Commerce College Joint Economics Exam 100-2

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

1. If aggregate planned expenditures are less than the level of real GDP,
   a. real GDP and income will increase.
   b. real GDP and income remain unchanged.
   c. real GDP and income will either decrease or remain unchanged, depending on the MPC.
   d. inventories will increase above their target level and real GDP will decrease.

2. Last summer when you went to Stockholm Sweden you exchanged $20 to get 16 kronas to buy a meal. This summer you exchanged $25 to get 18 kronas to buy the same meal. The nominal exchange rate
   a. rose. If purchasing-power parity holds, than prices in the Sweden rose faster than prices in the U.S.
   b. rose. If purchasing-power parity holds, than prices in the U.S. rose faster than prices in the Sweden.
   c. fell. If purchasing-power parity holds, than prices in the Sweden rose faster than prices in the U.S.
   d. fell. If purchasing-power parity holds, than prices in the U.S. rose faster than prices in the Sweden.

3. The change in aggregate demand that results form fiscal expansion changing the interest rate is called the
   a. multiplier effect
   b. crowding-out effect
   c. accelerator effect
   d. Ricardian equivalence effect
Refer to Figure 1. A decrease in Y from Y1 to Y2 is explained as follows:

a. The Federal Reserve increases the money supply, causing the money-demand curve to shift from MD1 to MD2; this shift of MD causes r to increase from r1 to r2; and this increase in r causes Y to decrease from Y1 to Y2.

b. An increase in P from P1 to P2 causes the money-demand curve to shift from MD1 to MD2; this shift of MD causes r to increase from r1 to r2; and this increase in r causes Y to decrease from Y1 to Y2.

c. A decrease in P from P2 to P1 causes the money-demand curve to shift from MD1 to MD2; this shift of MD causes r to increase from r1 to r2; and this increase in r causes Y to decrease from Y1 to Y2.

d. An increase in the price level causes the money-demand curve to shift from MD2 to MD1; this shift of MD causes r to decrease from r2 to r1; and this decrease in r causes Y to decrease from Y1 to Y2.

Refer to Figure 1. Assume the money market is always in equilibrium, and suppose r1 = 0.08; r2 = 0.12; Y1 = 13,000; Y2 = 10,000; P1 = 1.0; and P2 = 1.2. Which of the following statements is correct?

a. When r = r2, nominal output is higher than it is when r = r1.

b. When r = r2, real output is higher than it is when r = r1.

c. When r = r2, the expected rate of inflation is higher than it is when r = r1.

d. If the velocity of money is 4 when r = r2, then the quantity of money is $3,000.
6. The purchasing power parity theory is a good predictor of
   a. the long-run tendencies between changes in the price level and the exchange rate of two countries.
   b. interest rate differentials between two countries when there are strong barriers preventing trade between the two countries.
   c. how intervention in exchange markets by central banks influences prices in various countries.
   d. the day-to-day relationship between changes in the price level and the exchange rate of two countries.

7. The United States has imposed taxes on some imported goods that have been sold here by foreign countries at below their cost of production. These taxes
   a. benefit the United States as a whole, because they generate revenue for the government. In addition, because the goods are priced below cost, the taxes do not harm domestic consumers.
   b. benefit the United States as a whole, because they generate revenue for the government and increase producer surplus.
   c. harm the United States as a whole, because they reduce consumer surplus by an amount that exceeds the gain in producer surplus and government revenue.
   d. harm the United States as a whole, because they reduce producer surplus by an amount that exceeds the gain in consumer surplus and government revenue.

8. Which of the following shifts aggregate demand to the left?
   a. an increase in the price level
   b. a decrease in the money supply
   c. an increase in net exports
   d. Congress passes a new investment tax credit

9. In 1998 the Russian government defaulted on its bonds. According to the open-economy macroeconomic model, this should have
   a. increased Russian interest rates and net exports.
   b. reduced Russian interest rates and net exports.
   c. increased Russian interest rates and reduced Russian net exports.
   d. reduced Russian interest rates and increased Russian net exports.

