

Name\_\_\_\_\_

You may not discuss this test in any way, shape or form before 1500 Tuesday 6 December, 2011.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Gross Domestic Product measures the
- A) quantity of the goods and services produced in a given year, listed item by item, within a country.
  - B) income of the business sector within a country.
  - C) measures the market value of the domestic labor in a given year within a country.
  - D) market value of the final goods and services produced in a given year within a country.

Answer: D

Topic: GDP

- 2) Which of the following is a final good or service?
- A) the fertilizer purchased by Royal Lawn and Landscape
  - B) a new replacement muffler installed by Midas Mufflers
  - C) the computers purchased by Office Depot for sale to its customers
  - D) the grilled chicken purchased by Taco Bell for use in their burritos
  - E) the CPUs purchased by Dell to be used in their computers

Answer: B

Topic: GDP, final goods and services

- 3) Production by Honda, a Japanese firm, in the United States is included in \_\_\_\_\_ GDP and production by Nike Corporation, a U.S. firm, in Vietnam is included in \_\_\_\_\_ GDP.
- A) Japanese; U.S.
  - B) U.S.; Vietnamese
  - C) Japanese; Vietnamese
  - D) U.S. and Japanese; U.S. and Vietnamese
  - E) U.S.; U.S.

Answer: B

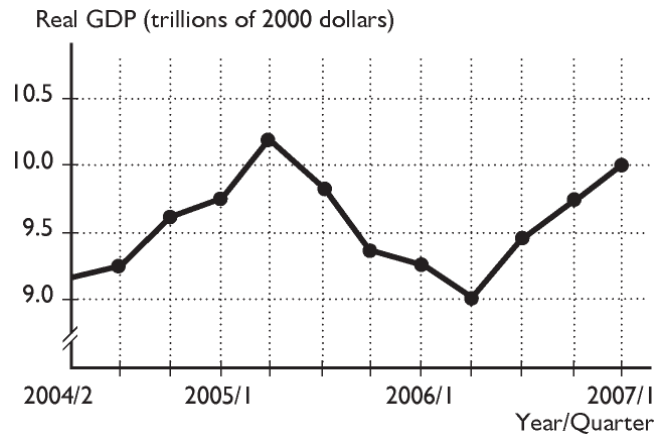
Topic: GDP within a country

Item	Data for 2009		Data for 2010	
	Quantity	Price	Quantity	Price
Bread	50	\$4.00	70	\$3.00
Soda	50	\$5.00	50	\$6.00

- 4) The table above gives the production and prices for a small nation that produces only bread and soda. The base year is 2010. What is real GDP in 2010?
- A) \$300
  - B) \$530
  - C) \$510
  - D) \$1080
  - E) \$210

Answer: C

Topic: Real GDP



5) Based on the figure above, in which quarter or quarters did a recession occur?

- A) in 2005, 2nd quarter
- B) between 2005, 2nd quarter to 2006, 2nd quarter
- C) in 2005, 2nd quarter
- D) after 2005, 2nd quarter
- E) between 2004, 2nd quarter to 2005, 2nd quarter and also between 2006, 2nd quarter to the end of the figure

Answer: B

Topic: Business cycle

6) The calculation of GDP excludes the value of

- A) government expenditure on office supplies.
- B) expenditure on durable goods.
- C) households' purchases of shampoo.
- D) a family member painting the family home.
- E) businesses' purchase of new machine tools.

Answer: D

Topic: Household production

7) Rob is considered unemployed in the Current Population Survey if he

- A) does not have a job and stopped looking for a job at least two months ago.
- B) has a part-time job but would like a full-time job.
- C) is in his last term of college before he graduates.
- D) has worked at least 1 hour but not more than 15 hours as a paid employee during the last week.
- E) has looked for a job in the last four weeks but has not found a job.

