

Name \_\_\_\_\_

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

- 1) If the price index was 100 in 1990 and 120 in 2000, and nominal GDP was \$360 billion in 1990 and \$480 billion in 2000, then the value of 2000 GDP in terms of 1990 dollars would be 1) \_\_\_\_\_
- A) \$300 billion.                      B) \$384 billion.                      C) \$424 billion.                      D) \$400 billion.

- 2) The expected real interest rate ( $r$ ) is equal to 2) \_\_\_\_\_
- A) nominal interest rate plus expected inflation rate.  
 B) nominal interest rate minus expected inflation rate.  
 C) nominal interest rate minus inflation rate.  
 D) expected nominal interest rate minus inflation rate.

- 3) The Widget Company has the following production function. 3) \_\_\_\_\_

Number of Workers	Number of Cases Produced
0	0
1	9
2	17
3	24
4	30
5	35

If widgets sell for \$6 each and the wage rate is \$33, how many workers will the company hire?

- A) 0                                      B) 2                                      C) 4                                      D) 1
- 4) An adverse supply shock, such as a reduced supply of raw materials, would 4) \_\_\_\_\_
- A) decrease the marginal product of labor.  
 B) decrease the marginal product of capital, but have no effect on the marginal product of labor.  
 C) not affect the marginal product of labor.  
 D) increase the marginal product of labor.
- 5) Desired national saving equals 5) \_\_\_\_\_
- A)  $I^d + G$ .                              B)  $Y - I^d - G$ .                              C)  $C^d + I^d + G$ .                              D)  $Y - C^d - G$ .
- 6) An increase in expected future output while holding today's output constant would 6) \_\_\_\_\_
- A) increase today's desired consumption and decrease desired national saving.  
 B) increase today's desired consumption and increase desired national saving.  
 C) decrease today's desired consumption and decrease desired national saving.  
 D) decrease today's desired consumption and increase desired national saving.

- 7) An economy has government purchases of 1000. Desired national saving and desired investment are given by 7) \_\_\_\_\_
- $$S^d = 200 + 5000r + 0.10Y - 0.20G$$
- $$I^d = 1000 - 4000r$$
- When the full-employment level of output equals 5000, then the real interest rate that clears the goods market will be
- A) 16.67%.                      B) 5.56%.                      C) 1.11%.                      D) 21.11%.
- 8) A temporary decrease in government purchases would cause 8) \_\_\_\_\_
- A) a rightward shift in the saving curve and a rightward shift in the investment curve.  
 B) no shift in the saving curve, but a leftward shift in the investment curve.  
 C) a rightward shift in the saving curve, but no shift in the investment curve.  
 D) a rightward shift in the saving curve and a leftward shift in the investment curve.
- 9) If consumers foresee future taxes completely, a reduction in taxes this year that is accompanied by an offsetting increase in future taxes would cause 9) \_\_\_\_\_
- A) a rightward shift in the saving curve and a rightward shift in the investment curve.  
 B) a shift in neither the saving nor the investment curve.  
 C) no shift in the saving curve, but a rightward shift in the investment curve.  
 D) a leftward shift in the saving curve, but no shift in the investment curve.
- 10) The opportunity cost of holding currency decreases when 10) \_\_\_\_\_
- A) income decreases.                      B) wealth decreases.  
 C) the interest rate on money decreases.                      D) the interest rate on bonds decreases.
- 11) Large differences in inflation rates among countries are almost always the result of large differences in 11) \_\_\_\_\_
- A) the growth rates of real money demand.  
 B) the growth rates of nominal money supplies.  
 C) productivity.  
 D) real income growth.
- 12) When aggregate economic activity is increasing, the economy is said to be in 12) \_\_\_\_\_
- A) a contraction.                      B) a peak.                      C) an expansion.                      D) a turning point.
- 13) An economic variable that moves in the opposite direction as aggregate economic activity (down in expansions, up in contractions) is called 13) \_\_\_\_\_
- A) a leading variable.                      B) acyclical.  
 C) procyclical.                      D) countercyclical.

- 14) The *FE* line is vertical because the level of output at full employment doesn't depend on the \_\_\_\_\_ 14) \_\_\_\_\_  
 A) real interest rate. B) marginal product of labor.  
 C) real wage rate. D) level of employment.
- 15) An adverse supply shock would cause the *FE* line to \_\_\_\_\_ 15) \_\_\_\_\_  
 A) shift to the left.  
 B) remain unchanged.  
 C) shift to the right.  
 D) remain unchanged if the shock is temporary; shift to the right if the shock is permanent.
- 16) An increase in the expected future marginal product of capital would cause the *IS* curve to \_\_\_\_\_ 16) \_\_\_\_\_  
 A) remain unchanged.  
 B) remain unchanged if firms face borrowing constraints; otherwise, shift down and to the left.  
 C) shift down and to the left.  
 D) shift up and to the right.
- 17) A decline in the price of a bond causes the yield of the bond to \_\_\_\_\_ 17) \_\_\_\_\_  
 A) fall.  
 B) remain unchanged.  
 C) rise if it's a short-term bond, fall if it's a long-term bond.  
 D) rise.
- 18) You have just read that the Federal Reserve has increased the money supply to avoid a recession. 18) \_\_\_\_\_  
 For a given price level, you would expect the *LM* curve to  
 A) shift up and to the left as the real money supply falls.  
 B) shift down and to the right as the real money supply rises.  
 C) shift down and to the right as the real money supply falls.  
 D) shift up and to the left as the real money supply rises.
- 19) To reach general equilibrium, the price level adjusts to shift the \_\_\_\_\_ until it intersects with the \_\_\_\_\_ 19) \_\_\_\_\_  
 A) *FE* line; *LM* and *IS* curves B) *LM* curve; *FE* line and *IS* curve  
 C) *IS* curve; *FE* line and *LM* curve D) *ND* curve; *FE* line and *NS* curve
- 20) An increase in taxes (when Ricardian equivalence **doesn't** hold) causes the real interest rate to \_\_\_\_\_ 20) \_\_\_\_\_  
 and the price level to \_\_\_\_\_ in general equilibrium.  
 A) rise; fall B) fall; rise C) fall; fall D) rise; rise



