Sample Test3

Name_______________________________

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

1) Gross domestic product is the market value of all the
   A) final goods and services produced within a country in a given time period.
   B) intermediate goods and services and final goods and services produced within a country in a given time period.
   C) final goods and services produced by a country's citizens no matter where they are located in a given time period.
   D) final goods and services produced by corporations in a given time period.
   E) goods and services produced by corporations in a given time period.
   Topic: GDP
   Skill: Level 1: Definition

2) Honda has an assembly plant for Civics in Ohio. The production of U.S.-made Civics is
   A) added to U.S. GDP.
   B) added to both U.S. GDP, because the car is produced in the United States, and to Japan's GDP, because Honda is a Japanese company.
   C) added to U.S. GDP only if the Civic is sold in the United States in the year it is produced.
   D) added to Japan's GDP because Honda is a Japanese company.
   E) not included in either the U.S. or Japanese GDP.
   Topic: GDP
   Skill: Level 1: Definition

3) Everything else the same, if consumption expenditure increases by $200 billion and imports increase by $200 billion, then GDP
   A) decreases by $200 billion.
   B) increases by $200 billion.
   C) does not change.
   D) increases by $400 billion.
   E) decreases by $400 billion.
   Topic: Total expenditure
   Skill: Level 2: Using definitions

4) The Consumer Price Index (CPI) measures the changes of the
   A) lowest prices paid by consumers for a fixed market basket of consumer goods and services.
   B) prices paid by consumers for a fixed market basket of consumer goods and services.
   C) prices paid by consumers and businesses for a fixed market basket of goods and services.
   D) quantities of a fixed market basket of goods produced by businesses.
   E) prices paid by all businesses for a fixed market basket of production resources.
   Topic: CPI
   Skill: Level 1: Definition

5) The formula for the CPI is
  A) (Cost of CPI market basket this year × Cost of CPI market basket at base period prices) ÷ 100.
  B) (Cost of CPI market basket at current period prices ÷ Cost of CPI market basket at next year's prices) × 100.
  C) (Cost of CPI market basket this year × Cost of CPI market basket at base period prices) × 100.
  D) (Cost of CPI market basket at current period prices ÷ Cost of CPI market basket at base period prices) × 100.
  E) (Cost of CPI market basket at base period prices ÷ Cost of CPI market basket at current period prices) × 100.

Topic: CPI formula
Skill: Level 1: Definition

6) A country's CPI was 96.0 last year and 100.0 this year. The inflation rate was
  A) 7.29 percent.
  B) 4.17 percent.
  C) –4.00 percent.
  D) 4.00 percent.
  E) 6.80 percent.

Topic: Inflation
Skill: Level 2: Using definitions

7) Mark has a two–year wage contract with his employer. Mark's wage contract specifies a $30,000 salary for the first year, and specifies a salary increase equal to the percentage increase in the CPI during the second year. The percentage increase in the CPI during the year was 3.0 percentage points. If the CPI overstates inflation by 1.0 percentage point, at the end of the first year Mark's salary increased by ________ more than it would have without the upward bias.
  A) $300 B) $1,800 C) $60 D) $30 E) $600

Topic: CPI bias, private contracts
Skill: Level 3: Using models

8) 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) 10 percent. B) 2 percent. C) 16 percent. D) 6 percent. E) –2 percent.

Topic: Real interest rate
Skill: Level 4: Applying models

9) If Michelle, age 22, worked 2 hours as a paid employee the week before the survey, Michelle is classified in the Current Population Survey as
  A) unemployed.
  B) employed.
  C) not in the labor force.
  D) not in the working–age population.
  E) a discourage worker.

Topic: Current population survey, employed
Skill: Level 2: Using definitions

10) A discouraged worker is
A) a worker who does not have a job and has not made any efforts to find a job within the previous four weeks.
B) counted as unemployed in the official labor market statistics.
C) a worker who is looking for a job but can't find one.
D) a person who only works part time but wants full-time work.
E) a worker who is unhappy at his or her job.

Topic: Discouraged workers
Skill: Level 1: Definition

11) An employee who is fired from his or her job because he or she lacks the skills required to accomplish the task, is part of ________ unemployment.
A) cyclical B) frictional C) unskilled D) structural E) withdrawal

Topic: Types of unemployment, structural
Skill: Level 1: Definition

12) John has been laid off from his job because of a general downturn in the economy. John's unemployment is best classified as
A) cyclical. B) frictional. C) seasonal. D) avoidable. E) structural.

