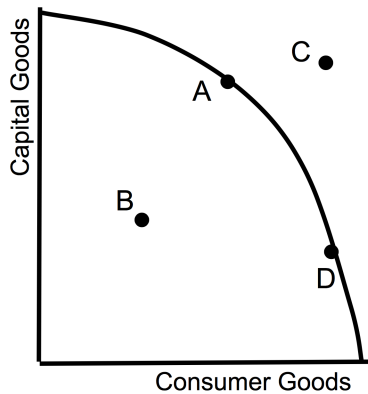


**Macroeconomics
Practice Exam #4**



1. Which of the following is true given the production possibilities curve above?
 - (A) A decrease in unemployment would move the curve from point A to point C
 - (B) The opportunity cost of producing consumer goods decreases as more consumer goods are produced
 - (C) The opportunity cost of producing capital goods is constant
 - (D) Producing combination B is unattainable
 - (E) Producing combination A will result in more economic growth than producing combination D

2. Government funded infrastructure and technological research will have which of the following effects?
 - (A) A decrease in the long-run aggregate supply
 - (B) A leftward shift in the production possibilities curve
 - (C) An increase in the long-run aggregate supply
 - (D) A decrease in the demand for consumer goods
 - (E) A negative supply shock and more economic growth

3. Which of the following is most likely considered frictionally unemployed?
 - (A) A factory worker that was laid off because she was replaced by an automated robot
 - (B) A waiter who quits his job to find one he likes better
 - (C) A carpenter who quits his job to raise his children full time
 - (D) A recent college graduate that gives up looking for a new job
 - (E) A bus driver who works part time and is looking for full time work

4. If the government engages in contractionary fiscal policy, the level of employment and the nominal interest rate will most likely be impacted in which of the following ways?
 - (A) Employment will decrease and the nominal interest rate will not change
 - (B) Employment will not change and the nominal interest rate will increase
 - (C) Employment will increase and the nominal interest rate will decrease
 - (D) Employment will increase and the nominal interest rate will increase
 - (E) Employment will decrease and the nominal interest rate will decrease

5. Which of the following is the most commonly used indicator of economic growth?
 - (A) A sustained increase in per-capita nominal gross domestic product
 - (B) A sustained decrease in government transfer payments
 - (C) A sustained increase in real gross domestic product
 - (D) A sustained reduction of government debt
 - (E) A sustained increase in government spending

6. The short-run Phillips curve model shows which of the following?
- The inverse relationship between the unemployment rate and the nominal interest rate
 - The inverse relationship between the unemployment rate and the inflation rate
 - Direct relationship between the nominal interest rate and the quantity of investment
 - The rate of change in disposable income as a result of a change in autonomous consumption
 - Inverse relationship between output and price level
7. If the central bank engages in expansionary monetary policy, which of the following will most likely happen to real output and bond prices?
- | <u>Real Output</u> | <u>Bond Prices</u> |
|--------------------|--------------------|
| (A) Decrease | Decrease |
| (B) Increase | Increase |
| (C) Decrease | no change |
| (D) Decrease | Increase |
| (E) Increase | Decrease |
8. If Mexico's citizens increase their consumption of United States salmon, which of the following will happen?
- The supply of US dollars will increase
 - The demand for Mexican pesos will decrease
 - No change will occur in the market for US dollars
 - The supply of Mexican pesos will increase
 - The demand for US dollars will decrease
9. In 2020, the country of Cliffordia had a nominal Gross Domestic Product (GDP) of \$6,000 and the GDP deflator was 200. In 2021, Cliffordia had a nominal GDP of \$15,000 and the GDP deflator was 300. By how much did Cliffordia's real GDP increase between 2020 and 2021?
- Real GDP stayed the same
 - \$2000
 - \$3000
 - \$4500
 - \$9000
10. Which of the following would be most likely to cause a rightward shift of the short-run aggregate supply curve?
- An increase in government spending
 - A decrease in the money supply
 - An increase in worker wages
 - A decrease in business taxes
 - An open market purchase of government securities
11. Which of the following changes in the market for cars could cause an increase in equilibrium price and quantity?
- | <u>Demand</u> | <u>Supply</u> |
|---------------|---------------|
| (A) Decrease | Decrease |
| (B) No change | Decrease |
| (C) No change | Increase |
| (D) Increase | No change |
| (E) Decrease | No change |
12. At the beginning of 2020, Julia's dress factory warehouse had \$3000 worth of finished dresses waiting to be sold. At the end of 2020, the warehouse had \$5000 worth of finished dresses waiting to be sold. What impact will this change have on the components of GDP?
- Consumption expenditures will decrease by \$2000
 - Consumption expenditures will increase by \$3000
 - Investment expenditures will increase by \$2000
 - Investment expenditure will decrease by \$5000
 - Net exports will increase by \$8000
13. Which of the following is always true regarding the quantity theory of money?
- The velocity of money is constant.
 - The quantity of money times the velocity of money equals the nominal GDP.
 - An increase in the quantity of money will increase real interest rates.
 - An increase in real GDP will decrease the quantity of money.
 - The real GDP is equal to the nominal GDP when the velocity of money is greater than 1.

