Multiple Choice: On your answer sheet darken in the letter of your choice for each question. You should choose the suggested answer that **BEST** complete the statement or answers the question.

1. Suppose that the consumer price index (CPI) is currently 210 and was 50 in 1969. Then according to the CPI, $800 today purchases the same amount of goods and services as ____________

   A. $190.48 in 1969.
   B. $400 in 1969.
   C. $761.90 in 1969.
   D. $380.95 in 1969.
   E. There is not enough information to determine this value.

2. Dena won $10,000 at a bingo game. She deposits her $10,000 winnings in her checking account so that she can use her money next year to pay her tuition. At present this is an example of money serving as ____________

   A. a transaction value.
   B. a medium of exchange.
   C. the unit of account.
   D. an investment good.
   E. a store of value.

3. Suppose that the Federal Reserve pursues active monetary policy and expects that the economy is going to experience a larger recessionary gap next quarter. If currently the Fed Funds rate is 4%, which of the following would be an appropriate response from the Federal Reserve?

   A. Sell government securities to increase the supply of money.
   B. Sell government securities to decrease the supply of money.
   C. Buy government securities to increase the supply of money.
   D. Raise the required reserve ratio to increase the supply of money.
   E. Buy government securities to decrease the supply of money.

4. Assume that banks do not hold any excess reserves. If the required reserve ratio is 5% and a new deposit of $1,000 in cash is made to bank, from cash that was previously in the hands of the public, then that deposit could lead to a **maximum** increase in M1 of __________, after it works through the entire banking system.

   A. $ 1,000
   B. $ 5,000
   C. $ 19,000
   D. $ 200
   E. $ 20,000
5. If the current account is positive for a country then that country must _______________
   A. be a closed economy.
   B. be producing less than it is consuming domestically.
   C. be producing more than it is consuming domestically.
   D. be producing just as much as it is consuming domestically.
   E. have a positive capital account.

6. One factor that does not cause potential real GDP to grow each year is _______________
   A. increases in the supply of money.
   B. increases in technology.
   C. increases in the stock of capital.
   D. increases in the labor supply.
   E. None of the above is correct.

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<tbody>
<tr>
<td>Vegetables</td>
<td>2,000</td>
<td>$1.00</td>
<td>2,100</td>
<td>$1.50</td>
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<tr>
<td>Fruits</td>
<td>2,500</td>
<td>$1.50</td>
<td>2,800</td>
<td>$2.00</td>
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<tr>
<td>Fertilizer</td>
<td>1,000</td>
<td>$1.00</td>
<td>1,200</td>
<td>$1.50</td>
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7. Assume that the fertilizer is used to produce the vegetables and fruits. Using the information given in the table above and with 2000 as the base year, what is the value of real GDP in 2009?

   A. $ 6,300
   B. $ 10,550
   C. $ 5,750
   D. $ 8,750
   E. $ 6,750

8. Suppose you borrowed $1,000 on January 1, 2009 and you had to pay the $1,000 plus interest back December 31, 2009. You expected the inflation rate for 2009 to be 4%. Which of the following situations would you be better off?

   A. An actual inflation rate of 3% and a nominal interest rate of 9%
   B. An actual inflation rate of 4% and a nominal interest rate of 9%
   C. An actual inflation rate of 8% and a nominal interest rate of 12%
   D. An actual inflation rate of 12% and a nominal interest rate of 18%
   E. Cannot determine with the given information.
9. Short-run fiscal policy involves __________________________
   A. changing government outlays (spending) or taxes to balance the budget without consideration of the equilibrium aggregate level of RGDP.
   B. issuing Federal Reserve notes to cover changes in government outlays (spending).
   C. state and local government budgets, but not the federal government.
   D. changing the monetary base.
   E. changing government outlays (spending) or taxes to alter economic activity.

10. If consumer confidence increases, the economy would likely see __________
    A. short-run aggregate supply shift rightward.
    B. potential real gross domestic product increase.
    C. short-run aggregate supply shift leftward.
    D. aggregate demand shift leftward.
    E. aggregate demand shift rightward.

