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 there is a sharp and sudden increase in the price of oil. If the central bank’s primary objective is to maintain stable prices (low stable inflation rate), they should __________ target interest rates. If, however, the central bank’s primary objective is to maintain stable output, they should ________ target interest rates.

A) decrease; decrease  
B) decrease; not change  
C) decrease; increase  
D) increase; decrease  
E) not change; increase

2) Suppose that last year real GDP grew more in Country A than in Country B.

A) Country A must now have a higher standard of living than Country B.  
B) Country A now has a higher standard of living than Country B, but only if population was constant in both countries.  
C) Country A must have experienced more growth in labor productivity than Country B.  
D) Country A experienced more growth in labor productivity than Country B, but only if the labor force in Country A did not grow faster than the labor force in Country B.  
E) None of the choices are consistent with this supposition.

3) In the 1980’s, ATM’s became more prevalent so that households held less of their wealth in the form of cash, and more in the form of checking deposits. If there was no monetary policy action taken of any sorts, the effect of these ATM’s would have on the economy would lead to __________________ unemployment and ____________ inflation rates (and nominal prices in general) in the short-run.

A) increase; increase  
B) decrease; increase  
C) increase; decrease  
D) decrease; decrease  
E) no change; no change

4) The United States currently runs a trade deficit. This means that

A) The U.S. is a net borrower and exports are greater than imports.  
B) The U.S. is a net borrower and exports are less than imports.  
C) The U.S. is a net lender and exports are greater than imports.  
D) The U.S. is a net lender and exports are less than imports.  
E) The U.S. is a net borrower and exports are either greater or less than imports.
5) Assume that each year the inflation rate is positive. Also, let the base year upon which real GDP is computed be 1984. Which of the following is (are) true?

I. 1982’s nominal GDP exceeds 1982’s real GDP.
II. 1982’s nominal GDP is less than 1982’s Real GDP.
III. 1986’s nominal GDP exceeds 1982’s real GDP.
IV. 1986’s nominal GDP is less than 1982’s Real GDP.
V. 1986’s nominal GDP is more than 1982’s nominal GDP.

A) I and IV only
B) I and III only
C) II and IV only
D) II only
E) V only

6) Which of the following is more likely to lead to a decrease in unemployment in the United States?

A) An economic recession in Canada, who is a primary U.S. trading partner.
B) A permanent extension of unemployment benefits in the U.S.
C) The U.S. Federal Reserve purchases of U.S. securities from the public.
D) An increase in U.S. federal income taxes.
E) None of the above.

7) Other things the same, if people decide to hold more of their wealth in the form of currency (M1), then in the short-run

A) the money demand decreases and aggregate demand decreases.
B) the money demand decreases and aggregate demand increases.
C) the money demand increases and aggregate demand decreases.
D) the money demand increases and aggregate demand increases.
E) the money demand does not change and aggregate demand decreases.

8) Which of the following are viable policies for improving long-run economic growth prospects in the United States?

I. Restrict the importation of goods and services to protect US workers.
II. Reduce the government budget deficit by reducing government spending on non-investment projects.
III. Eliminate the capital gains tax and pay for it by reducing government transfers to the poor.

A) I only
B) I and II only
C) I, II, and III
D) II and III only
E) III only
9) If the government budget deficit decreases, then the level of

A) investment, the level of national saving, and the interest rate increase.
B) investment, the level of national saving, and the interest rate decrease.
C) investment and the level of national saving increase, and the interest rate decreases.
D) investment and the level of national saving decrease, and the interest rate increases.
E) investment increases, and the level of national saving and the interest rate decrease.

10) In 1972 in Riverside, Iowa one could buy a bag of chips, a pound of hamburger, a package of buns, and a small bag of charcoal for about $2.50. If the same goods today cost about $6.00, which pair of CPIs would accurately reflect the change in the nominal price of this bundle of goods?

A) 60 in 1972 and 150 today
B) 65 in 1972 and 156 today
C) 90 in 1972 and 145.8 today
D) 83 in 1972 and 145.8 today.
E) None of the above is correct.