Answer: E

Topic: Current population survey, unemployed

Category	Number of People (millions)
Population	280
Working-age population	210
Labor force	150
Employed	135
Unemployed	15

- 8) Based on the above table, the unemployment rate is  
 A) 7.1 percent.      B) 10 percent.      C) 11.1 percent      D) 8.6 percent.      E) 5.4 percent.

Answer: B

Topic: Unemployment rate

- 9) In measuring the unemployment rate, part-time workers are \_\_\_\_\_ and discouraged workers are \_\_\_\_\_.  
 A) excluded; included as unemployed  
 B) excluded; excluded  
 C) included as employed; included as unemployed  
 D) included as unemployed if they are involuntary part-time workers; excluded  
 E) included as employed; excluded

Answer: E

Topic: Discouraged workers, part-time workers

- 10) Which type of unemployment is a permanent and healthy phenomenon in a dynamic economy?  
 A) structural      B) frictional      C) seasonal      D) cyclical

Answer: B

Topic: Types of unemployment, frictional

- 11) After 15 years with Ford Motor Corporation, one summer Cameron loses his job. His boss explained that his position has been downsized after the technological advances in automobile production. Cameron is best considered  
 A) frictionally unemployed.  
 B) seasonally unemployed.  
 C) cyclically unemployed.  
 D) structurally unemployed.  
 E) not in the labor force.

Answer: D

Topic: Types of unemployment, structural

- 12) Full employment occurs when  
 A) cyclical unemployment is zero.  
 B) frictional unemployment is zero.  
 C) structural unemployment is zero.  
 D) structural, seasonal, and frictional unemployment are zero.  
 E) the unemployment rate equals zero.

Answer: A

Topic: Full employment

- 13) The Consumer Price Index measures the average prices paid by
- A) urban consumers for the goods and services that most frequently change in price.
  - B) businesses for a fixed market basket of resources.
  - C) businesses for the most frequently used basket of resources.
  - D) urban consumers for a fixed market basket of goods and services.
  - E) businesses and consumers for a market basket of goods and services.

Answer: D

Topic: CPI

Item	Quantity (2009)	Price (2009)	Price (2010)
Salt	2	\$1.00	\$2.00
Bread	20	\$2.50	\$3.00

- 14) The data in the table above shows the consumption by families in a small (poor) economy. The families consume only salt and bread. The reference base period is 2009. The inflation rate between 2009 and 2010 is
- A) 118.8 percent.
  - B) 123.1 percent.
  - C) 23.1 percent.
  - D) 18.8 percent.
  - E) 52.5 percent.

Answer: C

Topic: Inflation

- 15) The CPI is biased because it
- A) does not always take into account the changes in product quality.
  - B) accurately measures the cost of living but not the cost of producing.
  - C) takes into account the changes in technology.
  - D) takes into account the changes in product quality.
  - E) does not include services.

Answer: A

Topic: CPI bias

- 16) If the CPI is used as a cost of living index, incomes (like Social Security or government labor contracts) that are adjusted to reflect the changes in the CPI will
- A) generally rise by about 2 percent a year because the standard of living generally rises by about 2 percent a year.
  - B) decrease by more than the actual change in the cost of living.
  - C) increase by more than the actual change in the cost of living.

Answer: C

Topic: CPI bias

- 17) In 2009, the nominal wage rate for unionized carpenters was \$37.50 and the CPI was 204. Calculate the real wage rate for this group of workers.
- A) \$47.09                      B) \$5.44.                      C) \$1.84.                      D) \$18.38.                      E) \$37.50

Answer: D

Topic: Real wage

- 18) If the bank returns \$1,060 on the \$1,000 deposited for a year during which inflation was 4 percent, the real interest rate is
- A) 2 percent.                      B) 16 percent.                      C) 6 percent.                      D) 10 percent.                      E) -2 percent.