10. Initially, the economy is in long-run equilibrium. Aggregate demand then shifts leftward by $50 billion. The government wants to increase its spending in order to avoid a recession. If the crowding-out effect is always half as strong as the multiplier effect, and if the MPC equals 0.8, then by how much do government purchases have to increase in order to offset the $50 billion leftward shift?
    a. by $5 billion
    b. by $10 billion
    c. by $20 billion
    d. by $50 billion

11. Which list contains only actions that decrease the money supply
    a. lower the discount rate, make open-market purchases
    b. lower the discount rate, make open-market sales
    c. raise the discount rate, make open-market purchases
    d. raise the discount rate, make open-market sales
12. If desired investment equals 500, desired saving equals 400, desired consumption equals 1,800, and desired net exports are -100, for equilibrium national income to be 2,500, government spending must be
   a. -100.
   b. 100.
   c. 200.
   d. 300.

13. Policymakers who control monetary and fiscal policy and want to offset the effects on output of an economic contraction caused by a shift in aggregate supply could use policy to shift
   a. aggregate supply to the right.
   b. aggregate supply to the left.
   c. aggregate demand to the right.
   d. aggregate demand to the left.

14. Other things the same, a country could move from having a trade surplus to having a trade deficit if either
   a. saving rose or domestic investment rose.
   b. saving rose or domestic investment fell.
   c. saving fell or domestic investment rose.
   d. saving fell or domestic investment fell.

15. Savings deposits are included in
   a. M1 but not M2.
   b. M2 but not M1.
   c. both M1 and M2.
   d. neither M1 nor M2.

16. Economists consider an economy to be at full employment when
   a. all individuals actively seeking a job have one.
   b. all individuals between the ages of 16 and 70 are employed.
   c. both frictional unemployment and structural unemployment are equal to zero.
   d. the only types of unemployment in the economy are frictional and structural unemployment.

17. According to the liquidity preference theory, equilibrium in the money market is achieved by adjustments in
   a. the price level
   b. the interest rate
   c. the exchange rate
   d. real wealth

18. The Consumer Price Index measures the level of prices in a given year relative to some base year and is calculated using a weighted average of prices for a typical bundle of goods. The weights are
   a. the same for each good.
   b. equal to the share of income spent on each good in the base year.
   c. equal to the share of income spent on each good in the current year.
   d. different across goods but assigned randomly.
19. Which of the following would **not** be included in measures of the consumption component of aggregate expenditure?
   a. expenditures for new houses
   b. expenditures for services
   c. expenditures for durable goods, such as automobiles
   d. expenditures for nondurable goods, such as fresh food

20. If the reserve ratio is 8 percent, banks do not hold excess reserves, and people do not hold currency, then when the Fed purchases $20 million of government bonds, bank reserves
   a. increase by $20 million and the money supply eventually increases by $250 million.
   b. decrease by $20 million and the money supply eventually increases by $250 million.
   c. increase by $20 million and the money supply eventually decreases by $250 million.
   d. decrease by $20 million and the money supply eventually decreases by $250 million.

21. Meredith is looking for work as a computer programmer. Although her prospects are good she hasn't yet taken a job. Julie is looking for work in a steel mill. Every time she shows up for an interview there are more people looking for work than there are openings. Someone waiting in line with her tells her its been that way a long time.
   a. Meredith and Julie are both frictionally unemployed.
   b. Meredith and Julie are both structurally unemployed.
   c. Meredith is frictionally unemployed, and Julie is structurally unemployed.
   d. Meredith is structurally unemployed, and Julie is frictionally unemployed.

22. Given a constant price level, if desired aggregate expenditure exceeds total output, we would expect
   a. inventories to rise, and then production, employment, and income to rise.
   b. inventories to fall, and then production, employment, and income to fall.
   c. inventories to rise, and then production, employment, and income to fall.
   d. inventories to fall, and then production, employment, and income to rise.

23. Imagine that business in general believe that the economy is likely to head into recession and so they reduce capital purchases. Their reaction would initially shift
   a. aggregate demand right
   b. aggregate demand left
   c. aggregate supply right
   d. aggregate supply left

24. The residents of country A earn $500 million of income from abroad. Residents of other countries earn $200 million in country A. These earnings are accounted for in country A’s
   a. GNP which is larger than GDP in country A.
   b. GNP which is smaller than GDP in country A.
   c. GDP which is larger than GNP in country A.
   d. GDP which is smaller than GNP in country A.
25. Mary Sue is the newly appointed CEO of a company that manufactures CD drives on an assembly line. Her staff has told her that the output the firm produces, given the number of workers employed, indicates that some workers may be shirking. According to efficiency wage theory, what should she do?
   a. pay all workers more than the equilibrium wage rate
   b. pay all workers below the equilibrium wage rate to make up for the loss from shirking
   c. make sure that workers are getting paid exactly the equilibrium wage rate
   d. None of the above is correct according to efficiency wage theory.

