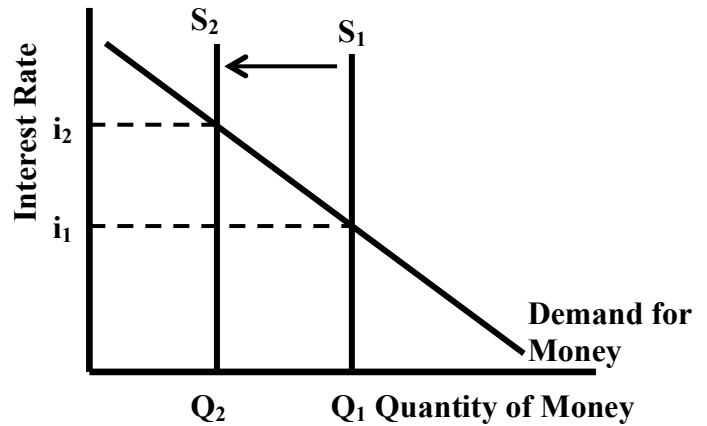


**Macroeconomics
Practice Exam #2**

- 1 If a country's economy is currently operating inside of its production possibilities curve, what must be true?
- (A) The country's resources are fully employed.
 - (B) The country's resources are fully employed, but the labor force participation rate is less than 100%.
 - (C) The country's resources are not fully employed.
 - (D) The country's natural and capital resources are not fully employed, but human resources are fully employed.
 - (E) Specialization and trade would not benefit the society.
- 2 When the U.S. Federal Reserve engages in open market operations it is
- (A) increasing or decreasing the discount rate
 - (B) buying or selling government securities
 - (C) increasing or decreasing reserve requirements for member financial institutions
 - (D) buying or selling stocks
 - (E) engaging in check clearing operations for commercial banks
- 3 A leftward shift in the short-run aggregate supply curve could be the result of
- (A) an increase in capital stock
 - (B) a central bank sale of government securities
 - (C) tax credits for capital investments
 - (D) a decrease in personal income taxes
 - (E) an increase in input prices
- 4 A decrease in which of the following is most likely to increase long run economic growth?
- (A) Federal student loan programs
 - (B) The money supply
 - (C) Interest rates
 - (D) The marginal propensity to save
 - (E) Personal income tax rates
- 5 If disposable income is \$5,000 billion, personal taxes are \$1,000 billion, and the marginal propensity to consume (MPC) is 0.8, what is personal income equal to?
- (A) \$6,000 billion
 - (B) \$5,000 billion
 - (C) \$4,800 billion
 - (D) \$3,200 billion
 - (E) \$2,200 billion
- | | 2015
Prices | 2016
Output | 2016
Prices |
|---------|----------------|----------------|----------------|
| Pears | \$1.50 | 4 | \$2.50 |
| Apples | \$2 | 5 | \$2 |
| Oranges | \$8 | 3 | \$10 |
- 6 Given the production and price information listed in the table above, and assuming 2015 is the base year, calculate the Real Gross Domestic Product (RGDP) for 2016 and the GDP deflator for 2016.
- | | <u>RGDP</u> | <u>Deflator</u> |
|-----|-------------|-----------------|
| (A) | \$ 24 | 60 |
| (B) | \$ 25 | 100 |
| (C) | \$ 40 | 125 |
| (D) | \$ 50 | 150 |
| (E) | \$ 60 | 175 |