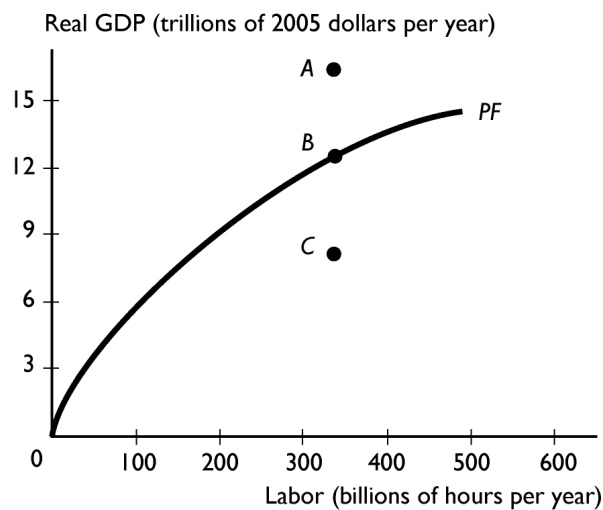
Answer: A

Topic: Real interest rate

- 19) The level of real GDP the economy produces at full employment is called
- A) possible GDP.  
B) maximum GDP.  
C) potential GDP.  
D) Lucas GDP.  
E) nominal GDP.

Answer: C

Topic: Potential GDP



- 20) The above figure shows a nation's production function. Point B is
- A) attainable if the nation uses resources inefficiently.  
B) unattainable.  
C) attainable if the nation uses resources efficiently.  
D) the maximum amount of real GDP the nation can ever produce.

Answer: C

Topic: Production function

- 21) Hershey Chocolate Factory pays a money wage rate equal to \$30 per hour and sells its candy bars for \$1.50 each. Hershey Chocolate Factory should hire labor until an additional unit of labor produces \_\_\_\_\_ candy bars an hour.
- A) 1.5                      B) 20                      C) 10                      D) 30                      E) 45

Answer: B

Topic: Demand for labor

22) Economic growth is defined as equal to the increase in

- A) population.
- B) the inflation rate.
- C) the price level.
- D) real GDP.
- E) employment.

Answer: D

Topic: Economic growth

23) In 2008, real GDP in the United States was \$13,312 billion. In 2009, real GDP in the United States was \$13,112 billion. What was the U.S. economic growth rate from 2008 to 2009?

- A) 0.12 percent
- B) -1.5 percent
- C) \$200 million
- D) 1.5 percent
- E) 0.98 percent

Answer: B

Topic: Growth rate

24) A measure of growth in the standard of living is the growth in

- A) real GDP.
- B) real GDP minus the growth in population.
- C) employment.
- D) population.
- E) population minus the growth in real GDP.

Answer: B

Topic: Standard of living

25) The functions of money are

- A) credit cards, checking accounts, currency, and coins.
- B) store of value, use as a barter mechanism, and unit of account.
- C) medium of exchange, the ability to buy goods and services, and the ability to pay off debts.
- D) medium of exchange, unit of account, and store of value.
- E) medium of exchange, the ability to buy goods and services, and checking accounts.

Answer: D

Topic: Functions of money

26) If Joe withdraws a \$100 bill from his checking account and Jack deposits another \$100 bill in his savings account, by how will M1 and M2 change?

- A) M1 will increase, and M2 will increase.
- B) M1 will remain the same, and M2 will increase.
- C) Both M1 and M2 will remain the same.
- D) M2 will decrease by \$100.
- E) M1 will decrease, but M2 will remain the same.

Answer: E

Topic: M1, M2

- 27) The minimum percent of deposits that banks must hold and cannot loan is determined by the
- A) discount rate.
  - B) required reserve ratio.
  - C) federal funds rate.
  - D) interest rate.
  - E) ratio of M2 to M1.

