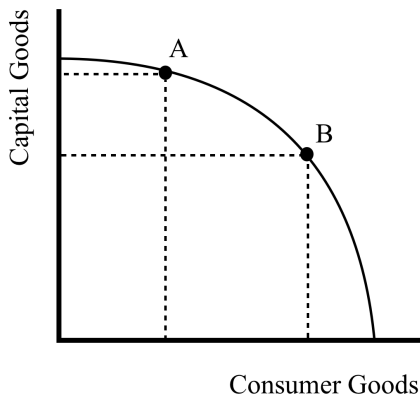


Macroeconomics Practice Exam #3



- The graph above shows the production possibilities curve for country X. Which of the following will occur if production shifts from point "A" to point "B"?
 - There will be a higher growth rate but less consumption
 - There will be a lower growth rate but more consumption
 - There will be a higher growth rate but less capital investment
 - There will be a lower growth rate with no change in consumption
 - The country will be underutilizing its resources
- If the long-run aggregate supply curve shifts to the right, which of the following is also true?
 - Interest rates have increased
 - The production possibilities curve has shifted inward
 - Unemployment has decreased
 - Price levels have increased
 - Potential real GDP has increased
- Which of the following would cause an increase in the simple spending multiplier?
 - A decrease in the marginal propensity to consume
 - An increase in disposable income
 - A decrease in the marginal propensity to save
 - A decrease in disposable income
 - A decrease in the tax multiplier

- If nominal GDP is \$200 million and the GDP deflator is 300 in 2017, which of the following would be the nominal GDP for 2018 if the GDP deflator increases to 360 and real GDP remained constant?
 - \$60 million
 - \$160 million
 - \$240 million
 - \$260 million
 - \$560 million

- Suppose that the interest rate in both Canada and the United States is currently 5%. Which of the following will happen to Canada's flow of financial capital and Canada's interest rate in the short run if the United States Federal Reserve implements expansionary monetary policy?

<u>Financial Capital</u>	<u>Interest Rate</u>
(A) Inflow	Decrease
(B) Inflow	Increase
(C) Outflow	Increase
(D) Outflow	Decrease
(E) Outflow	No change

- If the central bank purchases government securities on the open market, which of the following will happen to the nominal interest rate, price level, and quantity of investment.

<u>Interest Rate</u>	<u>Price Level</u>	<u>Investment</u>
(A) Increase	Decrease	Decrease
(B) Decrease	Decrease	Increase
(C) Increase	Increase	Increase
(D) Decrease	Increase	Increase
(E) Decrease	Decrease	Decrease

- If the marginal propensity to consume is .75, a \$4 million decrease in autonomous consumption will cause which of the following maximum changes in GDP?
 - A decrease of \$20 million
 - A decrease of \$16 million
 - An increase of \$4 million
 - An increase of \$16 million
 - An increase of \$20 million

8. In the circular flow model of the economy, which of the following best describes the factor market?
 (A) Businesses sell goods and services to households
 (B) Households sell resources to businesses
 (C) Businesses sell resources to households
 (D) Households sell goods and services to businesses
 (E) Businesses sell goods and services to the government
9. Which of the following would be most likely to increase the price of bonds?
 (A) A decrease in the labor force participation rate
 (B) A decrease in government spending
 (C) An increase in taxes
 (D) An increase in discouraged workers
 (E) An increase in aggregate demand
10. Which of the following would be most likely result in a rightward shift of the long-run aggregate supply curve?
 (A) Negative net investment
 (B) An increase in the interest rate
 (C) An increase in unemployment compensation
 (D) Increased exports
 (E) Education tax credits
11. Which of the following monetary policy actions would NOT help reduce inflation in the short run?
 (A) Selling government securities
 (B) Raising the discount rate
 (C) Decreasing the money supply
 (D) Lowering the reserve requirement
 (E) Targeting a higher federal funds rate
12. If the real interest rate increases to 7% in Japan while it decreases to 4% in South Korea, which of the following will happen to supply of loanable funds for Japan and the value of the Japanese Yen?

