
- 19 Which of the following best defines investment as a component of GDP?
- Real estate acquisitions made for future resale profit
 - Buying new plants, machinery, tools and inventory
 - Capital gains periodically paid out to stockholders
 - The difference between an individual's total income, wages plus interest, profits and rents, and their disposable income
 - The purchase of stocks and bonds by private citizens
- 20 Which of the following is a reason why one nation's economic growth rate might be higher than another nation?
- A lower labor force participation rate
 - A lower age of retirement
 - Larger per capita government subsidies for education and worker training programs
 - Increased corporate tax rates
 - Increased consumer spending

21 What will be the resulting change in Japan's aggregate supply and aggregate demand if the value of the Japanese yen increases in the foreign exchange market?

	<u>Aggregate Demand</u>	<u>Aggregate Supply</u>
(A)	Increase	Increase
(B)	Increase	No change
(C)	No change	Increase
(D)	Decrease	No change
(E)	Decrease	Increase

22 A decrease in which of the following might cause a decrease in real per capita income?

- (A) Inflation
- (B) Output per unit of input
- (C) Personal and corporate income tax rates
- (D) The retirement age
- (E) The real interest rate

23 Nations can benefit from free trade mainly because

- (A) It allows each nation to consume beyond its production possibilities curve.
- (B) import tariffs can increase government revenues.
- (C) income inequality will improve in both societies.
- (D) free trade fosters self-sufficiency for each nation.
- (E) unemployment will decrease in each country.

24 The table below represents a simplified bank balance sheet, or T-Account, for a commercial bank. Use the information in the table to answer the following question.

<u>Assets</u>	<u>Liabilities</u>
Required Reserves: \$10,000	Demand Deposits: \$100,000
Securities: \$30,000	
Loans: \$50,000	

Which of the following represents the required reserve ratio for this bank and the maximum amount of additional lending this bank can undertake?

	<u>Required Reserve Ratio</u>	<u>Additional Loans</u>
(A)	5%	\$5,000
(B)	10%	\$10,000
(C)	10%	\$20,000
(D)	30%	\$70,000
(E)	50%	\$50,000

25 Who demands the factors of production in the circular flow diagram?

- (A) Consumers
- (B) Firms
- (C) The foreign sector
- (D) Financial institutions
- (E) Households

26 Assume the government decreases its deficit spending. What is the likely result in the money market?

	<u>Demand For Money</u>	<u>Nominal Interest Rates</u>
(A)	Decrease	Decrease
(B)	Increase	Increase
(C)	Decrease	Indeterminate
(D)	Increase	Decrease
(E)	Decrease	Increase

27 Which of the following assets would be characterized as having the most liquidity?

- (A) an antique etruscan vase
- (B) money market mutual funds
- (C) stocks
- (D) savings bonds
- (E) paper currency

- 28 Which of the following is MOST likely to promote economic growth?
- (A) A decrease in business tax credits for investment spending
 - (B) A decrease in federal student education grants
 - (C) An increase in investment in tools and machinery
 - (D) A decrease in the labor force participation rate
 - (E) An increase in the real interest rate
- 29 Which of the following is **NOT** a criticism of gross domestic product (GDP) as a measure of a nation's well-being?
- (A) GDP measures only the value of final goods and services and not intermediate goods and services.
 - (B) GDP does not account for the negative impacts of economic growth, such as pollution.
 - (C) GDP does not account for non-market activities accomplished by individual economic actors for themselves.
 - (D) GDP does not account for inequitable distribution of income among the populace, resulting in wide discrepancies in living standards.
 - (E) Economic activities for which people are paid "under the table", or barter transactions, are not accounted for by GDP statistics.
- 30 The spending multiplier is the result of
- (A) tax revenues increase as consumer and business incomes increase.
 - (B) foreign purchasers increasing expenditures as the currency appreciates.
 - (C) government spending crowding out consumption and investment spending.
 - (D) domestic investment expenditures rising as interest rates rise.
 - (E) consumer expenditures rising as incomes rise.
- 31 In the midst of a \$300 billion recessionary gap, the federal government decides to use fiscal policy to bring the economy back to long run equilibrium. If society's marginal propensity to consume (MPC) is 0.80, which of the following could the government do to reach full employment assuming no crowding out or leakages?
- (A) Increase taxes by \$60 billion.
 - (B) Decrease taxes by \$300 billion.
 - (C) Increase government expenditures \$60 billion.
 - (D) Increase government expenditures by \$150 billion.
 - (E) Increase government expenditures by \$300 billion.
- 32 Which of the following is an example of cyclical unemployment?
- (A) Sue, who is unemployed, has stopped looking for a job.
 - (B) Juan has taken voluntary retirement from his job at an aerospace company.
 - (C) Zelda lost a job with the recent downturn in the economy.
 - (D) Jack lacks the skills to fill any of the available jobs.
 - (E) Robert quits his job to search for a better job.
- 33 Which of the following best describes the concept of inflation?
- (A) Appreciation of one currency relative to another currency
 - (B) An acceleration in interest rates
 - (C) A steady rise in the general level of prices
 - (D) Growth rate of real gross domestic product
 - (E) A rise in the unemployment rate
- 34 In the AS/AD model, which of the following shifts would be the likely result of an increase in personal income taxes?
- (A) Aggregate demand shifts to the right
 - (B) Aggregate demand shifts to the left
 - (C) Aggregate supply shifts to the right
 - (D) Aggregate supply shifts to the left
 - (E) Aggregate demand and aggregate supply both shift to the right

