**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 John lost his job due to a general downturn in the economy and Joe quits his job to give him time to look for a company with a better work environment. From this information John is best classified as __________ unemployed and Joe is best classified as __________ unemployed.

A) structurally; frictionally
B) frictionally; frictionally
C) cyclically; frictionally
D) cyclically; cyclically
E) structurally; cyclically

2) Suppose the CPI of an economy is calculated using the fixed basket of goods below because it has been shown to accurately reflect past consumption behavior of the average American:

<table>
<thead>
<tr>
<th>Goods</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pizza</td>
<td>30</td>
</tr>
<tr>
<td>Textbook</td>
<td>10</td>
</tr>
<tr>
<td>Movie tickets</td>
<td>7</td>
</tr>
</tbody>
</table>

Suppose that due to the current recession, consumers cut back on movie tickets despite their falling prices. At the same time, since more people go back to school during the recession, textbook purchases increase along with higher textbook prices. Which of the following is true about the CPI?

A) CPI understates the true cost of living
B) CPI overstates the true cost of living
C) CPI decreases
D) CPI increases
E) not enough information to decide

3) Refer to the above Table, the fictional economy only produces two products: potatoes and shirts. Real GDP for this fictional economy for 2000 using 2008 as the base year equals

<table>
<thead>
<tr>
<th>Year</th>
<th>Potatoes Produced</th>
<th>Price of Potatoes (Dollars)</th>
<th>Shirts Produced</th>
<th>Price of Shirts (Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,800</td>
<td>$0.90</td>
<td>110</td>
<td>$30</td>
</tr>
<tr>
<td>2008</td>
<td>2,000</td>
<td>$1.10</td>
<td>120</td>
<td>$35</td>
</tr>
</tbody>
</table>

A) $5,830 B) $4,920 C) $6,000 D) $5,400 E) $6,400
4) Suppose the President and Congress decide to spend an additional $127 billion to fight the *war on terrorism*, what effect does this have on aggregate demand-aggregate supply model in the short run?

A) Price level falls, output rises and employment rises.
B) Price level falls, output falls and employment falls.
C) Price level rises, output rises and employment rises.
D) Price level rises, output falls and employment falls.
E) Price level may rise or fall, output rises and employment rises.

5) When referring to government budgets, the term *crowding-out effect* refers to the reduction in

A) aggregate supply that results when a monetary expansion causes the interest rate to decrease
B) aggregate demand that results when a monetary expansion causes the interest rate to decrease
C) aggregate demand that results when a fiscal expansion causes the interest rate to increase
D) aggregate demand that results when a decrease in government spending or an increase in taxes causes the interest rate to increase
E) aggregate demand that results when an increase in government spending or an increase in the Fed purchasing bonds causes the interest rate to increase

6) Which of the following combinations always shift aggregate demand right? Net exports _____ for some reason other than a price change and the money supply _____.

A) rise; rises
B) rise; falls
C) fall; rises
D) fall; is unchanged
E) fall; falls

7) President Nicholas is running for re-election against Senator Grinch. Nicholas proclaims that more people are working now than when he took office. Grinch says that the unemployment rate is higher now than when Nicholas took office. You conclude that

A) one of them must be lying
B) both of them could be telling the truth if the labor force and employment grew at the exact same rate
C) both of them could be telling the truth if the labor force grew slower than employment
D) both of them could be telling the truth if the labor force grew faster than employment
E) both of them could be telling the truth if the number of discouraged workers increased
8) In 1970 the CPI equaled 40 and in 2008 equaled 215. Suppose the Adams family purchased their house in 1970 for $50,000. What is this 1970 purchase price equivalent to in 2008 dollars?

A) $20,000
B) $107,500
C) $200,000
D) $268,750
E) Not enough information

9) Suppose the federal government reduces its spending in order to balance its budget. If the Federal Reserve wants to completely offset the effects of this policy in terms of economic growth, unemployment and inflation, what should the Fed do?

A) purchase bonds or raise the required reserve ratio
B) sell bonds or raise the required reserve ratio
C) purchase bonds or lower the required reserve ratio
D) sell bonds or lower the required reserve ratio
E) None of the above

10) Suppose the exchange rate between the U.S. dollar and the Euro changes from 0.8 Euros per dollar to 0.9 Euros per dollar. As a result this makes U.S exports _____ expensive in Europe and European imports _____ in the US _______ net exports.

A) more; cheaper; increasing
B) less; cheaper; increasing
C) less; more expensive; decreasing
D) more; cheaper; decreasing
E) less; more expensive; increasing

11) If the economy is experiencing a recession, which of the following would be an appropriate fiscal policy?

A) An increase in the money supply
B) An increase in the government purchases
C) An increase in the income tax rate
D) A decrease in defense spending
E) A decrease in interest rates

12) Which of the following would you expect to decrease business investment?

A) A change from an income tax to consumption tax
B) An increase in the profitability of new investment
C) An increase in the federal government budget deficit
D) An increase in the percentage of income after net taxes that household save
E) An increase in the federal government budget surplus
13) In the long run, a country will experience an increasing standard of living only if it experiences

A) continuous technological progress
B) a high rate of consumption
C) a slow rate of population growth
D) a high level of foreign debts
E) a low rate of income tax

14) In the US, when the world price of crude oil rises unexpectedly, the equilibrium price level ______ and the unemployment rate ______ in the short run.

A) rises; rises
B) falls; rises
C) rises; falls
D) falls; falls
E) rises; does not change

15) Geopolitical uncertainty drives oil prices higher that result in an aggregate supply shock. In response, the Federal Reserve increases its target interest rate. In the short run, relative to the short run equilibrium situation if the Federal Reserve undertakes no action, output (RGDP) ______ and the price level ______.

A) increases; increases
B) increases; decreases
C) decreases; increases
D) decreases; decreases
E) unchanged; decreases

16) Assume the current exchange is $1 = 1Euro. When the Fed tightens U.S. monetary policy, domestic interest rates ______ making U.S. assets relatively more attractive to European investors and _____ the equilibrium exchange rate

A) rise; increasing
B) fall; increasing
C) fall; decreasing
D) rise; decreasing
E) rise; unchanged
17) Suppose that for the economy of Bloomington, we have the following information for 2009: consumption expenditures = $4,000; wages = $3,500; gross private domestic investment = $1,300; government expenditures = $2,000; exports = $900; imports = $1,100. What would the Gross Domestic Product (GDP) be for Bloomington in 2009?

A) $6,200
B) $7,100
C) $7,500
D) $10,600
E) $12,800

18) If prices are fixed in the short run and the marginal propensity to consume is 0.75 and government purchases increase by $200 billion, then equilibrium real Gross Domestic Product (GDP)

A) increases by $800 billion
B) increases by $200 billion
C) increases by $50 billion
D) increases by $150 billion
E) cannot be determined from the given information

19) If the actual (real world) money multiplier equals the simple money (deposit) money multiplier and if the Fed wishes to reduce the money supply by $1 million when required reserves are 20 percent, then the Fed should

A) sell $200,000 of government securities
B) buy $200,000 of government securities
C) sell $1,000,000 of government securities
D) sell $500,000 of government securities
E) buy $500,000 of government securities

20) If interest rates and investment rise, which of the following could explain these changes?

A) The government instituted an investment tax credit
B) The government went from surplus to deficit
C) The government reduced the tax rate on savings
D) The Federal Reserve buys bonds
E) None of the above is correct
1) C
2) A
3) A
4) C
5) C
6) A
7) D
8) D
9) C
10) D
11) B
12) C
13) A
14) A
15) D
16) A
17) B
18) A
19) A
20) A