<u>Supply of Loanable Funds</u>	<u>Japanese Yen</u>
(A) Decrease	Depreciate
(B) No change	Depreciate
(C) Increase	Appreciate
(D) Decrease	Appreciate
(E) Increase	Depreciate
13. An increase in which of the following would most likely decrease GDP in the short run?
 (A) Government purchases
 (B) Gross investment
 (C) Exports
 (D) Imports
 (E) Consumer spending
14. If the US economy is experiencing high inflation, what monetary policy could be enacted to reduce the inflation?
 (A) Increase marginal tax rates on the middle class
 (B) Decrease transfer payments
 (C) Decrease the reserve requirement
 (D) Decrease the discount rate
 (E) An open market sale of government securities
15. If the reserve requirement is 10%, and a \$1000 cash deposit is made into National Park Bank, what is the initial change in the M1 money supply from the deposit, and what is the maximum change in the M1 money supply that could occur if banks hold no excess reserves?
- | | | |
|-----|-----------------------|-----------------------|
| | <u>Initial Change</u> | <u>Maximum change</u> |
| (A) | \$1000 | \$9000 |
| (B) | \$900 | \$10,000 |
| (C) | No change | \$11,000 |
| (D) | \$1000 | \$10,000 |
| (E) | No change | \$9000 |

Assets		Liabilities	
Reserves	\$10,000	Demand Deposits	\$60,000
Loans	\$90,000	Savings Deposits	\$40,000

16. Above is the balance sheet for Hartville Bank. The current reserve requirement is 10%. Which of the following is true if a customer withdraws \$10,000 from her checking account?
 (A) Required reserves would be zero
 (B) Required reserves would increase
 (C) Excess reserves would increase
 (D) Total reserves would be less than required reserves
 (E) The bank would have fewer savings deposits

17. Assume a country is currently producing at a point inside the production possibilities curve. A decrease in unemployment would necessarily

- (A) cause an inward shift of the production possibilities curve.
- (B) cause an outward shift of the production possibilities curve.
- (C) increase the amount of capital that the country has available.
- (D) decrease the opportunity cost of producing consumer goods.
- (E) move the point of production toward the production possibilities curve.

18. Which of the following is true about corporate bonds?

- (A) Bond holders are owners of the corporation that issued the bond
- (B) Bond holders pay the corporation when the bond matures.
- (C) Bonds are counted in gross domestic product as gross investment.
- (D) Bonds are loans made to corporations.
- (E) Bond prices rise when interest rates rise.

19. If a country has negative net exports, which of the following must be true?

- (A) The financial and capital account has a surplus
- (B) The current account has a deficit
- (C) The country has a trade deficit
- (D) The country's currency has appreciated
- (E) Financial capital is flowing out of the country

20. This is not a real question. Please skip it. Which of the following is true if you illegally post this exam or any of Jacob Clifford's resources online?

- (A) You are decreasing gross domestic product
- (B) You don't respect intellectual property rights
- (C) You don't mind stealing from a guy with five kids
- (D) You don't value innovation and entrepreneurship
- (E) All of the above are true

	Cuba	Jamaica
Sugarcane	2 acres	3 acres
Oranges	3 acres	6 acres

20. The chart above shows how many acres of land Cuba and Jamaica need to produce either a ton of sugarcane or a ton of oranges. Based on the information in the chart, which of the following is true?

- (A) Jamaica has an absolute advantage in the production of both sugar cane and oranges
- (B) Cuba has an absolute advantage in the production of oranges and a comparative advantage in the production of sugarcane
- (C) Jamaica has a comparative advantage in the production of oranges and Cuba has an absolute advantage in the production of sugarcane
- (D) Cuba has an absolute advantage in the production of oranges and Jamaica has a comparative advantage in the production of sugarcane
- (E) Cuba has a comparative advantage in the production of both oranges and sugarcane

21. If a domestic car factory had \$50,000 worth of cars in inventory at the beginning of 2017, and has \$100,000 at the end of 2017, that change in inventory will be counted as which of the following?

- (A) Consumption expenditures
- (B) Gross private investment
- (C) Government purchases
- (D) Exports
- (E) Imports

22. If the Mexican Peso appreciates, which of the following will happen Mexico's imports and exports?

	<u>Imports</u>	<u>Exports</u>
(A)	Increase	No Change
(B)	Increase	Increase
(C)	Decrease	Decrease
(D)	Decrease	Increase
(E)	Increase	Decrease

23. Which of the following is most likely to increase economic growth?

- (A) Restrictive monetary policy
- (B) A corporate tax increase
- (C) Deficit spending by the government
- (D) Financial assistance for the unemployed
- (E) Tax credits for research and development