35 Which of the following policy combinations would foster long run growth of an economy without increasing the price level?

- | | | |
|-----|----------------------------------|--------------------------------|
| | <u>Monetary</u>
<u>Policy</u> | <u>Fiscal</u>
<u>Policy</u> |
| (A) | Buy bonds | Increase government spending |
| (B) | Sell bonds | Increase government spending |
| (C) | Buy bonds | Decrease government spending |
| (D) | Sell bonds | Decrease government spending |
| (E) | Buy bonds | Decrease income taxes |

36 If a country is experiencing a recessionary gap, which of the following fiscal and monetary policy combinations would be most likely to move the nation closer to full employment with a minimum change in interest rates?

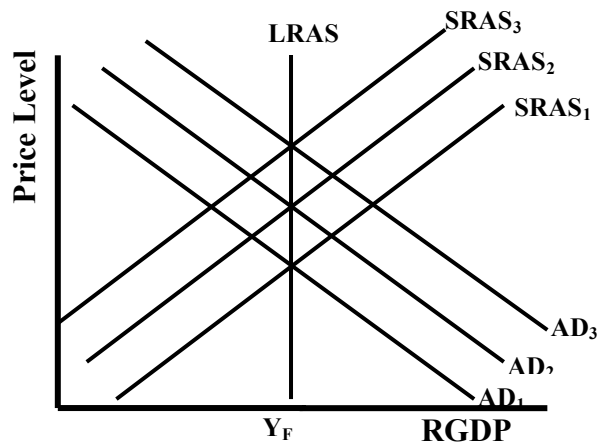
- (A) A decrease in government spending and a decrease in taxes
 (B) An increase in government spending and the purchase of bonds on the open market
 (C) A decrease in taxes and an increase in the discount rate
 (D) An increase in taxes and a decrease in the federal funds rate
 (E) the sale of bonds on the open market and a decrease in government spending

37 The opportunity cost of holding money in the form of cash increases when

- (A) the velocity of money increases
 (B) interest rates increase
 (C) nominal wages decrease
 (D) the price level falls
 (E) aggregate demand decreases

38 If the economy is operating below full-employment output, assuming that wages and prices are flexible, long run equilibrium can be restored by which of the following?

- (A) Raising the fed funds rate
 (B) Authorizing contractionary fiscal policy to increase aggregate demand
 (C) Enacting no policy since lower wages will result in a return to full employment
 (D) An open market sale of government bonds by the central bank
 (E) Raising personal income taxes



39 In the graph above, assume wages and prices are perfectly flexible, and a starting equilibrium point of AD_2 and $SRAS_2$. If this economy experiences demand-pull inflation, identify both the short run and long run shifts in the aggregate demand and short run aggregate supply curves.