26. Other things the same, a decrease in the price level causes the interest rate to
   a. increase, the dollar to appreciate, and net exports to increase.
   b. increase, the dollar to depreciate, and net exports to decrease.
   c. decrease, the dollar to depreciate, and net exports to increase.
   d. decrease, the dollar to appreciate, and net exports to decrease.

27. Recently Greece ran large deficits and people became worried about the ability of its government to make payments on its debt. Which of these events reduces a country’s real exchange rate?
   a. an increase in the budget deficit, and increased concerns about the ability of the government to pay back its debt
   b. an increase in the budget deficit, but not increased concerns about the ability of the government to pay back its debt
   c. increased concerns about the ability of the government to pay back its debt, but not an increase in the budget deficit
   d. neither an increase in the budget deficit, nor increased concerns about the ability of the government to pay back its debt

28. If inflation expectations decline, then the short-run Phillips curve shifts
   a. left, meaning that at any given inflation rate unemployment will be lower in the short run than before.
   b. right, meaning that at any given inflation rate unemployment will be lower in the short run than before.
   c. right, meaning that at any given inflation rate unemployment will be higher in the short run than before.
   d. left, meaning that at any given inflation rate unemployment will be higher in the short run than before.

29. In December 1999 people feared that there might be computer problems at banks as the century changed. Consequently, people wanted to hold relatively more in currency and relatively less in deposits. In anticipation banks raised their reserve ratios to have enough cash on hand to meet depositors' demands. These actions by the public
   a. would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
   b. would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.
   c. would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
   d. would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.
30. According to monetary neutrality and the Fisher effect, an increase in the money supply growth rate eventually increases
   a. inflation, nominal interest rates, and real interest rates.
   b. inflation and nominal interest rates, but does not change real interest rates.
   c. inflation and real interest rates, but does not change nominal interest rates.
   d. neither inflation, nominal interest rates, or real interest rates.

31. According to purchasing-power parity, which of the following necessarily equals the ratio of the foreign price level divided by the domestic price level?
   a. the real exchange rate, but not the nominal exchange rate
   b. the nominal exchange rate, but not the real exchange rate
   c. the real exchange rate and the nominal exchange rate
   d. neither the real exchange rate nor the nominal exchange rate

32. For the quantity theory of money to yield useful predictions,
   a. fiscal policy must be ineffective in altering aggregate demand.
   b. fiscal policy must be effective in altering aggregate demand.
   c. the economy must be operating at the potential level of real Gross Domestic Product.
   d. velocity must be stable or predictable.

33. If the government reduced the minimum wage and pursued contractionary monetary policy, then in the long run
   a. both the unemployment rate and the inflation rate would be lower.
   b. the unemployment rate would be lower and the inflation rate would be higher.
   c. the unemployment rate would be higher and the inflation rate would be lower.
   d. the unemployment rate and the inflation rate would be higher.

34. Suppose a Starbucks tall latte cost $4.00 in the United States and 3.20 euros in the Euro area. Also, suppose a McDonald's Big Mac costs $3.50 in the United States and 2.45 euros in Euro area. If the nominal exchange rate is .80 euros per dollar, which goods have prices that are consistent with purchasing power parity?
   a. Both the tall latte and the Big Mac.
   b. Neither the tall latte nor the Big Mac.
   c. The tall latte but not the Big Mac.
   d. The Big Mac but not the tall latte.

35. When the aggregate expenditure function becomes steeper, the simple national income multiplier becomes
   a. smaller.
   b. larger.
   c. less predictable.
   d. non-convergent.

