ECON101_Final_2012

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. Suppose a bank has $200,000 in deposits and $190,000 in loans. It has loaned out all it can. It has a reserve ratio of
   a. 2.5 percent.
   b. 5 percent.
   c. 9.5 percent.
   d. 10 percent.

2. When the money market is drawn with the value of money on the vertical axis, if the Federal Reserve buys bonds, then the money supply curve
   a. shifts rightward, causing the price level to rise.
   b. shifts rightward, causing the price level to fall.
   c. shifts leftward, causing the price level to rise.
   d. shifts leftward, causing the price level to fall.

3. The price level falls. This might be because the Federal Reserve
   a. bought bonds which raised the money supply.
   b. bought bonds which reduced the money supply.
   c. sold bonds which raised the money supply.
   d. sold bonds which reduced the money supply.

4. Which of the following is correct?
   a. The classical dichotomy separates real and nominal variables.
   b. Monetary neutrality is the proposition that changes in the money supply do not change real variables.
   c. When studying long-run changes in the economy, the neutrality of money offers a good description of how the world works.
   d. All of the above are correct.

5. The money supply in Muckland is $100 billion. Nominal GDP is $800 billion and real GDP is $400 billion. What are the price level and velocity in Muckland?
   a. The price level and velocity are both 8.
   b. The price level is 2 and velocity is 8.
   c. The price level and velocity are both 4.
   d. The price level is 4 and velocity is 8.

6. Suppose the United States unexpectedly decided to pay off its debt by printing new money. Which of the following would happen?
   a. People who held money would feel poorer.
   b. Prices would rise.
   c. People who had lent money at a fixed interest rate would feel poorer.
   d. All of the above are correct.
7. Suppose that monetary neutrality and the Fisher effect both hold. An increase in the money supply growth rate increases
   a. the inflation rate and the nominal interest rate by the same number of percentage points.
   b. nominal interest rates but by less than the percentage point increase in the inflation rate.
   c. the inflation rate but not the nominal interest.
   d. neither the inflation rate nor the nominal interest rate.

8. If U.S. exports are $150 billion and U.S. imports are $100 billion, which of the following is correct?
   a. The U.S. has a trade surplus of $100 billion.
   b. The U.S. has a trade surplus of $50 billion.
   c. The U.S. has a trade deficit of $100 billion.
   d. The U.S. has a trade deficit of $50 billion.

9. You buy a new car built in Sweden. Other things the same, your purchase by itself
   a. raises both U.S. exports and U.S. net exports.
   b. raises U.S. exports and lowers U.S. net exports.
   c. raises both U.S. imports and U.S. net exports.
   d. raises U.S. imports and lowers U.S. net exports.

10. Bolivia buys railroad engines from a U.S. firm and pays for them with Bolivianos (Bolivian currency). By itself, this exchange
    a. increases both U.S. net exports and U.S. net capital outflow.
    b. decreases both U.S. net exports and U.S. net capital outflow.
    c. increases U.S. net exports and does not affect U.S. net capital outflow.
    d. None of the above is correct.

11. The country of Sylvania has a GDP of $900, investment of $200, government purchases of $200, and net capital outflow of -$100. What is consumption?
    a. $700
    b. $600
    c. $500
    d. $300

12. In Ireland, a pint of beer costs 2.2 Irish pounds. In Australia, a pint of beer costs 4 Australian dollars. If the exchange rate is .5 Irish pounds per Australian dollar, what is the real exchange rate?
    a. .91 pints of Irish beer per pint of Australian beer
    b. 1.1 pint of Irish beer per pint of Australian beer
    c. 3.64 pints of Irish beer per pint of Australian beer
    d. 4.4 pints of Irish beer per pint of Australian beer

13. When the yen gets "stronger" relative to the dollar,
    a. the U.S. trade deficit with Japan will rise.
    b. the U.S. trade deficit with Japan will fall.
    c. the U.S. trade deficit with Japan will be unchanged.
    d. None of the above necessarily happens.
14. If purchasing-power parity holds, then the value of the real exchange rate is equal to one.
   a. nominal exchange rate is equal to one.
   b. real exchange rate is equal to the nominal exchange rate.
   c. real exchange rate is equal to the difference in inflation rates between the two countries.

15. You hold currency from a foreign country. If that country has a higher rate of inflation than the United States, then over time the foreign currency will buy
   a. more goods in that country and buy more dollars.
   b. more goods in that country but buy fewer dollars.
   c. fewer goods in that country but buy more dollars.
   d. fewer goods in that country and buy fewer dollars.

16. An increase in the budget deficit causes domestic interest rates
   a. and investment to rise.
   b. to rise and investment to fall.
   c. to fall and investment to rise.
   d. and investment to fall.

17. If a country’s budget deficit increases, then in the foreign exchange market,
   a. the supply of its currency shifts right, so the exchange rate falls.
   b. the demand for its currency shifts right, so the exchange rate rises.
   c. the supply of its currency shifts left, so the exchange rate rises.
   d. the demand for its currency shifts left, so the exchange rate falls.