- | | |
|--------------------------|----------------------|
| <u>Short Run</u> | <u>Long Run</u> |
| (A) AD_2 to AD_3 | $SRAS_2$ to $SRAS_3$ |
| (B) AD_2 to AD_1 | $SRAS_2$ to $SRAS_1$ |
| (C) AD_2 to AD_3 | $SRAS_1$ to $SRAS_3$ |
| (D) $SRAS_2$ to $SRAS_1$ | AD_2 to AD_1 |
| (E) $SRAS_2$ to $SRAS_3$ | AD_2 to AD_3 |

40 If an economy experiences an increase in net capital inflows by foreign investors, which of the following will be the resulting change in the market for loanable funds and the real interest rate?

	<u>Market for Loanable Funds</u>	<u>Real Interest Rate</u>
(A)	Decrease in supply	Decrease
(B)	Decrease in supply	Increase
(C)	Increase in supply	Decrease
(D)	Increase in demand	Increase
(E)	Decrease in demand	Decrease

- 41 According to rational expectations theory
- (A) People expect future inflation to be equal to the current year's inflation rate.
 - (B) Expected inflation often leads to actual inflation as individuals and businesses changes their behavior.
 - (C) People rationally wait to act on their expectations until government agencies formally report inflation statistics.
 - (D) People assume inflation will be stable.
 - (E) People assume inflation will rise and fall with the unemployment rate.

42 Assume that there is no unanticipated inflation and that wages and prices are flexible. What will happen to short run real gross domestic product (RGDP) and the price level in the long run if the Federal Reserve purchases government securities in the open market?

	<u>RGDP</u>	<u>Price Level</u>
(A)	Decrease	Decrease
(B)	No change	Increase
(C)	No change	Decrease
(D)	Increase	No change
(E)	Increase	Increase

43 A contractionary monetary policy will have what effect on aggregate demand, price level and real output?

	<u>Aggregate Demand</u>	<u>Price Level</u>	<u>Real Output</u>
(A)	Increase	Increase	Increase
(B)	Increase	Increase	Decrease
(C)	Decrease	Decrease	Decrease
(D)	Decrease	Increase	Increase
(E)	Decrease	Decrease	Increase

44 What is likely to happen to the value of the Mexican Peso and capital flow in Mexico if there is an increase in real interest rates in Mexico relative to real interest rates in the rest of the world?

	<u>Capital Flow</u>	<u>Value of the Peso</u>
(A)	Outflow	Appreciate
(B)	Inflow	Appreciate
(C)	Inflow	No Change
(D)	Outflow	Depreciate
(E)	Inflow	Depreciate

45 **Answer the questions using the chart below illustrating disposable income and consumption. Assume the marginal propensity to consume is 0.80.**

<u>Disposable Income</u>	<u>Consumption</u>
\$1,500	\$1,510
\$1,550	\$1,550
\$1,600	\$1,590
\$1,650	\$1,630
\$1,700	\$1,670

At what disposable income does dissaving occur?

- (A) \$1,500
- (B) \$1,550
- (C) \$1,600
- (D) \$1,650
- (E) \$1,700

46 In an economy is at full employment with a vertical aggregate supply curve and aggregate demand is continuing to increase, which of the following monetary policy actions would be an appropriate response?

- (A) Decreasing the fed funds rate
- (B) Increasing government spending
- (C) Purchasing government securities in the open market
- (D) Decreasing the required reserve ratio
- (E) Selling government securities in the open market