- 7 In the equation of exchange, according to the quantity theory of money, the quantity of money and velocity of money are directly related to
- (A) the value of production
 - (B) the nominal interest rate
 - (C) the unemployment rate
 - (D) the reserve requirement
 - (E) the rate of capital inflow
- 8 Which of the following would most likely result in cost-push inflation?
- (A) A substantial decrease in consumption expenditures
 - (B) A significant increase in union wages
 - (C) Contractionary fiscal policy
 - (D) Expansionary monetary policy
 - (E) An appreciation of the country's currency
- 9 If society experiences an increase in human capital but nominal wages remain the same, what will happen to real gross domestic product (RGDP) and real wages?
- | | <u>RGDP</u> | <u>Real Wages</u> |
|-----|---------------|-------------------|
| (A) | Increase | Increase |
| (B) | Increase | Decrease |
| (C) | Indeterminate | Increase |
| (D) | Decrease | Decrease |
| (E) | Decrease | Increase |
- 10 Scarcity is the condition in which
- (A) supplies of the four factors of production are relatively unlimited
 - (B) capital stock does not depreciate
 - (C) structural unemployment means the labor force is not fully utilized
 - (D) human wants are beyond society's production
 - (E) population and labor force are experiencing negative growth possibilities
- 11 Assuming the country is experiencing a recessionary gap, which of the following actions would the central bank most likely engage in?
- (A) Sell bonds in open market operations and decrease personal income taxes
 - (B) Increase the discount rate and decrease the reserve requirement
 - (C) Sell bonds in open market operations and increase personal income taxes
 - (D) Sell bonds in open market operations and increase the reserve requirement
 - (E) Buy bonds in open market operations and decrease the discount rate
- 12 Which of the following will be the result of a decrease in input prices in the short run?
- | | <u>Aggregate Demand Curve</u> | <u>Aggregate Supply Curve</u> |
|-----|-------------------------------|-------------------------------|
| (A) | Shift to the left | Shift to the left |
| (B) | Shift to the right | Shift to the left |
| (C) | Shift to the left | No change |
| (D) | Shift to the right | Shift to the right |
| (E) | No change | Shift to the right |
- 13 Assume the economy of the nation of Cliffland is operating short of full employment output and economists agree that it would take \$400 million dollars of additional spending to bring the economy to long run equilibrium. If the marginal propensity to consume is 0.75, what is the least amount of government spending that could bring the nation back to long run equilibrium?
- (A) \$50 million
 - (B) \$80 million
 - (C) \$100 million
 - (D) \$200 million
 - (E) \$400 million

- 14 Which of the following is true regarding the consumer price index (CPI)
- (A) The CPI measures the amount of imports purchased by domestic consumers
 - (B) The CPI measures prices of all consumer goods and services produced in the economy
 - (C) The CPI measures prices of selected raw materials purchased by businesses
 - (D) The CPI measures prices of a specific market basket of goods and services purchased by consumers
 - (E) The CPI measures changes in consumers' willingness to pay at different levels of inflation
- 15 A rise in a nation's real interest rate might be fueled by which of the following events?
- (A) An increase in taxes on consumer goods
 - (B) A decrease in government spending
 - (C) A purchase of government bonds by the country's central bank
 - (D) A perceived increase in the country's political and economic turmoil
 - (E) An increase in the marginal propensity to save on the part of the country's citizens
- 15 Skip this question. Thank you for supporting ACDC Econ and buying the Ultimate Review Packet. Which of the following is the next course of action if someone posted this online or gave it to you for free?
- (A) Explain to that person that preventing entrepreneurs from earning profit decreases their incentive to innovate
 - (B) Remind them that no one wants to date people that have no sense of right or wrong.
 - (C) Tell them that they are stealing from Mr. Clifford
 - (D) Ask them politely to do the right thing
 - (E) All of the above



- 16 Which of the following would cause the shift illustrated in the money market graph above?
- (A) A decrease in the discount rate
 - (B) A decrease in the required reserve ratio
 - (C) A depreciating dollar causing an increase in the supply of dollars in foreign exchange markets
 - (D) The Federal Reserve selling bonds on the open market
 - (E) An increase in taxes on capital goods
- 17 Given a required reserve ratio of 0.10, suppose that Paula's bank has \$50,000 in demand deposits and has loaned out all of its excess reserves. If Paula withdraws \$2,000 from the bank how much does her bank need to increase its reserves to meet the reserve requirement?
- (A) \$1,000
 - (B) \$1,800
 - (C) \$2,000
 - (D) \$3,000
 - (E) \$5,000
- 18 Which of the following is the best definition of disposable income?
- (A) Income minus autonomous consumption
 - (B) Nominal GDP minus net exports
 - (C) Income minus tax liabilities
 - (D) Income plus consumers spending
 - (E) Income minus savings