Answer: B

Topic: Fed policy tools, required reserve ratio

- 28) The desired reserve ratio is 10 percent. Joe deposits \$1,000 in Bank A. Bank A keeps its minimum desired reserves and lends the excess to Fred. Fred spends his loan at JCPenney. JCPenney deposits the check it receives from Fred in Bank B. Bank B keeps its minimum desired reserves and lends the excess to Mary. How much can Bank B lend to Mary?

A) \$810                      B) \$1,000.                      C) \$90                      D) \$900                      E) \$100

Answer: A

Topic: Money creation process

- 29) Suppose the Federal Reserve buys \$50 million worth of securities from a commercial bank. As a result, the monetary base \_\_\_\_\_ and the quantity of money will \_\_\_\_\_ \$50 million due to the \_\_\_\_\_.

A) decreases; decrease by less than; expenditure multiplier  
B) increases; decrease by; currency drain  
C) increases; increase by more than; money multiplier  
D) increases; increase by more than; expenditure multiplier  
E) decreases; decrease by more than; money multiplier

Answer: C

Topic: Money multiplier

- 30) The Fed makes an open market operation purchase of \$200,000. The currency drain is 33.33 percent and the desired reserve ratio is 10 percent. By how much does the quantity of money increase?

A) \$800,000                      B) \$465,116                      C) \$618,604                      D) \$333,333                      E) \$2,000,000

Answer: C

Topic: Money multiplier

- 31) The *Aggregate Demand* (AD) curve is a graph depicting the

A) business cycle during expansions and recessions.  
B) relationship between the price level and the quantity of real GDP demanded.  
C) relationship between the price level and potential GDP.  
D) relationship between the aggregate quantity of real GDP demanded and the aggregate quantity of real GDP supplied.  
E) relationship between the price level and the quantity of real GDP supplied.

Answer: B

Topic: Aggregate demand curve

- 32) If there is an increase in expected future income, then
- A) the aggregate demand curve becomes steeper.
  - B) the aggregate demand curve shifts leftward.
  - C) there is a downward movement along the aggregate demand curve.
  - D) the aggregate demand curve shifts rightward (AD increases).
  - E) there is an upward movement along the aggregate demand curve.

Answer: D

Topic: Changes in aggregate demand, expectations

- 33) The aggregate supply (AS) curve is
- A) upward sloping.
  - B) downward sloping.
  - C) a horizontal line.
  - D) U-shaped.
  - E) a vertical line.

Answer: A

Topic: Aggregate supply curve

- 34) Which of the following shifts the aggregate supply curve rightward (increases AS)?
- A) increase in potential GDP
  - B) increase in consumers' incomes
  - C) increase in the money price of oil

Answer: A

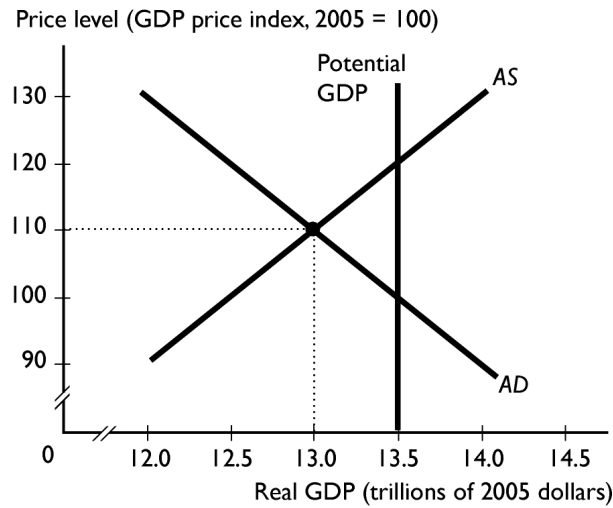
Topic: Changes in aggregate supply, potential GDP

- 35) A macroeconomic equilibrium occurs when
- A) the economy is fully employed.
  - B) there is no inflation.
  - C) the price level equals the potential price level.
  - D) real GDP is equal to potential GDP.
  - E) the aggregate quantity demanded is equal to the aggregate quantity supplied.

