Exam

Name___________________________________

You may not discuss this test in any way shape or form with anyone before 1200 (Noon) Thursday, Dec. 9, 2010.

MULTIPLE CHOICE. Circle the letter of the one alternative that best completes the statement or answers the question.

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

   Topic: GDP
   Skill: Level 1: Definition

2) If you make dinner for yourself
   A) your service in preparing the meal is valued at a cook's wage and added to GDP.
   B) only the market value of ingredients that you purchased this year is added to GDP.
   C) the market value of your dinner is added to GDP.
   D) the difference between the cost of the ingredients that you purchased this year and the market value of the dinner is added to GDP.
   E) none of what you bought to prepare for dinner is included in GDP.

   Topic: GDP
   Skill: Level 3: Using models

<table>
<thead>
<tr>
<th>Item</th>
<th>Billions of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption expenditure</td>
<td>7,500</td>
</tr>
<tr>
<td>Investment</td>
<td>1,300</td>
</tr>
<tr>
<td>Government expenditure on goods and services</td>
<td>1,400</td>
</tr>
<tr>
<td>Net exports of goods and services</td>
<td>-200</td>
</tr>
</tbody>
</table>

3) Based on the data in the table above, what does GDP equal?
   A) $10,400 billion
   B) $10,000 billion
   C) $9,800 billion
   D) $10,200 billion
   E) $8,900 billion

   Topic: Expenditure approach
   Skill: Level 3: Using models
4) The table above gives the production and prices for a small nation that produces only bread and soda. The base year is 2008. What is real GDP in 2008?
   A) $425  B) $300  C) $320  D) $460  E) $240

   Topic: Real GDP
   Skill: Level 3: Using models

5) 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 and consumers for a market basket of goods and services.
   C) businesses for a fixed market basket of resources.
   D) urban consumers for a fixed market basket of goods and services.
   E) businesses for the most frequently used basket of resources.

   Topic: CPI
   Skill: Level 1: Definition

6) Consumers in a country buy only two goods, sneakers and manicures. The prices and quantities purchased by urban households are in the table above. The reference base year is 2007. For these data, the CPI for 2008 is

   Topic: Measuring the CPI
   Skill: Level 3: Using models

7) If the CPI this year is 230 and the CPI in the previous year was 190, what is the annual inflation rate?
   A) 21.0 percent.
   B) 17.4 percent.
   C) 23.0 percent.
   D) 19.0 percent.
   E) 40.0 percent.

   Topic: Inflation
   Skill: Level 2: Using definitions

8) If the CPI is used as a cost of living index, incomes that are adjusted to reflect the changes in the CPI will
   A) increase by more than the actual change in the cost of living.
   B) generally rise by about 2 percent a year because the standard of living generally rises by about 2 percent a year.
   C) decrease by more than the actual change in quantities.
   D) decrease by more than the actual change in the cost of living.
   E) increase by more than the actual change in quantities.

   Topic: CPI bias
   Skill: Level 2: Using definitions
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9) Phyllis has a $5,000 personal loan at a nominal interest rate of 12 percent. If the inflation rate is 4 percent, what is the real interest rate paid on the loan?

A) 3 percent  B) 8 percent  C) 4 percent  D) 12 percent  E) 16 percent

Topic: Real interest rate
Skill: Level 2: Using definitions

10) In the Current Population Survey, a person is considered unemployed if the person

A) is working anything less than 40 hours per week.
B) does not have a job and is actively looking for a job.
C) is working less than 20 hours per week.
D) is without a job.
E) is working without pay.

Topic: Current population survey, unemployed
Skill: Level 1: Definition

11) In measuring the unemployment rate, part-time workers are _______ and discouraged workers are _______.

A) excluded; included as unemployed
B) included as employed; included as unemployed
C) included as employed; excluded
D) excluded; excluded
E) included as unemployed if they are involuntary part-time workers; excluded

Topic: Discouraged workers, part-time workers
Skill: Level 2: Using definitions

12) Structural unemployment includes people who become unemployed from

A) changes in the seasons.
B) technological changes.
C) normal changes in the labor force.
D) going back to school.
E) changes in the business cycle.

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

13) During a recession, cyclical unemployment _______ and real GDP _______.

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

Topic: Types of unemployment, cyclical
Skill: Level 1: Definition
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14) Full employment means that
   A) only those who are willing, able and looking for work are unemployed.
   B) 100 percent of the labor force have jobs.
   C) the cyclical unemployment rate is zero.
   D) the natural unemployment rate is zero.
   E) the frictional unemployment rate is zero.