- 19 Which of the following is an example of frictional unemployment?
- (A) A recent graduate, looking for their first job.
 - (B) A full-time laborer involuntarily switches to part-time
 - (C) A tradesperson is laid off as the economy moves into a recessionary gap
 - (D) A worker is replaced by computers at the office.
 - (E) An older employee who takes voluntary retirement
- 20 Which of the following characteristics best defines the free market system?
- (A) Scarcity and limited resources
 - (B) Private property and competition
 - (C) Private production of public goods
 - (D) Individuals that are motivated by self-interest
 - (E) A privately funded financial sector
- 21 If a nation's nominal gross domestic product (NGDP) increased by 6%, while its real rate of GDP growth (RGDP) was 2%, which of the following must be true?
- (A) The GDP deflator increased by 4%
 - (B) The GDP deflator decreased by 4%
 - (C) The inflation rate was 8%
 - (D) The inflation rate was 3%
 - (E) The GDP deflator increased by 3%
- 22 Workers who have lost their jobs because of technological improvements in the economy are said to be
- (A) cyclically unemployed.
 - (B) discouraged workers.
 - (C) frictionally unemployed.
 - (D) structurally unemployed.
 - (E) underemployed.
- 23 Which of the following changes in the short run aggregate supply curve and the aggregate demand curve would cause an increase in real gross domestic product without a corresponding increase in the price level?
- | | <u>Short Run</u>
<u>Aggregate Supply</u> | <u>Aggregate</u>
<u>Demand</u> |
|-----|---|-----------------------------------|
| (A) | Decrease | Increase |
| (B) | No Change | Increase |
| (C) | Increase | No Change |
| (D) | No Change | Decrease |
| (E) | Decrease | No Change |
- 24 If a country imposes a tariff on a product which they produce as well as import, which of the following will most likely occur?
- (A) Employment in the domestic production of the product will increase
 - (B) Employment in the foreign production of the product will increase
 - (C) The domestic price of the product will decrease
 - (D) Domestic consumption of the product will increase
 - (E) Domestic production of the product will decrease
- 25 A country's national debt is defined as
- (A) the amount of money owed by the government to foreign nations.
 - (B) the amount of money owed to holders of government securities.
 - (C) the amount of money owed by a nation's citizens to the national government.
 - (D) the amount of currency in circulation that is not backed by gold.
 - (E) the amount of money owed by that nation to its trading partners.

- 26 Which of the following would be most likely to cause the long run output of an economy to decrease ?
- (A) Negative net capital stock investment
 - (B) An increase in the labor force participation rate
 - (C) The increase in nominal gross domestic product is greater than the increase in real gross domestic product
 - (D) An increase in personal income taxes
 - (E) An increase in the unemployment rate

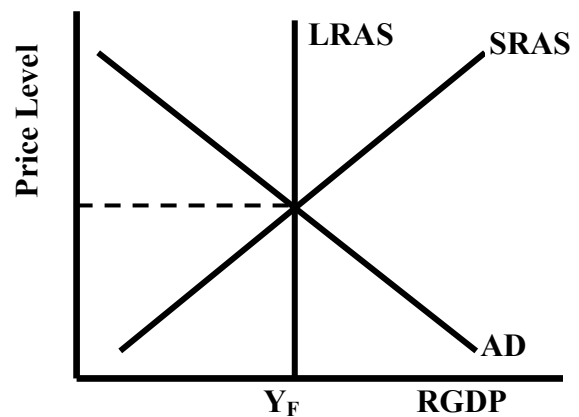
- 27 Fiscal policy measures that work counter-cyclically without overt government action are known as
- (A) non-discretionary fiscal policies
 - (B) balanced budget multipliers
 - (C) discretionary fiscal policies
 - (D) open Market operations
 - (E) self-correcting mechanisms for recessionary and inflationary gaps

- 28 Expansionary fiscal policy will have what effect on the short-run Phillips curve?
- (A) a decrease in both unemployment and inflation
 - (B) an increase in both unemployment and inflation
 - (C) an increase in unemployment but no change in inflation
 - (D) a decrease in inflation, coupled with an increase in unemployment
 - (E) an increase in inflation, coupled with a decrease in unemployment

- 29 If James deposits \$1,000 cash in his checking account and the required reserve ratio is 0.10, what is the maximum resulting change in the money supply from his deposit?
- (A) \$900
 - (B) \$1,000
 - (C) \$4,500
 - (D) \$9,000
 - (E) \$10,000

- 30 Good X and Good Y are substitutes. An increase in the price of Good Y will result in which of the following?
- (A) A decrease in the price of Good X
 - (B) A decrease in the supply of Good X
 - (C) A decrease in the supply of Good Y
 - (D) An increase in the demand for Good X
 - (E) An increase in both the demand and the supply of Good X