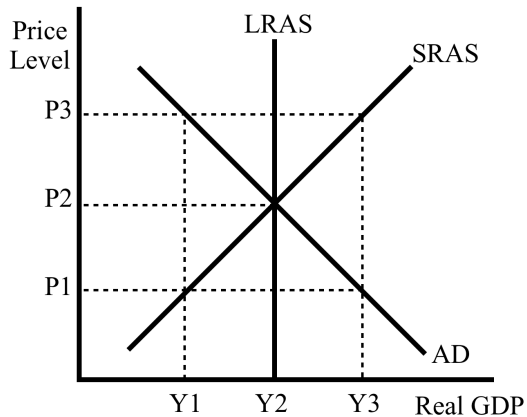
24. According to the Phillips curve model, which of the following is true in the short run?
- (A) There is a tradeoff between the interest rate and growth.
 - (B) The economy will always operate at the natural rate of unemployment.
 - (C) There is an inverse relationship between the unemployment rate and the inflation rate.
 - (D) As output increases, unemployment increases.
 - (E) Expansionary monetary policy will cause recession.
25. Which of the following would be LEAST likely to increase productivity?
- (A) Increased technology development
 - (B) Tax credits for education expenses
 - (C) An increased capital to worker ratio
 - (D) A decrease in the unemployment rate
 - (E) Investments in human capital
26. Real interest rates would most likely increase if which of the following occurred?
- (A) There is a decrease in the asset demand for money
 - (B) There is a decrease in the transaction demand for money
 - (C) There is a decrease in the national savings rate
 - (D) The government decreases the national deficit
 - (E) The central bank decreases the reserve requirement
27. If the economy is at the natural rate of unemployment and there is a significant increase in consumer spending, which of the following will happen to the unemployment rate and the inflation rate in the long run?
- | <u>Unemployment Rate</u> | <u>Inflation Rate</u> |
|--------------------------|-----------------------|
| (A) Increase | Decrease |
| (B) Decrease | Increase |
| (C) Increase | Increase |
| (D) Decrease | Decrease |
| (E) No Change | Increase |
28. If a country has a marginal propensity to save of .20 and there is a decrease in consumer spending of \$10 million, GDP will
- (A) increase by a maximum of \$50 million
 - (B) increase by a minimum of \$80 million
 - (C) increase by a maximum of \$80 million
 - (D) decrease by a maximum of \$50 million
 - (E) decrease by a minimum of \$80 million
29. Barry is unemployed and struggling to find a job because he doesn't have the training needed for the jobs available. Barry would be classified as which of the following?
- (A) Seasonally unemployed
 - (B) Frictionally unemployed
 - (C) Cyclically unemployed
 - (D) A discouraged worker
 - (E) Structurally unemployed
30. Which of the following would most likely cause the nominal interest rate to rise in the short run?
- (A) A decrease in the demand for loanable funds
 - (B) An increase in the transaction demand for money
 - (C) An increase in government taxes
 - (D) An increase in the supply of money
 - (E) A decrease in government spending
31. Which of the following would be most likely to increase human capital?
- (A) Purchases of machinery
 - (B) An increase in investment demand
 - (C) Lower energy prices
 - (D) Increasing consumer confidence
 - (E) Worker training programs
32. A leftward shift of the short-run aggregate supply curve would most likely cause which of the following?
- (A) An increase in direct foreign investment
 - (B) Demand pull inflation
 - (C) Stagflation
 - (D) An increase in real GDP
 - (E) Deflation