Topic: Full employment
Skill: Level 1: Definition

15) Potential GDP is reached when
   A) the natural unemployment rate equals zero.
   B) there is no cyclical unemployment.
   C) unemployment is above full employment.
   D) unemployment is below full employment.
   E) unemployment is zero.

Topic: Potential GDP
Skill: Level 3: Using models

16) If a country experiences a real GDP growth rate of 1 percent and population growth of 2 percent, then the growth rate of real GDP per person is
   A) 0 percent.     B) -1 percent.     C) 2 percent.     D) 1 percent.     E) 3 percent.

Topic: Growth rate, real GDP per person
Skill: Level 3: Using models

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

Topic: Functions of money
Skill: Level 2: Using definitions

18) Four policy tools the Federal Reserve System uses to influence the supply of money
   A) discount rate, open market operations, setting the required reserve ratio, federal funds rate.
   B) prime rate, open market operations, and setting the excess reserve ratio.
   C) open market operations, setting tax rates, and setting the required reserve ratio.
   D) discount rate, setting tax rates, and setting the required reserve ratio.
   E) market interest rate and the discount rate, as well as open market operations.

Topic: Fed policy tools
Skill: Level 1: Definition
19) If the Fed buys $10 million of government securities when the required reserve ratio is 20 percent and the currency drain is 5 percent, the quantity of money
   A) decreases by $50 million.
   B) decreases by $42 million.
   C) increases by $50 million.
   D) increases by $42 million.
   E) increases by $7.5 million.

   Topic: Money multiplier
   Skill: Level 5: Critical thinking

20) A change in the price level
   A) shifts the potential GDP line.
   B) shifts the aggregate supply curve leftward.
   C) shifts the aggregate supply curve rightward.
   D) shifts the aggregate demand curve leftward.
   E) changes the quantity of real GDP supplied.

   Topic: Aggregate supply, price level
   Skill: Level 2: Using definitions

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

   Topic: Aggregate demand
   Skill: Level 1: Definition

22) The aggregate supply curve shifts rightward when
   A) the money wage rate falls.
   B) the money wage rate rises.
   C) income taxes increase.
   D) potential GDP decreases.
   E) government purchases increase.

   Topic: Changes in aggregate supply, money wage rate
   Skill: Level 2: Using definitions

23) If people's expectations about future income improve so they think their future income will be higher than previously believed, then the AD curve
   A) will not shift but potential GDP will increase.
   B) will shift leftward because people will spend less now.
   C) will not change until income actually rises.
   D) will shift rightward because people will increase spending now.
   E) and the AS curve will both shift leftward because people will increase their saving.

   Topic: Changes in aggregate demand, expectations
   Skill: Level 3: Using models
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24) If the Fed increases the quantity of money, then
   A) aggregate demand increases and the $AD$ curve shifts rightward.
   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) both the aggregate demand curve and the aggregate supply curve shift leftward.
   E) the quantity of real GDP demanded increases and there is a movement down along the $AD$ curve.

   **Topic:** Changes in aggregate demand, monetary policy
   **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) an above full-employment equilibrium.
   B) price stability.
   C) a full-employment equilibrium.
   D) a recessionary gap.
   E) an inflationary gap.

   **Topic:** Recessionary gap
   **Skill:** Level 1: Definition

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

   **Topic:** National debt
   **Skill:** Level 1: Definition

27) If government expenditure on goods and services increases by $20$ billion, then aggregate demand
   A) increases by less than $20$ billion.
   B) increases by more than $20$ billion.
   C) decreases by more than $20$ billion.
   D) increases by $20$ billion.
   E) decreases by $20$ billion.

   **Topic:** Government expenditure multiplier
   **Skill:** Level 2: Using definitions
28) An economy is at a short-run equilibrium as illustrated in the above figure. An appropriate fiscal policy option to move the economy to full employment is to increase
   A) government expenditure and move the economy to a full-employment equilibrium at point c.
   B) government expenditure and move the economy to a full-employment equilibrium at point b.
   C) tax rates and move the economy to a full-employment equilibrium at point c.
   D) lower the interest rate by increasing the quantity of money and move the economy to a full-employment equilibrium at point b.
   E) tax rates and move the economy to a full-employment equilibrium at point b.

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

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) expenditure for unemployment compensation increasing as economic growth slows.
   D) a change in taxes that has no multiplier effect.
   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 as point \( a \) in the above figure. To restore the economy to potential GDP, the Fed should

A) buy government securities and thereby decrease aggregate demand.
B) buy government securities and thereby increase aggregate demand.
C) buy government securities and thereby increase aggregate supply.
D) sell government securities and thereby increase aggregate demand.
E) sell government securities and thereby decrease aggregate demand.

Topic: Monetary policy, recession
Skill: Level 3: Using models
Answer Key
Testname: TEST3FALL2010

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