- 31 Which of the following could decrease to cause the demand for money to fall?
- (A) Long run aggregate supply
 - (B) Short run aggregate supply
 - (C) Interest rates
 - (D) The money supply
 - (E) Price level



- 32 In the graph above, economic growth could be illustrated by a
- (A) leftward shift of the aggregate demand curve
 - (B) rightward shift of the aggregate demand curve
 - (C) rightward shift of the short-run aggregate supply curve
 - (D) leftward shift of the long-run aggregate supply curve
 - (E) rightward shift of the long-run aggregate supply curve

- 33 Crowding out is when government borrowing limits private investment by
 (A) decreasing the real interest rate
 (B) increasing the real interest rate
 (C) decreasing the supply of money
 (D) increasing the supply of money
 (E) decreasing wages
- 34 If a nation imports fewer goods and services than it exports, what must be true of that nation's balance of payments accounts?
 (A) The trade balance is in surplus
 (B) The financial account balance is in surplus
 (C) The financial account balance is in deficit
 (D) The current account balance is in surplus
 (E) The current account balance is in deficit
- 35 Full employment takes place when
 (A) the employment rate is equal to one-hundred percent.
 (B) the economy is experiencing structural and cyclical unemployment only.
 (C) the economy is experiencing structural unemployment only.
 (D) the economy is experiencing structural and frictional unemployment only.
 (E) the unemployment rate is equal to zero percent.
- 36 Which of the following would cause a nation's real output level at full employment to decrease?
 (A) New technology that enhances labor productivity
 (B) A sustained increase in resource costs
 (C) An increase in net investment in capital stock
 (D) An increase in the price level
 (E) A decrease in the price level
- 37 If the Federal Reserve engages in open market operations to buy government securities what will be the resulting change in the money supply, interest rates and bond prices?
- | | <u>Money Supply</u> | <u>Interest Rates</u> | <u>Bond Prices</u> |
|-----|---------------------|-----------------------|--------------------|
| (A) | Increase | Increase | Increase |
| (B) | Increase | Decrease | Increase |
| (C) | Decrease | Increase | No Change |
| (D) | Decrease | Increase | Decrease |
| (E) | Decrease | Decrease | Decrease |
- 38 If the country of Alpha is experiencing an inflationary gap, which of the following monetary and fiscal policy combinations is most likely to move the nation toward long run equilibrium?
- | | <u>Monetary Policy</u> | <u>Fiscal Policy</u> |
|-----|------------------------------------|------------------------------|
| (A) | Buy securities on the open market | Decrease taxes |
| (B) | Sell securities on the open market | Decrease spending |
| (C) | Decrease the reserve requirement | Increase taxes |
| (D) | Buy securities on the open market | Increase taxes |
| (E) | Decrease spending | Increase Reserve Requirement |
- 39 When Daniel purchased his house, he took out a 30 year, fixed-rate mortgage loan for 8%. At the time inflation was expected to be 4%. If the actual inflation rate turned out to be 5% who benefited from this unexpected change and what was the real interest rate?
- | | <u>Who benefited</u> | <u>Real Interest Rate</u> |
|-----|----------------------|---------------------------|
| (A) | The Bank | 8% |
| (B) | The Bank | 4% |
| (C) | Neither | 3% |
| (D) | Daniel | 4% |
| (E) | Daniel | 3% |