18. If the government of Japan raised its budget deficit, then the yen would
   a. depreciate and Japanese net exports would rise.
   b. depreciate and Japanese net exports would fall.
   c. appreciate and Japanese net exports would rise.
   d. appreciate and Japanese net exports would fall.

19. In the open-economy macroeconomic model which of the following falls if there is an increase in the budget deficit?
   a. the interest rate
   b. net exports
   c. the exchange rate
   d. All of the above are correct.

20. Capital flight refers to
   a. the movement of workers across international borders in response to exchange rate changes.
   b. the movement of funds between financial intermediaries when interest rates change.
   c. the ability of foreign direct investment to lift a country out of poverty.
   d. a large and sudden movement of funds out of a country.

21. When a country suffers from capital flight, the demand for loanable funds in that country shifts
   a. right, which increases interest rates in that country.
   b. right, which decreases interest rates in that country.
   c. left, which increases interest rates in that country.
   d. left, which decreases interest rates in that country.
22. An increase in the money supply
   a. and an investment tax credit both cause aggregate demand to shift right.
   b. and an investment tax credit both cause aggregate demand to shift left.
   c. causes aggregate demand to shift right, while an investment tax credit causes aggregate demand to shift left.
   d. causes aggregate demand to shift left, while an investment tax credit causes aggregate demand to shift right.

23. The price level rises in the short run if
   a. aggregate demand or aggregate supply shifts right.
   b. aggregate demand shifts right or aggregate supply shifts left.
   c. aggregate demand shifts left or aggregate supply shifts right.
   d. aggregate demand or aggregate supply shifts right.

24. According to liquidity preference theory, the money-supply curve is
   a. upward sloping.
   b. downward sloping.
   c. vertical.
   d. horizontal.

25. Which among the following assets is the most liquid?
   a. capital goods
   b. stocks and bonds with a low risk
   c. stocks and bonds with a high risk
   d. funds in a checking account
Figure 34-2. On the left-hand graph, MS represents the supply of money and MD represents the demand for money; on the right-hand graph, AD represents aggregate demand. The usual quantities are measured along the axes of both graphs.

26. Refer to Figure 34-2. What does $Y$ represent on the horizontal axis of the right-hand graph?
   a. the quantity of money
   b. the rate of inflation
   c. real output
   d. nominal output

27. According to the theory of liquidity preference, an increase in the price level causes the
   a. interest rate and investment to rise.
   b. interest rate and investment to fall.
   c. interest rate to rise and investment to fall.
   d. interest rate to fall and investment to rise.

28. If the Federal Reserve decided to lower interest rates, it could
   a. buy bonds to lower the money supply.
   b. buy bonds to raise the money supply.
   c. sell bonds to lower the money supply.
   d. sell bonds to raise the money supply.

29. If the $MPC = 3/5$, then the multiplier is
   a. 5/3.
   b. 5/2.
   c. 5.
   d. 15.
30. Assume the MPC is 0.75. The multiplier is
   a. 0.75.
   b. 1.25.
   c. 4.00.
   d. 6.25.
**MULTIPLE CHOICE**

1. **ANS:** B  
   **PTS:** 1  
   **DIF:** 1  
   **REF:** 29-3  
   **NAT:** Analytic  
   **LOC:** Monetary and fiscal policy  
   **TOP:** Reserves

2. **ANS:** A  
   **PTS:** 1  
   **DIF:** 2  
   **REF:** 30-1  
   **NAT:** Analytic  
   **LOC:** Monetary and fiscal policy  
   **TOP:** Money market | Money supply

3. **ANS:** D  
   **PTS:** 1  
   **DIF:** 2  
   **REF:** 30-1  
   **NAT:** Analytic  
   **LOC:** Monetary and fiscal policy  
   **TOP:** Money market equilibrium

4. **ANS:** D  
   **PTS:** 1  
   **DIF:** 1  
   **REF:** 30-1  
   **NAT:** Analytic  
   **LOC:** The role of money  
   **TOP:** Classical dichotomy | Monetary neutrality  
   **MSC:** Definitional

5. **ANS:** B  
   **PTS:** 1  
   **DIF:** 2  
   **REF:** 30-1  
   **NAT:** Analytic  
   **LOC:** The role of money  
   **TOP:** Quantity equation

6. **ANS:** D  
   **PTS:** 1  
   **DIF:** 1  
   **REF:** 30-1  
   **NAT:** Analytic  
   **LOC:** The role of money  
   **TOP:** Inflation costs

7. **ANS:** A  
   **PTS:** 1  
   **DIF:** 1  
   **REF:** 30-1  
   **NAT:** Analytic  
   **LOC:** The role of money  
   **TOP:** Quantity equation | Fisher effect

8. **ANS:** B  
   **PTS:** 1  
   **DIF:** 1  
   **REF:** 31-1  
   **NAT:** Analytic  
   **LOC:** International trade and finance  
   **TOP:** Net exports

9. **ANS:** D  
   **PTS:** 1  
   **DIF:** 1  
   **REF:** 31-1  
   **NAT:** Analytic  
   **LOC:** International trade and finance  
   **TOP:** Net exports

