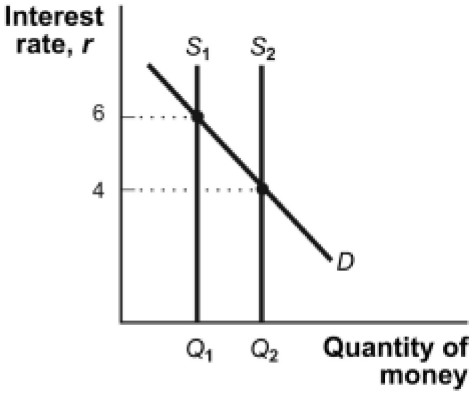
Name: _____ Class: _____ Date: _____ ID: A

Exam 4 make up: Growth Theory and International Economics

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

____ 1. The national debt _____ in years in which the federal government incurs a _____ .
A. falls; deficit
B. rises; surplus
C. stays the same; surplus
D. rises; deficit
E. stays the same; deficit

Figure 31-2: Changes in the Money Supply



____ 2. Use the "**Changes in the Money Supply" Figure 31-2**. Fed policy to increase the supply of money and hence to lower the interest rate from 6% to 4%, is accomplished by action that _____ the _____ government bonds.
A. lowers; price of
B. increases; interest rate on
C. decreases; issuing of
D. increases; supply of
E. increases; demand for

____ 3. The Fed affects interest rates by:
A. setting them with regulations.
B. open market operations that shift the money demand curve.
C. open market operations that shift the money supply curve.
D. changing tax rates.
E. convincing Congress to relax banking regulations.

____ 4. If the Federal Reserve wants to close an inflationary gap, then it will:
A. increase the money supply, increase the interest rate, thus increasing investment spending and GDP, and the *AD* curve will shift to the right.
B. increase the money supply, decrease the interest rate, thus lowering investment spending and increasing GDP, and the *SRAS* curve will shift to the left.
C. decrease the money supply, increase the interest rate, thus lowering investment spending and GDP, and the *AD* curve will shift to the left.
D. decrease the money supply, decrease the interest rate, thus lowering investment spending and increasing GDP, and the *SRAS* curve will shift to the right.
E. decrease the money supply, increase the interest rate, thus lowering investment spending and GDP, and the *AD* curve will shift to the right.

____ 5. Monetary neutrality implies that in the long run:
A. monetary policy does not affect the level of economic activity.
B. aggregate supply is independent from monetary policy.
C. changing the money supply does not have any effect on the aggregate price level.
D. aggregate demand is independent from monetary policy.
E. monetary policy is effective at increasing long-run aggregate supply.

____ 6. If the money supply increases by 10%, in the long run:
A. unemployment drops by 10%.
B. the price level increases by 10%.
C. real GDP increases by 10%.
D. unemployment drops by 20%.
E. the interest rate falls by 10%.

____ 7. When the output gap is _____, reflecting an inflationary gap, the unemployment rate is _____ the natural rate of unemployment.
A. positive; above
B. negative; below
C. positive; below
D. negative; above
E. negative; equal to

____ 8. According to the classical school, the short-run aggregate supply curve is _____, while according to the Keynesian school the short-run aggregate supply curve is _____.
A. vertical; upward-sloping
B. downward sloping; vertical
C. vertical; horizontal
D. upward sloping; horizontal
E. upward sloping; vertical

____ 9. The existence of "sticky" wages and prices is most closely associated with:
A. monetarism.
B. classical economics.
C. Keynesian economics.
D. rational expectations theory.
E. Adam Smith.

____ 10. Monetarists believe that:
A. full employment will be the norm.
B. countercyclical policies do not affect the economy.
C. a fixed increase in the growth rate of the money supply is better than activist policies.
D. discretionary monetary policy is better than a fixed growth rate of the money supply.
E. a constant money supply will allow the economy to self-correct and smooth the business cycle.

____ 11. A more modern perspective on total factor productivity argues that:
A. downturns in the business cycle decrease productivity.
B. upswings in the business cycle lead to decreases in productivity.
C. business cycles are irrelevant to productivity.
D. rational expectations lead to swings in productivity.
E. during recessions productivity actually increases.