33. Assume the required reserve ratio is 10% and Golden Bank has \$10,000 in total reserves and \$50,000 in demand deposits. If George withdraws \$5000 from his checking account, what will be the value of Golden Bank's required reserves and excess reserves after the withdrawal?
- | <u>Required Reserves</u> | <u>Excess Reserves</u> |
|--------------------------|------------------------|
| (A) \$4500 | \$500 |
| (B) \$9500 | \$500 |
| (C) \$5000 | \$0 |
| (D) \$9000 | \$1000 |
| (E) \$4000 | \$1000 |
34. Assume the government has a balanced budget when the economy is producing the full employment output. If the government takes no discretionary fiscal policy action, a recession will cause which of the following in the short run?
- (A) Income tax revenue will increase, and transfer payments will decrease
 (B) Income tax revenue will decrease, and there will be a budget deficit
 (C) Transfer payments will increase and there will be a budget surplus
 (D) Income tax revenue will increase, and there will be a budget surplus
 (E) Transfer payments will decrease and there will be a budget deficit
35. If wages are flexible and inflation is entirely anticipated, an increase in aggregate demand will have which of the following effects on real output and the price level in the long-run.
- | <u>Real Output</u> | <u>Price Level</u> |
|--------------------|--------------------|
| (A) Increase | No Change |
| (B) No Change | Increase |
| (C) Increase | Increase |
| (D) Decrease | Decrease |
| (E) Decrease | Increase |
36. If changes in the price level are entirely anticipated, which of the following will occur in the long run if there is an increase in the inflation rate?
- (A) There will be an increase in nominal wages
 (B) The short run Phillips curve will shift to the left
 (C) There will be a decrease in the nominal interest rate
 (D) Real gross domestic product will increase
 (E) The natural rate of unemployment will decrease
37. Suppose the exchange rate of Mexican pesos to US dollars changed from .05 dollars per peso to .1 dollars per peso. Which of the following must be true?
- (A) The peso depreciated relative to the dollar.
 (B) Mexico has a current account deficit with the US
 (C) Mexico has a higher real interest rate than the US
 (D) The dollar depreciated relative to the peso
 (E) Mexico has a trade surplus with the US
38. Which of the following would decrease the effectiveness of the central bank purchase of bonds on the open market?
- (A) A decrease in the federal funds rate
 (B) Banks making as many loans as possible
 (C) Consumers holding money as bank deposits
 (D) Expansionary fiscal policy
 (E) Banks holding excess reserves
39. Which of the following will necessarily result in a shortage of good X?
- (A) A decrease in the supply of good X.
 (B) The price of a complement to good X decreases.
 (C) The price of good X is below the equilibrium price of good X.
 (D) The government removes a tariff on good X.
 (E) The government increases purchases of good X.
40. If the government uses fiscal policy to decrease unemployment, what will happen to the real interest rate and gross investment?
- | <u>Real Interest Rate</u> | <u>Gross Investment</u> |
|---------------------------|-------------------------|
| (A) Increase | Increase |
| (B) Decrease | Decrease |
| (C) Increase | Decrease |
| (D) Decrease | Increase |
| (E) No Change | Decrease |
41. A significant increase in consumer confidence would be most likely to cause which of the following in the short run?
- (A) Cost push inflation and higher output
 (B) Lower price level and an inflationary gap
 (C) A recessionary gap and lower inflation
 (D) Higher prices with no change in real income
 (E) Demand pull inflation and lower unemployment

42. Which of the following will most likely result from increasing budget deficits?
- (A) Lower interest rates
 - (B) Crowding out
 - (C) Increased gross investment
 - (D) Increased long-run growth rates
 - (E) A decrease in the money supply
43. The price level will rise and output will decrease in the short run, if there is a decrease in which of the following?
- (A) Aggregate supply
 - (B) The price of energy
 - (C) Long-run aggregate supply
 - (D) Government transfer payments
 - (E) Aggregate demand
44. According to the quantity theory of money, if the velocity of money and the real output are stable while there is an increase in the money supply, which of the following must occur?
- (A) Increase in private investment
 - (B) Increase in the value of the currency
 - (C) Increase in the price level
 - (D) Decrease in the national debt
 - (E) Decrease in real interest rates
45. If the real interest rate rises in the United States, what will happen to the United States' flow of financial capital and the value of the US dollar?
- | <u>Financial Capital</u> | <u>Value of Dollar</u> |
|--------------------------|------------------------|
| (A) Outflow | Depreciate |
| (B) Inflow | Appreciate |
| (C) Outflow | Appreciate |
| (D) No change | Depreciate |
| (E) Inflow | No change |
46. Which of the following policy combinations of monetary and fiscal policy action would be most likely to reduce unemployment in the short run?
- (A) An open market sale of government securities and an increase in personal income taxes
 - (B) An open market sale of government securities and a decrease in government military spending
 - (C) An open market purchase of government securities and an increase in government funded infrastructure
 - (D) An open market purchase of government securities and a decrease in unemployment compensation
 - (E) An open market purchase of government securities and an increase in business taxes
47. The natural rate of unemployment is achieved when
- (A) there is zero unemployment.
 - (B) there is no cyclical unemployment.
 - (C) the labor force participation rate reaches 75%.
 - (D) there is no structural unemployment.
 - (E) the unemployment rate decreases for two consecutive quarters.
48. Which of the following most accurately describes the difference between the discount rate and the federal funds rate?
- (A) The discount rate is the interest rate banks pay on savings deposits, while the federal funds rate is the interest rate paid on government debt
 - (B) The discount rate is the interest rate banks charge each other, while the federal funds rate is the interest rate paid on government debt
 - (C) The discount rate is the interest rate the Federal Reserve charges banks, while the federal funds rate is the interest rate banks charge each other
 - (D) The discount rate is the interest rate paid on government debt, while the federal funds rate is the interest rate banks pay on savings deposits
 - (E) The discount rate is the interest rate banks pay on savings deposits, while the federal funds rate is the interest rate banks charge each other
49. If nominal GDP is \$100 million in 2017 and the 2017 GDP deflator is 400, what was the real GDP in 2017?
- (A) \$25 million
 - (B) \$50 million
 - (C) \$100 million
 - (D) \$400 million
 - (E) \$500 Million