36. If speculators gained greater confidence so that they wanted to buy more assets of foreign countries and fewer U.S. bonds,
   a. the dollar would appreciate which would cause aggregate demand to shift right
   b. the dollar would appreciate which would cause aggregate demand to shift left
   c. the dollar would depreciate which would cause aggregate demand to shift right
   d. the dollar would depreciate which would cause aggregate demand to shift left
37. An aide to a U.S. Senator computes the effect on aggregate demand of a $20 billion tax cut. The actual increase in aggregate demand is less than the aide expected. Which of the following errors in the aide's computation would be consistent with an overestimation of the impact on aggregate demand?
   a. The actual MPC was larger than the MPC the aide used to compute the multiplier.
   b. The aide thought the tax cut would be permanent, but the actual tax cut was temporary.
   c. The increase in income shifted money demand less than the aide had anticipated.
   d. The increase in income resulted in investment rising more than the aide had anticipated.

38. Chile is an importer of computer chips, taking the world price of $12 per chip as given. Suppose Chile imposes a $7 tariff on chips. Which of the following outcomes is possible?
   a. The price of chips in Chile increases to $19; the quantity of Chilean-produced chips decreases; and the quantity of chips imported by Chile decreases.
   b. The price of chips in Chile increases to $16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
   c. The price of chips in Chile increases to $19; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
   d. The price of chips in Chile increases to $16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile does not change.

39. Which of the following will decrease U.S. net capital outflow?
   a. capital flight from the United States
   b. the government budget deficit increases
   c. the U.S. imposes import quotas
   d. None of the above is correct.

40. The GNP, as measured, understates the total production of goods and services for all but which of the following reasons?
   a. No allowances are included for the services of owner-occupied homes.
   b. Illegal activities are ruled out of the GNP estimate.
   c. Legal production in the “underground economy” is not reported for income tax purposes.
   d. Nonmarketed services of housewives or househusbands are not included.

41. If you deposit $100 into a demand deposit at a bank, this action by itself
   a. does not change the money supply.
   b. increases the money supply.
   c. decreases the money supply.
   d. has an indeterminate effect on the money supply.

42. One bag of flour is sold for $1.00 to a bakery, which uses the flour to bake bread that is sold for $3.00 to consumers. A second bag of flour is sold for $1 to a grocery store who sells it to a consumer for $2.00. Taking these four transactions into account, what is the effect on GDP?
   a. GDP increases by $3.00.
   b. GDP increases by $5.00.
   c. GDP increases by $6.00.
   d. GDP increases by $7.00.
43. Open market purchases
   a. increase the price level and real GDP
   b. decrease the price level and real GDP
   c. increase the price level and decrease real GDP
   d. decrease the price level and increase real GDP

44. JR sells RV's. In 2010 she added $400,000 to her inventory. $100,000 of this addition was from used RV's she purchased while the remaining $300,000 was from her purchases of newly manufactured RV's. How much of JR's inventory is included in 2010 GDP?
   a. $0
   b. $100,000
   c. $300,000
   d. $400,000

45. Suppose the United States exports cars to Canada and imports bananas from Mexico. This situation suggests
   a. the United States has a comparative advantage relative to Canada in producing cars, and Mexico has a comparative advantage relative to the United States in producing bananas.
   b. the United States has a comparative advantage relative to Canada in producing bananas, and Mexico has a comparative advantage relative to the United States in producing cars.
   c. the United States has an absolute advantage relative to Canada in producing cars, and Mexico has an absolute advantage relative to the United States in producing bananas.
   d. the United States has an absolute advantage relative to Mexico in producing bananas, and Canada has an absolute advantage relative to the United States in producing cars.

46. Suppose that during the Great Depression long-run aggregate supply shifted left. To be consistent with what happened to the price level and output, what would have had to happen to aggregate demand?
   a. It would have to have shifted left by less than aggregate supply.
   b. It would have to have shifted left by more than aggregate supply.
   c. It would have to have shifted right by less than aggregate supply.
   d. It would have to have shifted right by more than aggregate supply.