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.

____ 12. 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.

____ 13. 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.

____ 14. Economists say that long-run economic growth is almost entirely due to:
A. rising productivity.
B. population growth.
C. a democratically elected government.
D. a balanced budget.
E. perfectly competitive markets.

____ 15. Economic growth will likely involve:
A. a reduction in investment.
B. a decrease in the capital stock.
C. higher saving.
D. lower saving.
E. a downward shift in the aggregate production function.

____ 16. 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.

Chevrolet Motor Co. expands its operations by acquiring Hyundai Co.	$21,000
Chinese manufacturers sell t-shirts to L.L. Bean	2,000
The Bill Gates Foundation contributes to UNICEF's anti-polio fund	80,000
A German car collector buys a Kentucky-made Corvette	50,000
Microsoft pays dividends to European stock holders	2,000
A Japanese student enrolls at Princeton and pays tuition	3,000
A U.S. mutual fund receives dividends from its European stock holdings	2,000
American Express Co. acquires the Banco de Lisboa	30,000
Table 41-1: International Transactions	

____ 17. Use **Table 41-1**. The balance of payments on goods and services is:
A. $51,000.
B. $48,000.
C. $3,000.
D. –$29,000.
E. $55,000.

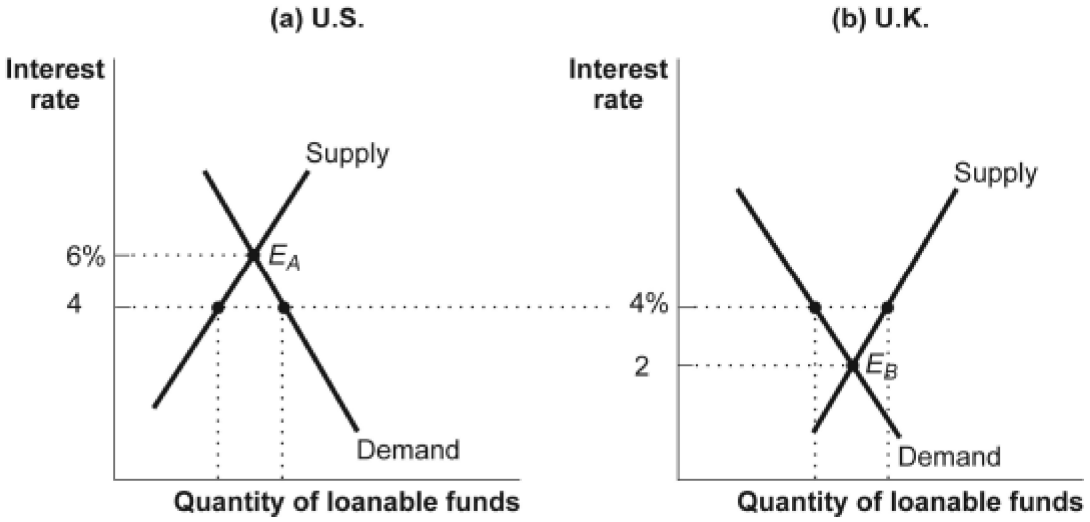
____ 18. A current account deficit exists when:
A. the balance on the current account is negative.
B. spending flowing out of the country for goods and services is less than spending that flows into the country for its goods and services.
C. net exports are positive.
D. an economy buys less from foreigners than it sells to them.
E. the balance on the financial account is negative.

____ 19. If the merchandise trade balance is –$15, net international transfer payments is $1, and net international factor income is $3, the balance of payments on goods and services is –$25, and the balance of payments on the financial account is $18, then the statistical discrepancy in the financial account is:
A. $15.
B. $3.
C. –$3.
D. –$1.
E. $1.

Exports of goods and services	$1425 billion
Imports of goods and services	$1800 billion
Income receipts from abroad	$420 billion
Income receipts to foreigners	$400 billion
Transfers	$0
Table 41-2: Balance of Payment	

____ 20. Use **Table 41-2**. Refer to the table which provides the information for a country's balance of payment. In this case, the country's balance of payments on goods and services is:
A. $375 billion.
B. –$375 billion.
C. $4,045 billion.
D. $355 billion.
E. –$425 billion.