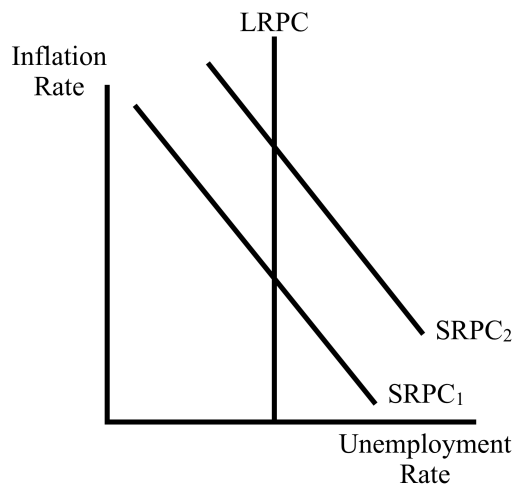
14. Which of the following monetary and fiscal policy combinations would most likely reduce unemployment and increasing real output?
- (A) An open market purchase of government securities and a decrease in taxes
 - (B) An open market sale of government securities and an increase taxes
 - (C) Lowering the reserve requirement and decreased government spending
 - (D) Increasing the reserve requirement and increased government spending
 - (E) Raising the discount rate and an increase in transfer payments

15. Which of the following would be most likely to cause the long run Phillips curve to shift to the left?
- (A) Expansionary monetary policy
 - (B) Contractionary fiscal policy
 - (C) Business investments in automation technology
 - (D) Jobs training programs to reduce structural unemployment
 - (E) Increases in natural resource reserves

16. If the central bank makes an open market purchase of government securities, the interest rate and growth rate will be impacted in which of the following ways?

<u>Interest Rate</u>	<u>Growth Rate</u>
(A) Decrease	Decrease
(B) Indeterminate	Increase
(C) Increase	Indeterminate
(D) Increase	Decrease
(E) Decrease	Increase

17. This is not a real question. Please skip it. If someone posts this exam online illegally you should
- (A) Contact Jacob Clifford so he can bust some heads
 - (B) Tell the person that uploaded the exam that they are a jerk
 - (C) Assume the person that uploaded the exam hates puppies
 - (D) Stop using the illegal copy
 - (E) All of the above



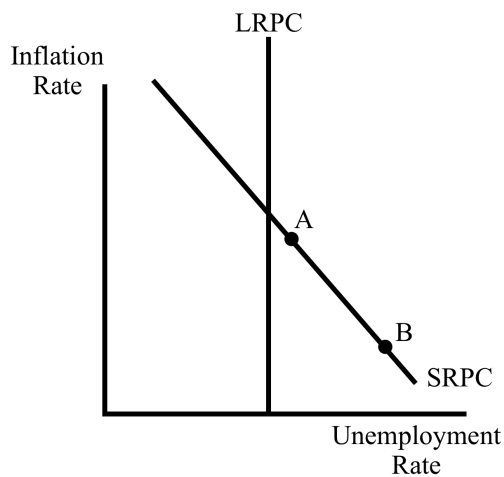
17. Which of the following would most likely cause the short run Phillips curve to move from SRPC₁ to SRPC₂?
- (A) An increase in consumer spending
 - (B) An increase in the natural rate of unemployment
 - (C) An increase in wages
 - (D) A decrease in gross investment
 - (E) An decrease in energy prices
18. If the US government uses fiscal policy to combat a recession, the most likely short run effect is which of the following?
- (A) Output will decrease
 - (B) The price level will decrease
 - (C) Nominal interest rates will decrease
 - (D) The growth rate will increase
 - (E) The inflation rate will increase
19. Crowding out causes the nominal interest rate and private investment spending to change in which of the following ways?