- 40 Avery can make 30 tacos in a day or 20 burritos in a day, while Jessie can make 20 tacos in a day or 10 burritos. Which of the following must be true?
- (A) Jessie has an absolute advantage in making tacos.
 (B) Jessie has an absolute advantage in making burritos.
 (C) Avery has a comparative advantage in making both tacos and burritos.
 (D) Jessie has a comparative advantage in making tacos.
 (E) Jessie has a comparative advantage in making burritos.
- 41 If David's grandfather promises to give him a crisp, new \$100 bill on his twelfth birthday one year from today, which of the following describes the present value of that money received one year from now?
- (A) The present value will increase as interest rates increase.
 (B) The present value is worth more than \$100 received today.
 (C) The present value is the same value as \$100 received today.
 (D) The present value is worth less than \$100 received today.
 (E) Interest rate changes will have no effect on its present value.
- 42 Which of the following is illustrated by the short-run Phillips curve?
- (A) Increases in the money supply result in increases in the interest rate
 (B) There is a trade-off between the unemployment rate and the inflation rate
 (C) The natural rate of unemployment is constant, and thus not connected with fiscal or monetary policy shifts
 (D) Decreases in the unemployment rate are the result of decreases in interest rates
 (E) Increases in the inflation rate are the result of increases in interest rates
- 43 Which of the following is most likely to occur if the international value of the Canadian dollar appreciates relative to the Euro?
- (A) Canadian exports to the European Union will increase
 (B) Canadian imports from the European Union will decrease
 (C) The Canadian balance of trade will move toward a deficit
 (D) Exports from the European Union to Canada will decrease
 (E) Tourists from the European Union visit Canada in greater numbers
- 44 Given a required reserve ratio of 20 percent and assuming banks hold no excess reserves, a central bank purchases \$1000 of bonds in open market operations. What is the maximum change in each of the following?
- | | Demand | Deposits | Loans | Reserves |
|-----|---------|----------|---------|----------|
| (A) | \$5,000 | \$4,000 | \$4,000 | \$4,000 |
| (B) | \$5,000 | \$5,000 | \$5,000 | \$5,000 |
| (C) | \$5,000 | \$4,000 | \$4,000 | \$1,000 |
| (D) | \$4,000 | \$1,000 | \$1,000 | \$1,000 |
| (E) | \$4,000 | \$5,000 | \$5,000 | \$1,000 |
- 45 If a nation's central bank buys government securities in the open market what will be the resulting change in that nation's interest rate, the value of the country's currency, and the change in the nation's exports and imports?
- | | Interest Rates | Value of the currency | Exports | Imports |
|-----|----------------|-----------------------|----------|----------|
| (A) | Increase | Appreciates | Increase | Increase |
| (B) | Increase | Depreciates | Increase | Decrease |
| (C) | No Change | Appreciates | Decrease | Increase |
| (D) | Decrease | Depreciates | Increase | Decrease |
| (E) | Decrease | Appreciates | Decrease | Increase |

- 46 Which of the following helps explain why the aggregate demand curve is downward sloping?
- (A) exports increase with a rise in domestic prices, mitigating a fall in domestic consumption
- (B) nominal wages decrease as the price level rises as price level increases
- (C) higher interest rates increase net capital outflow
- (D) the ratio of consumption to price level is constant
- (E) real wealth, and thus consumption, is affected by changes in price level
- 47 In a perfectly competitive market, if both the supply of a good as well as the demand for the good decrease at the same time, what will be the resulting change in the equilibrium price and equilibrium quantity of the good?
- | | <u>Price</u> | <u>Quantity</u> |
|-----|---------------|-----------------|
| (A) | Increase | Increase |
| (B) | Decrease | Decrease |
| (C) | Increase | Indeterminate |
| (D) | Decrease | Increase |
| (E) | Indeterminate | Decrease |
- 48 Real gross domestic product (RGDP) is defined as
- (A) The value, adjusted for changes in price level, of all final goods and services consumed within a nation's borders in a given year.
- (B) The value, adjusted for changes in price level, of all goods and services produced within a nation's borders.
- (C) The value, of all final goods and services produced by a nation's businesses, foreign and domestic, in a given year.
- (D) The value, in current prices, of all final goods and services produced within a nation's borders in a given year.
- (E) The value, adjusted for changes in price level, of all final goods and services produced within a nation's borders in a given year.
- 49 If aggregate demand were to unexpectedly increase, what would be the resulting change in the price level and unemployment rate?
- | | <u>Price Level</u> | <u>Unemployment Rate</u> |
|-----|--------------------|--------------------------|
| (A) | Decrease | Decrease |
| (B) | Decrease | No change |
| (C) | Decrease | Increase |
| (D) | Increase | Decrease |
| (E) | Increase | Increase |
- 50 Assuming no crowding out, if the federal government engages in deficit spending, what would be the resulting change in the unemployment rate and price level?
- | | <u>Unemployment Rate</u> | <u>Price Level</u> |
|-----|--------------------------|--------------------|
| (A) | Increase | Increase |
| (B) | Increase | Decrease |
| (C) | No change | No change |
| (D) | Decrease | Decrease |
| (E) | Decrease | Increase |
- 51 Assuming flexible prices, a recessionary gap caused by a shift in the aggregate demand curve will cause which of the following changes in price level and real gross domestic product (RGDP) in the long run?
- | | <u>Price Level</u> | <u>RGDP</u> |
|-----|--------------------|-------------|
| (A) | Increase | Increase |
| (B) | Increase | No change |
| (C) | Decrease | Decrease |
| (D) | Decrease | No change |
| (E) | No change | Decrease |
- 52 Which of the following would be the result if the United States (US) dollar depreciated relative to other currencies?
- | | <u>US Net Exports</u> | <u>US Employment</u> |
|-----|-----------------------|----------------------|
| (A) | Increase | Increase |
| (B) | Increase | Decrease |
| (C) | Decrease | Increase |
| (D) | Decrease | Decrease |
| (E) | Decrease | No change |