- 27) In the efficiency wage model, if the real wage is higher than the market-clearing wage so that there is an excess supply of labor, 27) \_\_\_\_\_
- A) employers will not hire workers who are willing to work for a lower wage.
  - B) firms will replace high-paid workers with low-paid, formerly unemployed workers.
  - C) firms will demand a higher level of effort from existing employees.
  - D) firms will hire new workers at lower wages.
- 28) In the Keynesian model in the short run, a decrease in the money supply will cause 28) \_\_\_\_\_
- A) an increase in the real interest rate but no change in output.
  - B) a decrease in output and an increase in the real interest rate.
  - C) a decrease in the real interest rate and a decrease in output.
  - D) no change in either the real interest rate or output.
- 29) In the Keynesian model in the short run, a decrease in government purchases causes output to \_\_\_\_\_ and the real interest rate to \_\_\_\_\_. 29) \_\_\_\_\_
- A) fall; fall
  - B) rise; fall
  - C) fall; rise
  - D) rise; rise
- 30) An increase in the expected rate of inflation would 30) \_\_\_\_\_
- A) shift the long-run Phillips curve to the left.
  - B) shift the Phillips curve downward.
  - C) shift the Phillips curve upward.
  - D) shift the long-run Phillips curve to the right.
- 31) The argument that when policy changes, people's behavior changes so that historical relationships between macroeconomic variables will no longer hold is known as 31) \_\_\_\_\_
- A) the Phillips curve.
  - B) the Lucas critique.
  - C) hysteresis.
  - D) the policy irrelevance hypothesis.
- 32) The long-run Phillips curve is 32) \_\_\_\_\_
- A) downward sloping.
  - B) vertical.
  - C) horizontal.
  - D) upward sloping.
- 33) When the domestic currency buys fewer units of foreign currency, the 33) \_\_\_\_\_
- A) nominal exchange rate rises.
  - B) real exchange rate falls.
  - C) nominal exchange rate falls.
  - D) real exchange rate rises.

- 34) The idea that similar foreign and domestic goods, or baskets of goods, should have the same price when priced in terms of the same currency is called \_\_\_\_\_ 34) \_\_\_\_\_
- A) efficiency. B) the tragedy of the commons.  
C) purchasing power parity. D) equity.
- 35) Goods market equilibrium in the open economy occurs when \_\_\_\_\_ 35) \_\_\_\_\_
- A) desired saving minus desired investment equals net exports.  
B) desired saving equals desired investment.  
C) desired consumption equals desired investment.  
D) output equals desired consumption plus desired investment plus government spending.
- 36) When the rate of appreciation of the nominal exchange rate equals the foreign inflation rate minus the domestic inflation rate, we say there is \_\_\_\_\_ 36) \_\_\_\_\_
- A) relative purchasing power parity. B) an aggregate supply shock.  
C) purchasing power parity. D) a Phillips curve.
- 37) A shift in demand toward the home country's goods would \_\_\_\_\_ the domestic real interest rate and \_\_\_\_\_ net desired saving (desired saving less desired investment) in the economy. 37) \_\_\_\_\_
- A) lower; increase B) raise; increase C) lower; decrease D) raise; decrease
- 38) According to the classical model, an increase in the American nominal money supply would cause the nominal exchange rate to \_\_\_\_\_ and the real exchange rate to \_\_\_\_\_. 38) \_\_\_\_\_
- A) appreciate; depreciate B) appreciate; remain unchanged  
C) depreciate; remain unchanged D) depreciate; appreciate
- 39) Which of the following statements would Milton Friedman (a monetarist) agree with concerning the conduct of monetary policy? 39) \_\_\_\_\_
- A) There are long and variable lags between monetary policy actions and their economic results.  
B) Wage and price adjustments are relatively slow, so changing the money supply will have a minimal impact on the real economy.  
C) Information lags are short, enabling the central bank to respond quickly to changes in the economy.  
D) There is little uncertainty over the effect of a change in the money supply on the economy.
- 40) Monetarists suggest doing which of the following? 40) \_\_\_\_\_
- A) Use fiscal policy to combat unemployment in the short run.  
B) Maintain a steady growth rate of the money supply.  
C) Use fiscal policy to combat inflation in the long run.  
D) Use monetary policy to combat unemployment in the long run.

## Answer Key

Testname: E322\_SPRING\_2007\_FINAL EXAM

- 1) D
- 2) B
- 3) C
- 4) A
- 5) D
- 6) A
- 7) B
- 8) C
- 9) B
- 10) D
- 11) B
- 12) C
- 13) D
- 14) A
- 15) A
- 16) D
- 17) D
- 18) B
- 19) B
- 20) C
- 21) B
- 22) D
- 23) C
- 24) D
- 25) C
- 26) C
- 27) A
- 28) B
- 29) A
- 30) C
- 31) B
- 32) B
- 33) C
- 34) C
- 35) A
- 36) A
- 37) B
- 38) C
- 39) A
- 40) B