<u>Nominal Rate</u>	<u>Investment Spending</u>
(A) Decrease	No Change
(B) Increase	Decrease
(C) Decrease	Increase
(D) No Change	Increase
(E) Decrease	Decrease

20. If a country's real gross domestic product per capita is decreasing, which of the following must be true?
- (A) Real output growth rate is slower than the population growth rate.
 - (B) The population growth rate is decreasing faster than the inflation rate.
 - (C) The price level is rising but the unemployment rate is falling.
 - (D) Inflation is decreasing while interest rates are rising.
 - (E) The labor force participation rate is increasing faster than the national income.
21. Assume banks hold no excess reserves and the reserve requirement is 10%. If Tia makes a cash deposit of \$1000 in her checking account, what is the maximum change her deposit can cause in total reserves and the money supply?
- | <u>Total Reserves</u> | <u>Money Supply</u> |
|-----------------------|---------------------|
| (A) \$900 | \$9000 |
| (B) \$1000 | \$9000 |
| (C) \$900 | \$1000 |
| (D) \$900 | \$1100 |
| (E) \$1000 | \$1000 |
22. If the Consumer Price Index is 300 at the end of 2019 and there is 20% inflation in 2020, what will the new Consumer Price Index be at the end of 2020?
- (A) 240
 - (B) 270
 - (C) 320
 - (D) 360
 - (E) 600
23. If the government engages in expansionary fiscal policy, but inflation is entirely expected, what will be the impact on real output and the price level in the long run?
- | <u>Real Output</u> | <u>Price Level</u> |
|--------------------|--------------------|
| (A) No change | Increase |
| (B) Decrease | No change |
| (C) Increase | Decrease |
| (D) No change | Decrease |
| (E) Decrease | Increase |
24. Which of the following would be most likely to cause the economic growth rate to increase?
- (A) Increasing government deficits
 - (B) Contractionary monetary policy
 - (C) Negative net investment
 - (D) Increased business regulation
 - (E) Increased funding on infrastructure
25. Which of the following would increase a deficit in the United States current account?
- (A) A United States citizen purchases stock in a German car company
 - (B) A German firm purchases a coal mine in the United States
 - (C) A German citizen sends money to family living in the United States
 - (D) A German tourist pays for a tour of New York City while on a trip to the United States
 - (E) An United States firm imports machinery from Germany
26. Country A and Country B can both produce food and clothing. If it is advantageous for both countries to specialize and trade, which of the following must be true?
- (A) One of the countries has an absolute advantage in the production of both goods
 - (B) The countries have different opportunity costs of production
 - (C) The opportunity costs of production are the same for both countries
 - (D) Opportunity costs for food will be less than clothing
 - (E) One country has an absolute advantage in the production of food while the other has an absolute advantage in the production of clothing
27. Cost-push inflation is caused by which of the following?
- (A) A rightward shift of the long run aggregate supply curve
 - (B) A rightward shift of the short run aggregate supply curve
 - (C) A leftward shift of the short run aggregate supply curve
 - (D) A rightward shift of the aggregate demand curve
 - (E) A leftward shift of the aggregate demand curve

28. Increased government expenditures will most likely cause which of the following?
- An increase in national income
 - An increase in private investment
 - A decrease in aggregate supply
 - An increase in unemployment
 - A decrease in net exports
29. According to the loanable funds model, what would happen to the real interest rate and private investment if there were an increase in savings?
- | <u>Real Interest Rate</u> | <u>Gross Investment</u> |
|---------------------------|-------------------------|
| (A) Decrease | Decrease |
| (B) Increase | Decrease |
| (C) Increase | Increase |
| (D) Decrease | Increase |
| (E) No change | Increase |
30. An increase in which of the following would most likely cause the long aggregate supply curve to shift right?
- Consumption expenditures
 - Human capital
 - Transfer payments
 - Exports
 - The reserve requirement
31. When a currency depreciates, which of the following has occurred?
- The exchange rate has increased
 - The demand for the currency has increased
 - The country's goods are more expensive for foreign consumers
 - The price of the currency in terms of another currency has decreased
 - The money supply has decreased
32. Which of the following is the formula for the unemployment rate?
- The number of working age people looking for work divided by the number of people working times 100
 - The number of working age people looking for work divided by the number of working age people times 100.
 - The working age population divided by the labor force times 100
 - The number of people in the labor force looking for work divided by the total population times 100
 - The number of people in labor force looking for work divided by the labor force times 100
33. If the central bank sells bonds, what will be the impact on the interest rate and the price level?
- | <u>Interest Rate</u> | <u>Price level</u> |
|----------------------|--------------------|
| (A) Decrease | Decrease |
| (B) Increase | Increase |
| (C) Increase | No Change |
| (D) Increase | Decrease |
| (E) Decrease | Increase |
34. If the marginal propensity to consume were .8, what would be the maximum increase in real output if the government increases spending by \$10 billion while cutting taxes by \$5 billion?
- \$15 billion
 - \$30 billion
 - \$50 billion
 - \$70 billion
 - \$75 billion
35. Which of the following would initially occur when the Central Bank purchases government securities?
- Bank demand deposits would increase
 - Bank excess reserves would increase
 - Bank required reserves would decrease
 - Bank assets would decrease
 - The nominal interest rate would increase