Figure 41-2: International Capital Flows



____ 21. Use the "**International Capital Flows**" **Figure 41-2**. Assume that each country's loanable funds market is such that its equilibrium interest rate is 4%. Which of the following is likely to be the next logical step to reconcile the apparent disequilibrium in both markets, assuming that assets and liabilities are viewed as homogenous?
A. There will be a capital outflow from the United States which will lower U.S. interest rates.
B. There will be a capital outflow from Britain which will lower interest rates in Britain.
C. There will be a capital outflow from Britain which will raise interest rates in Britain.
D. There will be a capital inflow from the United States which will raise U.S. interest rates.
E. There will be a capital inflow from Britain which will lower interest rates in Britain.

____ 22. Suppose that the U.S. and European Union (EU) are the only trading partners in the world. If the EU imposes some import tariffs on U.S. goods, we would expect:
A. the supply of the euro to decrease, depreciating the euro.
B. the demand for the dollar to decrease, depreciating the dollar.
C. the demand for the dollar to increase, appreciating the dollar.
D. the supply of the dollar to decrease, depreciating the dollar.
E. the demand for the dollar to decrease, appreciating the dollar.

Scenario 42-2 Exchange Rate between the U.S. and India
Suppose that initially the nominal exchange rate between U.S. dollar and Indian rupee is such that 40 rupees exchange for $1. The nominal exchange rate has changed so that now 50 rupees exchange for $1.

____ 23. Use **Scenario 42-2**. Consider the information provided. Under which scenario, will the real exchange rate change by the greatest amount?
A. when the inflation rates in both U.S. and India are zero
B. when the U.S inflation rate is 5% and the Indian inflation rate is 2%
C. when the U.S inflation rate is 2% and the Indian inflation rate is 12%
D. when the inflation rates in both U.S. and India are 5%
E. when the price levels in both the U.S. and India fall by 5%.

____ 24. An increase in U.S. interest rates causes a decrease in aggregate demand by:
A. increasing investment, appreciating the dollar, and increasing imports.
B. decreasing investment, appreciating the dollar, and increasing imports.
C. increasing investment, depreciating the dollar, and increasing exports.
D. decreasing investment, depreciating the dollar, and decreasing exports.
E. decreasing investment, depreciating the dollar, and increasing exports.

____ 25. With a floating exchange rate:
A. monetary policy is ineffective.
B. monetary policy is not independent.
C. a central bank can pursue an independent monetary policy.
D. an independent fiscal policy cannot be pursued.
E. the central government can control the balance of trade.

____ 26. If the natural rate of unemployment is 5%, and the actual rate of unemployment is 4%:
A. disinflation is likely to occur.
B. there will be no effect on prices.
C. inflation will increase.
D. the short-run Phillips curve will shift down.
E. deflation is likely to occur.

____ 27. According to the short-run Phillips curve, when actual real GDP is _____ potential output, the price level _____ and the unemployment rate falls.
A. below; increases
B. above; decreases
C. below; decreases
D. above; increases
E. equal to; increases

____ 28. The short-run Phillips curve shows:
A. a direct relationship between unemployment and inflation.
B. an inverse relationship between unemployment and inflation.
C. consequences of the misperceptions theory.
D. the optimum level of employment.
E. an inverse relationship between unemployment and the real interest rate.

____ 29. A supply shock:
A. Only moves us along the short-run aggregate supply curve.
B. Only moves us along the short-run Phillips curve.
C. shifts the short-run Phillips curve and the short-run aggregate supply curve..
D. shifts the short-run aggregate supply curve, but not the short-run Phillips curve.
E. Shifts the short-run Phillips curve, but not the short-run aggregate supply curve.

____ 30. A Phillips curve implies a negative relationship between:
A. consumption and saving.
B. inflation and prices.
C. inflation and unemployment.
D. consumption and inflation.
E. aggregate price level and real GDP.