50. Which of the following would most likely result in a decrease in the unemployment rate and an increase in the price level in the short run?
- (A) An increase in the discount rate
 - (B) An increase in imports
 - (C) A decrease in the interest rate
 - (D) An increase in taxes
 - (E) Flexible wages and prices that are quick to adjust
51. If Eric can produce 4 cakes in 1 hour while Michael can produce 4 cakes in 2 hours, which of the following must be true?
- (A) Michael would be better off if he bought cakes from Eric
 - (B) Eric has a comparative advantage in the production of cakes
 - (C) Michael has a comparative advantage in the production of cakes
 - (D) Michael has an absolute advantage in the production of cakes
 - (E) Eric has an absolute advantage in the production of cakes
52. If the economy is already at full employment and expansionary fiscal policy is enacted, what monetary policy action can the Federal Reserve take to keep prices stable?
- (A) Decrease the discount rate
 - (B) Increase marginal income tax rates
 - (C) Sell government securities
 - (D) Decrease the reserve requirement
 - (E) Decrease government spending
53. Susan takes out a loan while the expected real interest rate is 5% and the expected rate of inflation is 3%. What will her real interest rate be if the inflation rate increases to 4%?
- (A) 1%
 - (B) 2%
 - (C) 4%
 - (D) 6%
 - (E) 12%
54. Which of the following shifts in aggregate supply and aggregate demand could cause a decrease in the unemployment rate and cause price level to rise?
- | | | |
|-----|-------------------------|-------------------------|
| | <u>Aggregate Demand</u> | <u>Aggregate Supply</u> |
| (A) | Increase | Increase |
| (B) | Decrease | Decrease |
| (C) | Decrease | No change |
| (D) | No change | Increase |
| (E) | Decrease | Increase |
55. Which of the following would be most likely to cause the value of the United States dollar to depreciate in the short run?
- (A) Lower price levels in the United States
 - (B) Higher nominal interest rates in the United States
 - (C) A significant increase in real GDP of a major United States trade partner
 - (D) The United States imposing tariffs on foreign made goods
 - (E) An increase in national income in the United States
56. Which of the following would most likely cause demand pull inflation?
- (A) Increasing labor costs
 - (B) A decrease in the money supply
 - (C) An increase in taxes
 - (D) Expansionary fiscal policy
 - (E) Falling consumer confidence
57. When current output is less than potential output, the economy must have which of the following?
- (A) Cyclical unemployment
 - (B) An inflationary gap
 - (C) A rise in inflationary expectations
 - (D) Increasing wages
 - (E) A trade deficit
58. Lower energy costs would be most likely to cause which of the following?
- (A) Higher price levels
 - (B) Lower output
 - (C) A decrease in the natural rate of unemployment
 - (D) Higher nominal interest rates
 - (E) Increased real output

59. Unanticipated inflation would be most likely to benefit which of the following people?
- (A) A retired person on a fixed income
 - (B) A college student who took out fixed interest student loans
 - (C) A union worker who's pay raises are indexed to inflation
 - (D) A creditor who made fixed interest loans
 - (E) A home owner with a variable interest rate mortgage



60. The graph above shows an economy that is currently in long-run equilibrium at P2 and Y2. If the central bank engages in expansionary monetary policy, which of the following would be the price level and output in the long-run?

Price Level Output

- (A) P1 Y1
- (B) P1 Y3
- (C) P3 Y3
- (D) P3 Y2
- (E) P2 Y2