36. If the current account for Country X is decreasing, which of the following must be true?
- (A) Imports for Country X are increasing
 (B) The capital and financial account for Country X is increasing
 (C) Net foreign investment into Country X is increasing
 (D) Net exports for Country X is decreasing
 (E) Country X has a trade deficit
37. If the current unemployment rate is 8% and the natural rate of unemployment is 5%, which of the following must be true?
- (A) The number of discouraged workers has increased
 (B) The labor force participation rate decreased
 (C) The economy has cyclically unemployed workers
 (D) Worker productivity increased
 (E) Frictional unemployment increased
38. What is the effect on the real interest rate and economic growth when the government deficit spends?
- | <u>Real Interest Rate</u> | <u>Growth</u> |
|---------------------------|---------------|
| (A) No change | No change |
| (B) Increase | Increase |
| (C) Increase | Decrease |
| (D) Decrease | Increase |
| (E) Decrease | Decrease |
39. If the real interest rate in Mexico decreases while the real interest rate in the United States increases, which of the following will happen to the Mexican peso and Mexico's imports?
- | <u>Peso</u> | <u>Mexico's Imports</u> |
|----------------|-------------------------|
| (A) Depreciate | Increase |
| (B) Appreciate | Increase |
| (C) No change | Decrease |
| (D) Depreciate | Decrease |
| (E) Appreciate | Decrease |
40. Assume that Canada's economy had a balanced budget and full employment. If Canada then experienced a recession, what will most likely happen to transfer payments and the budget?
- | <u>Transfer Payments</u> | <u>Budget</u> |
|--------------------------|------------------|
| (A) Decrease | Become a deficit |
| (B) Increase | Become a surplus |
| (C) Decrease | Become a deficit |
| (D) Increase | Become a deficit |
| (E) Decrease | Become a surplus |
41. An unexpected increase in inventories is a leading indicator to which of the following?
- (A) An economic downturn
 (B) Increased productivity
 (C) Increased taxes
 (D) An inflationary gap
 (E) Cost-push inflation
42. An unexpected increase in the price level would most likely benefit which of the following?
- (A) Individuals with student loans
 (B) Lending institutions
 (C) Corporate bond holders
 (D) Owners of government securities
 (E) Restaurant owners
43. Which of the following would cause an increase in the price level and a decrease in output?
- (A) An increase in productivity
 (B) A decrease in government spending
 (C) An increase in the reserve requirement
 (D) An increase in consumer confidence
 (E) An increase in expected inflation
44. What effect would a significant decrease in consumer spending have on the money market?
- (A) Leftward shift of the money supply curve
 (B) Rightward shift of the money supply curve
 (C) Leftward shift of the money demand curve
 (D) Rightward shift of the money demand curve
 (E) Rightward shift of both the demand and supply of money



45. Which of the following would most likely cause movement from point A to point B along the short-run Phillips curve?
- An increase in gross investment
 - A decrease in wages
 - A decrease in government spending
 - Expansionary monetary policy
 - An increase in net exports
46. Which of the following is NOT counted as part of the current account?
- Exports
 - Imports
 - Income from foreign investments
 - Purchases of foreign assets
 - Foreign aid
47. A decrease in the discount rate will cause which of the following short-run effects on an economy?
- Higher interest rates and lower unemployment
 - Higher prices levels and lower interest rates
 - Higher interest rates and lower price levels
 - More private investment and less real output
 - Higher interest rates and less private investment
48. If the central bank buys \$10 million worth of bonds on the open market when the reserve requirement is 20%, what are the maximum change in the money supply and the maximum change in total required reserves?
- | | <u>Money Supply</u> | <u>Required Reserves</u> |
|-----|---------------------|--------------------------|
| (A) | \$80 million | \$10 million |
| (B) | \$50 million | \$5 million |
| (C) | \$50 million | \$10 million |
| (D) | \$40 million | \$5 million |
| (E) | \$40 million | \$10 million |
49. Which of the following can cause stagflation?
- A rightward shift of the aggregate demand curve
 - A rightward shift of the short run aggregate supply curve
 - A rightward shift of the long run aggregate supply curve
 - A leftward shift of the short run aggregate supply curve
 - A leftward shift of the aggregate demand curve
50. Which of the following is true about discouraged workers?
- They are not counted as unemployed
 - They are counted as part of the labor force
 - They are working part-time but looking for full-time work
 - They have jobs but are looking for better or higher paying ones
 - They are looking for a job before reaching working age
51. Which of the following would be most likely to cause a decrease in aggregate demand?
- An increase in wages
 - An increase in the reserve requirement
 - A decrease in world oil prices
 - An open market purchase of government securities
 - An increase in government in kind benefit payments