10. **ANS:** A  
    **PTS:** 1  
    **DIF:** 2  
    **REF:** 31-1  
    **NAT:** Analytic  
    **LOC:** International trade and finance  
    **TOP:** Net exports | Net capital outflow

11. **ANS:** B  
    **PTS:** 1  
    **DIF:** 3  
    **REF:** 31-1  
    **NAT:** Analytic  
    **LOC:** International trade and finance  
    **TOP:** National accounts

12. **ANS:** A  
    **PTS:** 1  
    **DIF:** 3  
    **REF:** 31-2  
    **NAT:** Analytic  
    **LOC:** International trade and finance  
    **TOP:** Real exchange rate

13. **ANS:** B  
    **PTS:** 1  
    **DIF:** 2  
    **REF:** 31-2  
    **NAT:** Analytic  
    **LOC:** International trade and finance  
    **TOP:** Depreciation | Real exchange rate

14. **ANS:** A  
    **PTS:** 1  
    **DIF:** 1  
    **REF:** 31-3  
    **NAT:** Analytic  
    **LOC:** International trade and finance  
    **TOP:** Purchasing-power parity
15. **ANS:** D  
**PTS:** 1  
**DIF:** 3  
**REF:** 31-3  
**NAT:** Analytic  
**LOC:** International trade and finance  
**TOP:** Purchasing-power parity  
**MSC:** Applicative

16. **ANS:** B  
**PTS:** 1  
**DIF:** 2  
**REF:** 32-3  
**NAT:** Analytic  
**LOC:** International trade and finance  
**TOP:** Budget deficits | Interest rates | Investment  
**MSC:** Analytical

17. **ANS:** C  
**PTS:** 1  
**DIF:** 2  
**REF:** 32-3  
**NAT:** Analytic  
**LOC:** International trade and finance  
**TOP:** Budget deficits | Market for foreign-currency exchange  
**MSC:** Analytical

18. **ANS:** D  
**PTS:** 1  
**DIF:** 2  
**REF:** 32-3  
**NAT:** Analytic  
**LOC:** International trade and finance  
**TOP:** Budget deficits | Net exports  
**MSC:** Analytical

19. **ANS:** B  
**PTS:** 1  
**DIF:** 2  
**REF:** 32-3  
**NAT:** Analytic  
**LOC:** International trade and finance  
**TOP:** Budget deficits  
**MSC:** Analytical

20. **ANS:** D  
**PTS:** 1  
**DIF:** 2  
**REF:** 32-3  
**NAT:** Analytic  
**LOC:** International trade and finance  
**TOP:** Capital flight  
**MSC:** Definitional

21. **ANS:** A  
**PTS:** 1  
**DIF:** 2  
**REF:** 32-3  
**NAT:** Analytic  
**LOC:** International trade and finance  
**TOP:** Capital flight | Market for loanable funds  
**MSC:** Analytical

22. **ANS:** A  
**PTS:** 1  
**DIF:** 2  
**REF:** 33-3  
**NAT:** Analytic  
**LOC:** Monetary and fiscal policy  
**TOP:** Aggregate demand shifts | Monetary policy | Fiscal policy  
**MSC:** Applicative

23. **ANS:** B  
**PTS:** 1  
**DIF:** 2  
**REF:** 33-5  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Short-run equilibrium  
**MSC:** Analytical

24. **ANS:** C  
**PTS:** 1  
**DIF:** 1  
**REF:** 34-1  
**NAT:** Analytic  
**LOC:** Monetary and fiscal policy  
**TOP:** Theory of liquidity preference  
**MSC:** Definitional

25. **ANS:** D  
**PTS:** 1  
**DIF:** 1  
**REF:** 34-1  
**NAT:** Analytic  
**LOC:** Monetary and fiscal policy  
**TOP:** Liquidity  
**MSC:** Interpretive

26. **ANS:** C  
**PTS:** 1  
**DIF:** 1  
**REF:** 34-1  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate-demand curve  
**MSC:** Interpretive

27. **ANS:** C  
**PTS:** 1  
**DIF:** 2  
**REF:** 34-1  
**NAT:** Analytic  
**LOC:** Monetary and fiscal policy  
**TOP:** Interest-rate effect  
**MSC:** Analytical

28. **ANS:** B  
**PTS:** 1  
**DIF:** 2  
**REF:** 34-1  
**NAT:** Analytic  
**LOC:** Monetary and fiscal policy  
**TOP:** Money market  
**MSC:** Applicative

29. **ANS:** B  
**PTS:** 1  
**DIF:** 2  
**REF:** 34-2  
**NAT:** Analytic  
**LOC:** Monetary and fiscal policy  
**TOP:** Multiplier  
**MSC:** Applicative

30. **ANS:** C  
**PTS:** 1  
**DIF:** 2  
**REF:** 34-2  
**NAT:** Analytic  
**LOC:** Monetary and fiscal policy  
**TOP:** Multiplier  
**MSC:** Applicative