Topic: Types of unemployment, cyclical
Skill: Level 2: Using definitions

13) If the unemployment rate is less than the natural unemployment rate, then
A) cyclical unemployment is greater than zero.
B) there is no frictional unemployment.
C) frictional unemployment is negative.
D) real GDP is above potential GDP.
E) real GDP is less than potential GDP.

Topic: Natural unemployment rate
Skill: Level 2: Using definitions

14) As additional units of labor hours are employed, holding all other factors constant, along the production function,
A) real GDP increases at an increasing rate.
B) real GDP increases at a decreasing rate.
C) nominal GDP decreases at an increasing rate.
D) real GDP initially decreases and then starts to increase.
E) real GDP increase at a constant rate.

Topic: Production function
Skill: Level 2: Using definitions

15) If an economy's growth rate of real GDP is 3 percent per year and the growth rate of the population is 2.5 percent per year, the growth rate of real GDP per person is
A) $[(2.5 - 3) \div 3] \times 100 = 16.6$ percent per year.
B) $3 - 2.5 = 0.5$ percent per year.
C) $2.5 - 3 = -0.5$ percent per year.
D) $3 + 2.5 = 5.5$ percent per year.
E) $[(3 - 2.5) \div 2.5] \times 100 = 20$ percent per year.

Topic: Growth rate, real GDP per person
Skill: Level 2: Using definitions

16) The medium of exchange is defined as
A) an item that can be stored and hold its value over time.
B) barter.
C) an object that is accepted in return for goods and services.
D) credit cards.
E) the exchange of goods and services directly for goods and services.
Topic: Functions of money, medium of exchange
Skill: Level 1: Definition

17) If Rob deposits $300 in currency into his savings account at Bank of America,
A) M1 does not change.
B) M1 decreases.
C) M2 increases.
D) M2 decreases.
E) M1 and M2 both increase.
Topic: M1
Skill: Level 2: Using definitions

18) Which of the following are policy tools used by the Federal Reserve?
i. the federal personal income tax
ii. open market operations
iii. changing the required reserve ratio
A) i, ii, and iii B) ii only C) iii only D) ii and iii E) i only
Topic: Fed policy tools
Skill: Level 1: Definition

19) The Fed purchases $1 million of U.S. government securities from First Bank. The required reserve ratio is 10 percent, the currency drain is zero, and banks loan all excess reserves. By how much does First Bank's excess reserves increase?
A) $100,000 B) $900,000 C) $10,000,000 D) $1,100,000 E) $1,000,000
Topic: Open market operation
Skill: Level 2: Using definitions

20) The relationship between real GDP and potential GDP over the business cycle can be best summarized by which of the following statements?
A) Real GDP cannot be greater than potential GDP.
B) Real GDP is always equal to potential GDP.
C) Real GDP fluctuates around potential GDP.
D) Real GDP cannot be equal to potential GDP.
E) Real GDP cannot be less than potential GDP.
Topic: Business cycle
Skill: Level 2: Using definitions

21) The aggregate supply curve illustrates that the
A) price level does not affect the quantity of real GDP supplied.
B) higher the price level, the greater the quantity of real GDP supplied.
C) higher the price level, the smaller the quantity of real GDP supplied.
D) aggregate demand curve is not needed to determine the aggregate price level.
E) amount of potential GDP increases when the price level rises.
Topic: Aggregate supply, price level
Skill: Level 3: Using models

22) An increase in technology ________ potential GDP and ________ aggregate supply.

A) decreases; decreases
B) increases; decreases
C) increases; increases
D) decreases; increases
E) does not change; does not change

Topic: Changes in aggregate supply, potential GDP
Skill: Level 2: Using definitions

23) A rise in the price level

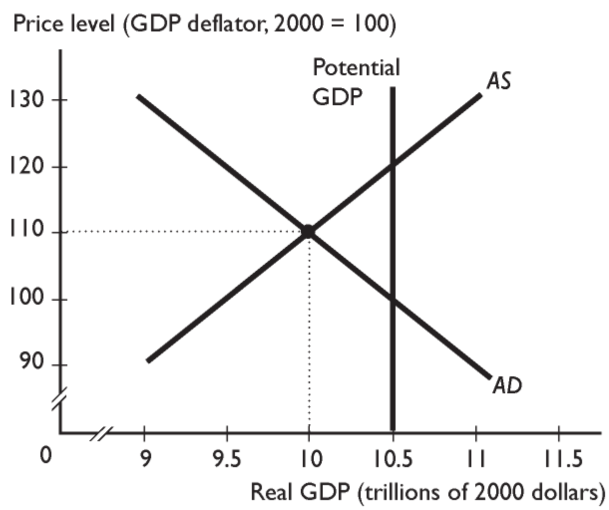
A) has no effect on aggregate demand or on the quantity of real GDP demanded.
B) decreases aggregate demand.
C) increases the quantity of real GDP demanded.
D) increases aggregate demand.
E) decreases the quantity of real GDP demanded.