11. Suppose a country is running a persistent structural government budget deficit. Over the long-run we would expect potential GDP to grow ________ and standards of living to grow ________.
    A. slower; slower
    B. faster; slower
    C. faster; faster
    D. slower; faster
    E. at the same rate; slower

12. According to the aggregate supply-aggregate demand model, expansionary fiscal policies will, in the long run, __________________
    A. increase potential GDP and decrease the price level.
    B. have the opposite effect of an expansionary monetary policy.
    C. increase both potential GDP and the price level.
    D. increase the price level and leave potential GDP unchanged.
    E. increase potential GDP and leave the price level unchanged.

13. Suppose that in a country with a population of 250 million, a working age civilian non-institutional population of 200 million, 140 million employed and 20 million unemployed. What are the labor force participation rate and the unemployment rate?
    A. 80 percent; 12.5 percent
    B. 70 percent; 12.5 percent
    C. 64 percent; 14.3 percent
    D. 64 percent; 8 percent
    E. 80 percent; 14.3 percent
This morning Sasha purchases 100 shares of Ford Motor’s stock for $2,000 and paid a $100 commission to his broker. How GDP is affected this year?

A. GDP increases by $100  
B. GDP does not change  
C. GDP increases by $1,900  
D. GDP increases by $2,000  
E. GDP increases by $2,100

If there is a permanent increase in the corporate tax (higher taxes on business), what would be the effect on the loanable funds market? (Assume that the government maintains a balanced budget.)

A. The demand for funds would increase, raising the interest rate and leading to higher private investment.  
B. The supply of funds would increase, lowering the interest rate and leading to higher private investment.  
C. The supply of funds would decrease, raising the interest rate and leading to lower private investment.  
D. The demand for funds would decrease, lowering the interest rate and leading to lower private investment.  
E. Both the demand and the supply of funds would increase, lowering the interest rate and leading to lower private investment.

Assume net exports are -$220, consumption is $5,000, tax revenues are $1,000, government purchases are $1,500, and 2008 GDP, calculated by the expenditure approach, is $8,000. We can conclude that _______________________.

A. public investment was $1,730  
B. private domestic investment was $1,940  
C. public investment was $310  
D. private domestic investment was $320  
E. private domestic investment was $1,720
If the U.S. conducts expansionary fiscal policy, it will result in a(n) ____________________

A. decreasing U.S. interest rates, which will make U.S. financial assets are more attractive to foreigners and leading to an appreciation of the dollar and an increase in U.S. net exports.
B. decreasing U.S. interest rates, which will make U.S. financial assets are less attractive to foreigners and leading to an appreciation of the dollar and an increase in U.S. net exports.
C. increasing U.S. interest rates, which will make U.S. financial assets are more attractive to foreigners and leading to a depreciation of the dollar and an increase in U.S. net exports.
D. increasing U.S. interest rates, which will make U.S. financial assets are more attractive to foreigners and leading to an appreciation of the dollar and a decrease in U.S. net exports.
E. decreasing U.S. interest rates, which will make U.S. financial assets less attractive to foreigners and leading to a depreciation of the dollar and an increase in U.S. net exports.

A technological innovation that spurs new investment in new capital would __________ and lead to increased in the growth of potential GDP.

A. reduces supply of loanable funds and increase interest rates
B. increase demand for loanable funds and increase interest rates
C. reduce demand for loanable funds and decreases interest rates
D. None of the above are correct.
E. increase supply of loanable funds and decrease interest rates

If the economy is currently at potential GDP and it experiences a positive aggregate demand shock, what happens after the shock in the short-run and long-run?

A. Real GDP is temporarily higher than potential GDP but returns to potential GDP in the long-run. The price level ends up to be the same as before the shock.
B. Real GDP is temporarily higher than potential GDP but returns to potential GDP in the long-run. The price level is lower than before the shock.
C. Real GDP is permanently higher than potential GDP, but the price level is the same as before the shock.
D. Real GDP is temporarily higher than potential GDP but returns to potential GDP in the long-run. The price level is higher than before the shock.
E. Real GDP is permanently higher than potential GDP, and the price level is higher than before the shock.
Prices of finished imported goods that are used by the average household are ________

A. not included in the CPI because most imports are raw materials.
B. not included in the CPI because different countries choose different base periods.
C. included in the CPI.
D. not included in the CPI because the goods were produced outside the country.
E. not included in the CPI because import prices are not denominated in U.S. dollars.
MULTIPLE CHOICE

1. A
2. E
3. C
4. C
5. C
6. A
7. A
8. C
9. E
10. E
11. A
12. D
13. A
14. A
15. D
16. E
17. D
18. B
19. D
20. C