52. Which of the following is true regarding the monetary base?
- (A) It includes currency in circulation and checkable deposits
 - (B) When there is no inflation it equals the money supply
 - (C) It includes currency in circulation and bank reserves
 - (D) It is less than the money supply
 - (E) It includes only currency in circulation
53. If the US economy is in long-run equilibrium and the government engages in expansionary fiscal policy, what will be the long-run impact on the price level and output?
- | <u>Price Level</u> | <u>Output</u> |
|--------------------|---------------|
| (A) Increase | No change |
| (B) Increase | Decrease |
| (C) No change | Increase |
| (D) Decrease | Decrease |
| (E) Increase | Increase |
54. Which of the following would be most likely to cause a country's currency to depreciate?
- (A) Increased national income for a major trading partner
 - (B) Implementation of tariffs on foreign goods
 - (C) An increase in the domestic real interest rate
 - (D) An increase in net exports
 - (E) Political instability causing capital outflow
55. If the central bank makes an open market sale of government bonds and the price level doesn't change, which of the following is most likely to be true?
- (A) The money supply has decreased and the government has decreased its deficit
 - (B) The money supply has increased and the government has increased its deficit
 - (C) The money supply has increased and the government has decreased its deficit
 - (D) The money supply has decreased and the government has increased its deficit
 - (E) The money supply has decreased and the government's deficit has not changed
56. Jessica takes out a loan when the nominal interest rate is 9% and the expected inflation rate is 3%. If the actual inflation rate is 5%, what is the real interest rate Jessica pays on the loan?
- (A) 1%
 - (B) 4%
 - (C) 6%
 - (D) 8%
 - (E) 14%
57. Research and technology investments funded through government grants would have which of the following impacts on the economy?
- (A) Aggregate demand would decrease, and the price level would rise in the long run
 - (B) Aggregate demand would not change, and unemployment would increase
 - (C) Aggregate demand would increase, and the long-run aggregate supply curve would shift to the right
 - (D) Aggregate demand would increase, and investment demand curve would shift to the left
 - (E) Aggregate demand would decrease, and the natural rate of unemployment would decrease
58. The Consumer Price Index (CPI) measures which of the following?
- (A) Changes in spending habits for consumers
 - (B) Price changes for all goods and services within an economy
 - (C) Price changes in a market basket of goods and services
 - (D) Changes in purchasing power parity from foreign exchange rates
 - (E) Changes in the quality of goods and services over time

59. Which of the following is true for cost-push inflation and demand-pull inflation?
- (A) Cost-push decreases output and demand-pull increases unemployment
 - (B) Cost-push is caused by a rightward shift of the aggregate supply curve and demand-pull increases real GDP
 - (C) Cost-push increases unemployment and demand-pull increases output
 - (D) Cost-push increases real GDP and demand-pull is caused by a rightward shift of the aggregate demand curve
 - (E) Cost-push increases employment and demand-pull increases employment

Balance Sheet for Clifford Bank

Assets		Liabilities	
Reserves	\$5,000	Demand	\$20,000
Loans	\$15,000	Deposits	

60. Assume the reserve requirement is 10% and a customer withdraws \$2,000 from Clifford Bank. If the bank continues to loan out \$15,000, which of the following is true after the withdrawal?
- (A) The bank will need to borrow money to meet the reserve requirement
 - (B) The bank will have more excess reserves than required reserves
 - (C) The bank will have \$22,000 of demand deposits
 - (D) The bank will have \$2,000 of required reserves
 - (E) The bank will have \$1,200 of excess reserves