Topic: Aggregate demand
Skill: Level 1: Definition

24) If firms' expectations about the future become pessimistic so that they think future profits will be lower, then

A) the aggregate demand curve does not shift but potential GDP decreases.
B) aggregate demand decreases and the *AD* curve shifts leftward.
C) the quantity of real GDP demanded decreases and there is a movement up along the *AD* curve.
D) aggregate demand increases and the *AD* curve shifts rightward.
E) the quantity of real GDP demanded increases and there is a movement down along the *AD* curve.

Topic: Changes in aggregate demand, expectations
Skill: Level 3: Using models



25) In the figure above, the economy is at an equilibrium with real GDP of $10 trillion and a price level of 110. At this point there is

A) a full-employment equilibrium.
B) an inflationary gap.
C) a recessionary gap.
D) price stability.
E) an above full-employment equilibrium.

Topic: Recessionary gap
Skill: Level 1: Definition

26) If the federal government has a budget deficit, then it is definitely the case that
A) tax receipts are falling and government outlays are rising.
B) tax receipts exceed government outlays.
C) government outlays exceed tax receipts.
D) tax receipts are rising and government outlays are falling.
E) tax receipts and government outlays are equal.

Topic: Budget deficit
Skill: Level 1: Definition

27) Suppose the economy is in an equilibrium in which real GDP is less than potential GDP. To increase real GDP, the government can use a discretionary fiscal policy of
A) increasing the quantity of money.
B) decreasing government expenditure only.
C) increasing taxes only.
D) decreasing government expenditure and simultaneously increasing taxes.
E) decreasing taxes and/or increasing government expenditure.

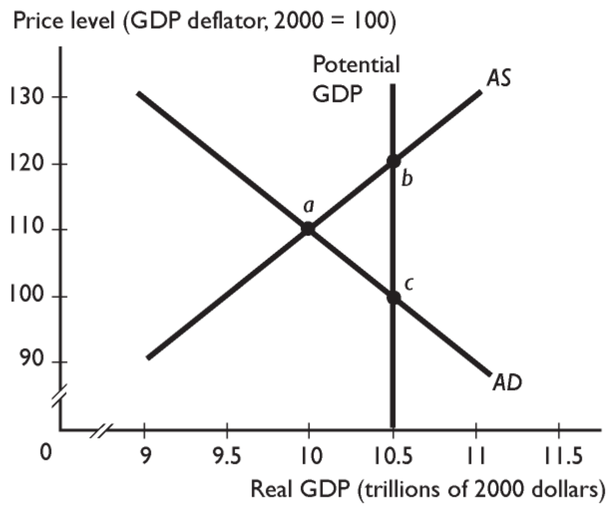
Topic: Fiscal policy, recessionary gap
Skill: Level 3: Using models

28) The balanced budget multiplier applies when a $50 billion increase in government expenditure is financed by a $50 billion ________ in tax revenue and the balanced budget multiplier shows that in this case there is ________ effect on aggregate demand.
A) decrease; a positive
B) increase; a negative
C) increase; no
D) increase; a positive
E) decrease; no

Topic: Balanced budget multiplier
Skill: Level 2: Using definitions

29) 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) a change in taxes that has no multiplier effect.
D) expenditure for unemployment compensation increasing as economic growth slows.
E) the Federal Reserve reducing interest rates as economic growth slows.

Topic: Automatic stabilizer
Skill: Level 2: Using definitions



30) The economy is at the equilibrium shown at point *a* in the above figure. If the Fed

A) sells government securities, the economy moves to an equilibrium at point *c*.

B) buys government securities, the economy moves to an equilibrium at point *c*.

C) sells government securities, the economy moves to an equilibrium at point *b*.

D) buys government securities, the economy moves to an equilibrium at point *b*.

Hint: What eventually happens to AD and why? Y = C + I + G +NX; I influenced by i .

Topic: Monetary policy, recession

Skill: Level 3: Using models

Answer Key
Testname: TEST3FALL2010SAMPLE

1) A
2) A
3) C
4) B
5) D
6) B
7) A
8) B
9) B
10) A
11) D
12) A
13) D
14) B
15) B
16) C
17) B
18) D
19) E
20) C
21) B
22) C
23) E
24) B
25) C
26) C
27) E
28) D
29) D
30) D