- 53 Which of the following would be an appropriate fiscal policy to close a recessionary gap of \$100 billion assuming an MPC of 0.80?
- (A) Increase government expenditures by \$20 billion.
 - (B) Decrease government expenditures by \$100 billion.
 - (C) Decrease personal income taxes by \$20 billion.
 - (D) Increase personal income taxes by \$20 billion.
 - (E) Purchase \$20 billion in government securities in the open market.
- 54 The classical economists believe that the economy is self-correcting to full employment output because
- (A) the money supply will steadily grow to keep pace with population growth and full-employment output
 - (B) government fiscal policy should act counter cyclically to private investment to balance aggregate demand and aggregate supply in equilibrium
 - (C) private sector consumption and investment expenditures equal GDP at full-employment
 - (D) wages and prices are flexible
 - (E) wages and prices are “sticky”
- 55 All of the following are true of the loanable funds market *EXCEPT*?
- (A) Supply and demand for loanable funds determines the real interest rate
 - (B) Savers and lenders supply money to the loanable funds market
 - (C) Government, firms and individuals make up the demand in the loanable funds market
 - (D) The supply of loanable funds is vertical and is set by the Federal Reserve
 - (E) The loanable funds market is influenced by monetary policy
- 56 Which of the following is true of a floating exchange rate system?
- (A) Equilibrium exchange rates are determined by the free market
 - (B) Equilibrium exchange rates are determined by a combination of the free market and government agencies
 - (C) Equilibrium exchange rates are determined by, or “pegged”, by the government
 - (D) Nominal exchange rates are determined by the government, but real exchange rates are determined by the market
 - (E) The demand curve is downward sloping, as determined by the market, while the supply curve is vertical as determined by individual governments
- 57 If a nation’s economy is experiencing a recessionary gap what will happen to the short run aggregate supply curve (SRAS) in the long run if it is assumed that wages and prices are flexible?
- (A) SRAS will shift right as wages eventually decrease, returning the economy to full employment.
 - (B) SRAS will shift left while aggregate demand shifts right, returning the economy to full employment.
 - (C) SRAS will not shift, but LRAS will shift left to create a new long run equilibrium.
 - (D) SRAS will shift right as the federal government increases spending to return the economy to long run equilibrium.
 - (E) SRAS will shift left as the federal government lowers corporate taxes to return the economy to long run equilibrium.

58 If the real interest rate in the United States decreases relative to the rest of the world what will be the resulting changes in U.S. capital flow, net exports and aggregate demand?

	<u>Capital Flow</u>	<u>Net Exports</u>	<u>Aggregate Demand</u>
(A)	Inflow	Increase	Increase
(B)	Inflow	Increase	Decrease
(C)	Outflow	Increase	Increase
(D)	Outflow	Increase	Decrease
(E)	Outflow	Decrease	Increase

59 Assume the inflation rate in Mexico is significantly higher than its trading partners. Which of the following will occur to the demand, supply, and international value of the Mexican Peso?

	<u>Demand</u>	<u>Supply</u>	<u>Value</u>
(A)	Increase	Increase	Depreciate
(B)	Increase	Decrease	Appreciate
(C)	Decrease	Increase	Appreciate
(D)	Decrease	Increase	Depreciate
(E)	Decrease	Decrease	Depreciate

60 An increase in which of the following would likely lead to a decrease in national income?

- (A) Investment expenditures
- (B) Imports
- (C) Government spending
- (D) Exports
- (E) Consumption expenditures