11) Ralph puts money in the bank and earns a 5 percent nominal interest rate for one year. Then after one year, if the inflation rate was 3 percent,

A) Ralph will have 3 percent more money, which will purchase 2 percent more goods.
B) Ralph will have 3 percent more money, which will purchase 8 percent more goods.
C) Ralph will have 5 percent more money, which will purchase 2 percent more goods.
D) Ralph will have 5 percent more money, which will purchase 8 percent more goods.
E) Ralph will have 8 percent more money, which will purchase 8 percent more goods.

12) In a certain economy in 2005, households spent $1,000 on goods and services; purchases of capital equipment, inventories, and structures amounted to $350; government spent $450 on goods and services; and the value of imports is $230 and the value of exports is $180. It is also known that depreciation was $100. Given this information, this economy’s 2005 GDP was

A) $1,850.
B) $1,980.
C) $2,210.
D) $1,750.
E) $1,650.
13) Suppose some country had a non-institutionalized population adult population of about 25 million, the labor-force participation rate was 60 percent, and the unemployment rate was 6 percent. What were the number of people employed and the number of people in the labor force?

A) 11.75 million, and 12.5 million  
B) 13.5 million and 15 million  
C) 14 million, and 12.5 million  
D) 23.5 million, and 15 million  
E) 14.1 million, and 15 million

14) If the reserve ratio is 20 percent, and banks do not hold excess reserves, then when the Fed sells $40 million of bonds to the public, after the banking system moves to being once again fully loaned out the bank reserves will ___________ and the money supply will _______.

A) increase by $40 million; increase by $200 million.  
B) increase by $40 million; increase by $160 million.  
C) decrease by $40 million; decrease by $200 million.  
D) decrease by $40 million; decrease by $800 million.  
E) decrease by $40 million; decrease by $160 million.

15) Exchange rates are 120 yen per dollar, 0.8 euro per dollar, and 10 pesos per dollar. If the price for a bottle of beer is 6 dollars in New York, 1,200 yen in Tokyo, 7.2 euro in Munich, and 50 pesos in Cancun, then beer is most expensive in __________ and least expensive in __________.

A) Tokyo, Cancun  
B) Cancun, New York  
C) New York, Tokyo  
D) Munich, New York  
E) Tokyo, New York

16) If the government of Syria conducts successful expansionary fiscal policy, then the exchange rate of the Syrian pound would

A) depreciate and Syrian net exports would rise.  
B) depreciate and Syrian net exports would fall.  
C) appreciate and Syrian net exports would rise.  
D) appreciate and Syrian net exports would fall.  
E) appreciate and Syrian net exports would not change.

17) Aggregate demand would be expected to shift to the right when the

A) central bank increases the money supply (growth rate of money).  
B) federal government raises personal income taxes.  
C) federal government repeals an investment tax credit.  
D) central bank increases target interest rates.  
E) None of the above is correct.
18) Suppose the economy is in long-run equilibrium. If workers and producers expect higher inflation, then we would expect to see the

A) aggregate demand curve to increase and the price level (inflation rate) will rise.
B) short run aggregate supply curve to decrease and the price level (inflation rate) will rise.
C) short run aggregate supply curve to increase and the price level (inflation rate) will fall.
D) aggregate demand curve to decrease and the price level (inflation rate) will fall.
E) short run aggregate supply curve to decrease and the aggregate demand curve to increase and the price level (inflation rate) rise, fall, or stay the same.

19) If the Fed conducts open-market sales, which of the following increase in the short-run?

A) interest rates, inflation
B) interest rates and inflation
C) interest rates and real GDP
D) interest rates
E) real GDP or inflation

20) Which of the following active fiscal policies could be pursued when the economy is experiencing cyclical unemployment?

A) a decrease in the money supply
B) a reduction in income tax rates
C) a decrease in government purchases
D) an increase in the money supply
E) an increase in unemployment benefits
1) D  
2) D  
3) B  
4) B  
5) D  
6) C  
7) C  
8) D  
9) C  
10) B  
11) C  
12) D  
13) E  
14) C  
15) A  
16) D  
17) A  
18) B  
19) D  
20) B