Answer: E

Topic: Macroeconomic equilibrium





- 36) In the figure above, the economy is at an equilibrium with real GDP of \$13 trillion and a price level of 110. At this point there is
- A) price stability.
  - B) an inflationary gap.
  - C) an above full-employment equilibrium.
  - D) a recessionary gap.
  - E) a full-employment equilibrium.

Answer: D

Topic: Recessionary gap

- 37) The use of the federal budget (spend, tax) to achieve macroeconomic objectives of full employment and sustainable economic growth is
- A) called fiscal policy
  - B) done only when there is a budget deficit
  - C) called monetary policy
  - D) done only when there is a budget surplus

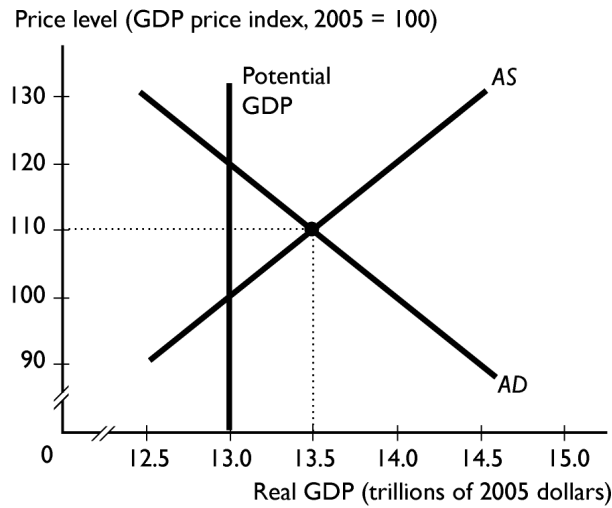
Answer: A

Topic: Fiscal policy

- 38) The national debt is the amount
- A) of government outlays summed over time.
  - B) of debt outstanding that arises from past budget deficits.
  - C) of all future entitlement spending.
  - D) by which government tax revenue exceed outlays in a given year.
  - E) by which government outlays exceed tax revenue in a given year.

Answer: B

Topic: National debt



39) If an economy is at the short-run equilibrium illustrated by the figure above, a discretionary *fiscal* policy to adjust the economy to full employment is to

- A) decrease the quantity of money.
- B) increase taxes and decrease government spending simultaneously.
- C) increase the quantity of money.
- D) decrease taxes.
- E) increase government spending.

Answer: B

Topic: Fiscal policy, inflationary gap

40) An example of automatic fiscal policy is

- A) Congress passing a tax rate reduction package.
- B) the federal government expanding spending at the Department of Education.
- C) the Federal Reserve reducing interest rates as economic growth slows.
- D) a change in taxes that has no multiplier effect.
- E) expenditure for unemployment compensation increasing as economic growth slows.

Answer: E

Topic: Automatic stabilizers

Price level (GDP deflator, 2005 = 100)	Aggregate supply (billions of 2005 dollars)	Aggregate demand (billions of 2005 dollars)
30	28	16
25	25	19
20	22	22
15	19	25
10	16	28

- 41) Using the data in the above table, if potential GDP for this economy is \$25 billion, then in order to restore full employment, the federal funds rate can be
- A) lowered so that consumption expenditure, investment, and net exports increase.
  - B) lowered so that consumption expenditure and investment increase, though net exports decrease
  - C) raised so that consumption expenditure, investment, and net exports increase.
  - D) raised so that net exports increase.
  - E) lowered so that government expenditure on goods and services increase.

Answer: A

Topic: Monetary policy, recession

- 42) To fight a recession, the Fed can
- A) lower the federal funds rate by selling securities.
  - B) lower the federal funds rate by buying securities.
  - C) raise the federal funds rate by buying securities.
  - D) raise the federal funds rate by selling securities.
  - E) lower income taxes on interest income.

Answer: B

Topic: Monetary policy transmission