- 47 Assume a recession causes jobless workers to grow more discouraged and give up their search for work. What will be the resulting change in the labor force participation rate and unemployment rate?
- | | <u>Labor Force
Participation Rate</u> | <u>Unemployment
Rate</u> |
|-----|---|------------------------------|
| (A) | Increase | Decrease |
| (B) | No change | Increase |
| (C) | Decrease | Increase |
| (D) | No change | Decrease |
| (E) | Decrease | Decrease |
- 48 A country's currency might appreciate in value because of which of the following?
- (A) A higher price level relative to the rest of the world
 (B) A higher real interest rate relative to the rest of the world
 (C) Decreased demand for the country's currency
 (D) Increased supply of the country's currency on the world market
 (E) A purchase of government bonds in the open market by the nation's central bank
- 49 Which of the following is most likely to cause an increase in potential gross domestic product?
- (A) An increase in the fed funds rate
 (B) A decrease in cyclical unemployment
 (C) An increase in government expenditures on infrastructure projects
 (D) An increase in inflationary expectations
 (E) Negative net capital investment
- 50 If the U.S. Federal Reserve engages in expansionary monetary policy by purchasing government securities through the open market, what will be the likely result on the nominal interest rate, aggregate demand and the unemployment rate?
- | | <u>Nominal
Interest Rate</u> | <u>Aggregate
Demand</u> | <u>Unemployment
Rate</u> |
|-----|----------------------------------|-----------------------------|------------------------------|
| (A) | Decrease | Decrease | Decrease |
| (B) | Decrease | Increase | Decrease |
| (C) | Decrease | No change | Increase |
| (D) | Increase | Increase | Increase |
| (E) | Increase | Decrease | Increase |
- 51 A decrease in government deficit spending will have which of the following effects in the short term?
- (A) Increase net exports
 (B) Decrease nominal interest rates
 (C) Increase nominal interest rates
 (D) Increase the price level
 (E) Decrease unemployment
- 52 If the federal government taxes all income at a flat rate of 20% and the marginal propensity to consume (MPC) is 0.75. If Daniel's gross income increases by \$1,000, how much will his consumption expenditures increase?
- (A) \$200
 (B) \$600
 (C) \$750
 (D) \$800
 (E) \$1,000
- 53 Given a required reserve ratio of 10% and banks loan out all of their excess reserves, if the Federal Reserve chooses to engage in contractionary monetary policy by selling \$1,000 of Treasury Bills to commercial banks, what will be the resulting change in the money supply?
- (A) Decrease by \$1,000
 (B) Decrease by \$9,000
 (C) Decrease by \$10,000
 (D) Increase by \$1,000
 (E) Increase by \$1,000
- 54 Assume that the velocity of money is constant in the equation of exchange. Which of the following must be true if the GDP deflator is equal to 200 while the economy is operating with a vertical aggregate supply curve?
- (A) the money supply has doubled
 (B) nominal interest rates have decreased by half
 (C) the price level has decreased by half
 (D) real output has increased by 100
 (E) the unemployment rate has doubled

- 55 Country X can produce either 2 tons of corn or 4 scooters with 20 units of labor. Country Y can produce either 5 tons of corn or 25 scooters with 20 units of labor. Based on this information, which of the following is true.
- (A) Country X has an absolute advantage in the production of corn, while Country Y has a comparative advantage in the production of scooters.
- (B) Country X has an absolute advantage in the production of corn, while Country Y has a comparative advantage in the production of corn.
- (C) Country X has a comparative advantage in the production of corn, while Country Y has a comparative advantage in the production of scooters.
- (D) Country X has a comparative disadvantage in the production of both goods.
- (E) Trading 1 ton of corn for 8 scooters would benefit both countries.
- 56 Which of the following is the best example of structural unemployment?
- (A) A worker is laid off during a recession.
- (B) A worker voluntarily quits a job to go back to school.
- (C) A worker is replaced by machines that are cheaper and more productive.
- (D) A worker is denied on-the-job training.
- (E) A worker switches from working part-time to full-time.
- 57 If the country is currently operating at point D on PPC_2 , which of the following changes would foster future economic growth?
- (A) Shifting from PPC_2 to PPC_1
- (B) Moving from point D to point A
- (C) Moving from point D to point B
- (D) Moving from point D to point C
- (E) Moving from point D to point G
- 58 If the country is currently operating at point D on PPC_2 , which of the following changes would illustrate actual economic growth had occurred?
- (A) Shifting from PPC_2 to PPC_1
- (B) Shifting from PPC_2 to PPC_3
- (C) Moving from point D to point B
- (D) Moving from point D to point C
- (E) Moving from point D to point G
- 59 If the relative price level in Canada is higher than in Mexico, what is the likely result in the foreign exchange market?
- (A) A decrease in the supply of Canadian dollars
- (B) A depreciation of the Mexican peso
- (C) An appreciation of the Canadian dollar
- (D) A depreciation of the Canadian dollar
- (E) An increase in the supply of the Mexican peso
- 60 Assume that the nominal interest rate is 10 percent. If the expected inflation rate is 3 percent, the real interest rate is
- (A) 0.5%
- (B) 3%
- (C) 7%
- (D) 10%
- (E) 13%

Use the diagram below to answer questions 57 and 58:

