Name: _____ Class: _____ Date: _____ ID: A

Exam 4 Make Up

Multiple Choice

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

____ 1. Expansionary fiscal policies:
A. move a budget deficit closer to a balanced budget.
B. make the budget deficit smaller.
C. affect only taxes.
D. affect only government spending.
E. make the budget surplus smaller.

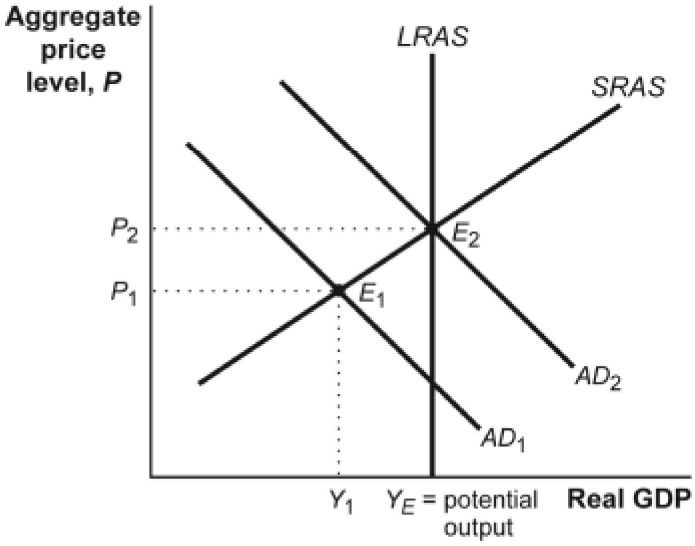
____ 2. Changes in interest rates and the money supply in an effort to change overall spending in an economy is:
A. fiscal policy.
B. monetary policy.
C. investment.
D. the stock market.
E. trade policy.

____ 3. If the Fed wants to decrease interest rates, it can:
A. decrease the money supply by selling Treasury bills.
B. decrease the money supply by buying Treasury bills.
C. increase the money supply by selling Treasury bills.
D. increase the money supply by buying Treasury bills.
E. decrease the money demand by buying Treasury bills.

____ 4. Suppose the economy is currently in long-run equilibrium at full employment levels of real GDP. If the money supply increases, in the long run, we would expect _____ in the price level, and _____ in real GDP.
A. an increase; a decrease
B. an increase; an increase
C. a decrease; no change
D. no change; an increase
E. an increase; no change

____ 5. In the long run, changes in the money supply:
A. affect both the aggregate price level and aggregate output.
B. affect only the price level but they do not change aggregate output.
C. affect only aggregate output but not the aggregate price level.
D. have no impact on either the aggregate price level or aggregate output.
E. affect only the unemployment rate, but not the aggregate price level.

Figure 31-5: Monetary Policy I

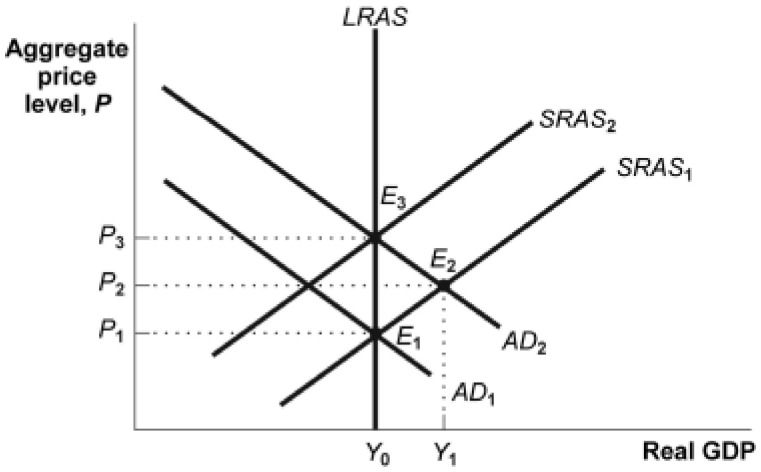


____ 6. Use the "**Monetary Policy I" Figure 31-5.** If the money market is initially at E_1 and the central bank chooses to sell bonds, then:
A. AD_2 will shift to the right, creating an inflationary gap.
B. AD_2 may shift to AD_1, creating a recessionary gap.
C. AD_1 may shift to AD_2, closing an existing recessionary gap.
D. AD_1 will shift to the left, increasing an existing recessionary gap.
E. AD_1 will shift to the left, increasing an existing inflationary gap.

____ 7. According to the classical model of the price level, an increase in the money supply will create:
A. inflation with no long-run increase in real GDP.
B. inflation and a long-run increase in real GDP.
C. no inflation and a long-run increase in real GDP.
D. deflation with no long-run increase in real GDP.
E. disinflation with no long-run increase in real GDP.

____ 8. A negative output gap is associated with:
A. an unusually low unemployment rate.
B. a natural rate of unemployment.
C. an unusually high unemployment rate.
D. no changes in the unemployment rate.
E. an unusually high inflation rate.

Figure 32-3: *AD–AS*



____ 9. Use the "***AD–AS***" **Figure 32-3**. Refer to the *AD–AS* diagram. Suppose the economy is initially at E_1, and then moves to E_2 where AD_2 intersects $SRAS_1$. Now, suppose that the $SRAS_1$ shifts to $SRAS_2$, because:
A. real wages rise in the long run.
B. nominal wages rise in the long run.
C. the real money supply rises in the long run.
D. aggregate real output rises in the long run.
E. nominal wages fall in the long run.

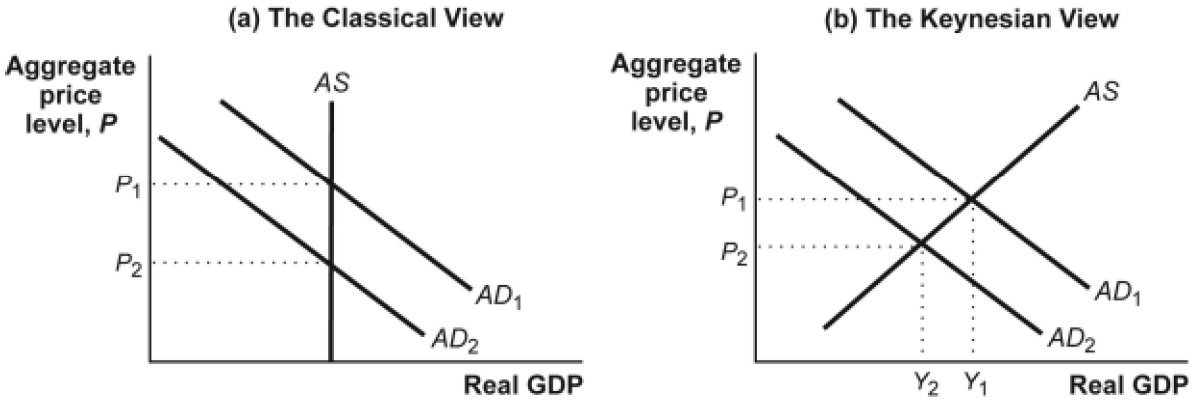
____ 10. Each point on a Phillips curve is a different combination of:
A. price and quantity.
B. the inflation rate and the unemployment rate.
C. the interest rate and investment.
D. saving and disposable income.
E. aggregate price level and the unemployment rate.

____ 11. When workers and firms become aware of a rise in the general price:
A. they will not do anything, because they know they are powerless to counter any economic changes.
B. they will negotiate lower prices of goods, services, and wages.
C. firms with sticky prices will ultimately adjust their prices downward.
D. they will agree to renegotiate wage contracts downward.
E. they will incorporate higher prices into their expectations of future prices.

____ 12. Suppose an economy experiences an increase in its aggregate price level and a decrease in its aggregate level of real GDP. This could arise from:
A. a positive demand shock.
B. a negative supply shock.
C. a positive supply shock.
D. a negative demand shock.
E. the combination of positive demand and supply shocks.

____ 13. If wages and prices are perfectly flexible, a decrease in aggregate demand will cause a(n):
A. increase in the price level and unemployment.
B. decrease in the price level and employment.
C. increase in the price level and no change in employment.
D. decrease in the price level and no change in employment.
E. decrease in the price level and decrease in unemployment

Figure 35-1: Classical Versus Keynesian Macroeconomics



____ 14. Use the "**Classical Versus Keynesian Macroeconomics**" **Figure 35-1**. According to the Keynesian view, if this economy shifts from AD_2 to AD_1, let's say due to a large increase in government spending, then:
A. the price level will increase, but real GDP will decrease.
B. the GDP will increase, but the price level will not change.
C. the price level will increase, but real GDP will not change.
D. both the price level and the real GDP will increase.
E. the price level will decrease, but real GDP will not change.

____ 15. Crowding out is MOST likely to occur when expansionary fiscal policy is accompanied by:
A. expansionary monetary policy.
B. open-market purchases by the Fed.
C. slow growth of the money supply.
D. an investment tax credit.
E. tax increases to pay for the government spending.

____ 16. According to the theory of new classical economics, if productivity decreases, the aggregate supply curve _____ and the price level rises, while aggregate output_____.
A. shifts right; increases
B. shifts left; remains constant
C. shifts right; decreases
D. shifts left; decreases
E. shifts right; remains constant

____ 17. Suppose a panel of economists is predicting that a nation's real GDP per capita will have an average annual growth rate of 2%. Based upon the Rule of 70, how many years will it take for this nation's real GDP per capita to double?
A. 35
B. 70
C. 140
D. 20
E. 50

Scenario 37-1: Growth Rates of Two Countries
Suppose that India is currently growing at a rate of 14% per year and is producing real GDP per capita equal to $7,000, whereas the United States is currently growing at a rate of 5% per year and is producing real GDP per capita equal to $28,000.

____ 18. Use the **Scenario 37-1.** Given the information provided, how long will it take India to double its real GDP per capita?
A. 7 years
B. 10 years
C. 14 years
D. 5 years
E. 20 years.

____ 19. The rule of 70 states that:
A. the average lifespan of a developed nation should be at least 70 years.
B. everyone should retire by age 70.
C. the number of years for a variable to double equals 70 divided by its annual growth rate.
D. Social Security benefits should increase when people reach 70.
E. a nation cannot be considered developed unless at least 70% of the population is literate.

____ 20. Productivity is equal to:
A. real GDP divided by number of workers.
B. real GDP divided by number of capital inputs.
C. number of workers per machine.
D. total output produced.
E. real GDP divided by the unemployment rate.

____ 21. Human capital is:
A. the improvement in labor created by education and knowledge that is embodied in the work force.
B. the machinery and tools that each individual worker owns.
C. robots that can perform tasks that only humans could do in the past.
D. not as important as physical capital.
E. gained from on the job training, but not formal schooling.

____ 22. The popular press loves to talk about new technology. What is the most important aspect of new technology for economic growth?
A. It enables scientists to discover still more new things.
B. It enables people to work faster.
C. It leads business persons to increase capital spending.
D. It leads business persons to alter the way they do business.
E. It allows investors to buy and sell stocks more quickly.

____ 23. Among the public goods important for economic growth are:
A. publicly held companies like Ford.
B. political stability.
C. public regulation of businesses.
D. low taxes.
E. summer concerts free to the public.

____ 24. The federal budget tends to move toward _____ as the economy ____.
A. deficit; contracts
B. deficit; expands
C. surplus; contracts
D. a balanced budget; contracts
E. a balanced budget; expands

____ 25. The government has a budget surplus if:
A. its total revenues are equal to its total expenditures.
B. its total revenues are less than its total expenditures.
C. its total revenues are greater than its total expenditures.
D. the money supply is less than total expenditures.
E. the money supply is less than the money demand.

____ 26. When inflation is high:
A. people will increase their level of real money holdings.
B. people will save more.
C. lenders gain at the expense of borrowers.
D. people will decrease their level of real money holdings.
E. real wages will increase.

____ 27. Discretionary fiscal policy:
A. is not subject to lags and therefore is more effective at controlling business cycles.
B. refers to changes in the money supply used to smooth out the economy's ups and downs.
C. is favored by monetarists.
D. is favored by classical economists.
E. is favored by Keynesians.

____ 28. If a country devotes more physical capital per worker, this will result in:
A. lower and eventually zero growth rate of productivity.
B. higher growth rates of productivity.
C. no change in the growth rate of productivity.
D. lower, but always positive growth rates of productivity.
E. a downward shift in the aggregate production function.

____ 29. An action that would hinder growth would be:
A. government provision of basic health measures.
B. government support for research and development endeavors.
C. the lack of government oversight for property rights.
D. government encouragement of increased saving.
E. a stable political system and judicial system.

____ 30. The government deficit:
A. is the essentially the same as the government debt.
B. is much higher than the government debt.
C. measures the difference between the amount which government spends and the amount it collects in tax revenues in a given period of time.
D. is the total amount of money a government owes at a particular point in time.
E. is the total amount of money a government owes to other nations.

Name: _____ **ID: A**

Short Answer

1. Assume that a country's economy is currently at equilibrium along an upward-sloping short-run aggregate supply curve. Suppose that the country's central bank conducts an open-market sale of government bonds.
   (a) Using a correctly labeled graph of the money market, show how the open-market sale of bonds will affect each of the following.
      (i.) Money supply
      (ii.) Interest rate
   (b) Indicate whether the interest rate you identified in (a) (ii) is a real or a nominal rate.
   (c) Under what condition will the nominal interest rate differ from the real interest rate?
   (d) Using a correctly labeled graph of aggregate demand and aggregate supply, show a short-run effect of the open-market operation on each of the following.
      (i.) Real output
      (ii.) Price level
   (e) On a correctly labeled graph of the Phillips curve, show how the open-market operation will affect the following in the short run. Use an arrow to show the direction of change.
      (i.) Unemployment rate
      (ii.) Inflation rate
   (f) Identify a fiscal policy action that would offset the impact on real output and price level that you identified in (d).

2. The economy in Country X is in a recession, with real gross domestic product (GDP) $100 billion below full-employment output.
   (a) Draw one correctly labeled graph of the short-run and long-run Phillips curves, labeling the current equilibrium point A.
   (b) Assume that the government increases spending by $20 billion to stimulate economic activity. Assume that the marginal propensity to save is 0.25. Calculate the maximum total change in real GDP that could occur following the $20 billion increase in government spending.
   (c) On your graph in part (a), label the new equilibrium point B as a result of the increase in government spending.
   (d) Had the government lowered personal income taxes by $20 billion instead of increasing spending by $20 billion, would the maximum total change in real GDP be greater than, smaller than, or the same as the one calculated in part (b)? Explain.