47. In the short run an increase in government expenditures
   a. raises the price level, but not real GDP
   b. raise real GDP, but not the price level
   c. raises real GDP and the price level
   d. raises neither real GDP nor the price level

48. A citizen of Saudi Arabia uses previously obtained U.S. dollars to purchase apples from the United States. This transaction
   a. increases Saudi net capital outflow, and increases U.S. net exports.
   b. increases Saudi net capital outflow, and decreases U.S. net exports.
   c. decreases Saudi net capital outflow, and increases U.S. net exports.
   d. decreases Saudi net capital outflow, and decreases U.S. net exports.
___ 49. An example of frictional unemployment is
   a. GM workers idled because of slow car sales.
   b. Pittsburgh steelworkers laid off by a plant closing.
   c. a teenager who has quit work at McDonald's, temporarily waiting to take a job
      next week at the car wash.
   d. inner-city welfare mothers taking classes to earn high-school equivalency
      degrees.

___ 50. Suppose that the nominal exchange rate is 80 yen per dollar, that the price of a basket of goods in
   the U.S. is $500 and the price of a basket of goods in Japan is 50,000 yen. Suppose that these
   values change to 100 yen per dollar, $600, and 70,000 yen. Then the real exchange rate would
   a. appreciate which by itself would make U.S. net exports fall.
   b. appreciate which by itself would make U.S. net exports rise.
   c. depreciate which by itself would make U.S. net exports fall.
   d. depreciate which by itself would make U.S. net exports rise.
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Answer Section

MULTIPLE CHOICE

1. ANS: D  REF: 3-1  TOP: 3. 凱因斯模型
2. ANS: D  REF: 9-1  TOP: 9. 國際金融 International finance
3. ANS: B  REF: 7-1  TOP: 7. 財政政策與貨幣政策
4. ANS: B  REF: 7-2  TOP: 7. 財政政策與貨幣政策
5. ANS: D  REF: 7-2  TOP: 7. 財政政策與貨幣政策
7. ANS: C  REF: 8-1  TOP: 8. 國際貿易 International trade
8. ANS: B  REF: 6-2  TOP: 6. 總合供需模型 Aggregate supply and demand
10. ANS: C  REF: 7-2  TOP: 7. 財政政策與貨幣政策
11. ANS: D  REF: 4-2  TOP: 4. 貨幣與銀行 Money and banking
12. ANS: D  REF: 3-2  TOP: 3. 凱因斯模型 Keynesian model
13. ANS: C  REF: 2-1  TOP: 2. 充分就業模型
14. ANS: C  REF: 8-2  TOP: 8. 國際貿易 International trade
15. ANS: B  REF: 4-2  TOP: 4. 貨幣與銀行 Money and banking
16. ANS: D  REF: 1-2  TOP: 1. 總體經濟與總體指標
17. ANS: B  REF: 7-1  TOP: 7. 財政政策與貨幣政策
18. ANS: B  REF: 1-2  TOP: 1. 總體經濟與總體指標
20. ANS: A  REF: 4-1  TOP: 4. 貨幣與銀行 Money and banking
21. ANS: C  REF: 2-2  TOP: 2. 充分就業模型
22. ANS: D  REF: 3-2  TOP: 3. 凱因斯模型 Keynesian model
23. ANS: B  REF: 6-1  TOP: 6. 總合供需模型 Aggregate supply and demand
24. ANS: A  REF: 1-1  TOP: 1. 總體經濟與總體指標
25. ANS: A  REF: 2-2  TOP: 2. 充分就業模型
27. ANS: C  REF: 9-1  TOP: 9. 國際金融 International finance
28. ANS: A  REF: 2-2  TOP: 2. 充分就業模型
29. ANS: D  REF: 4-1  TOP: 4. 貨幣與銀行 Money and banking
30. ANS: B  REF: 5-1  TOP: 5. 通貨膨脹 Inflation
31. ANS: B  REF: 8-2  TOP: 8. 國際貿易 International trade
32. ANS: D  REF: 5-2  TOP: 5. 通貨膨脹 Inflation
33. ANS: A  REF: 2-2  TOP: 2. 充分就業模型
34. ANS: C  REF: 9-1  TOP: 9. 國際金融 International finance
35. ANS: B  REF: 3-2  TOP: 3. 凱因斯模型 Keynesian model
36. ANS: C  REF: 6-1  TOP: 6. 總合供需模型 Aggregate supply and demand
37. ANS: B  REF: 7-2  TOP: 7. 財政政策與貨幣政策
38. ANS: C  REF: 8-1  TOP: 8. 國際貿易 International trade
40. ANS: A  REF: 1-2  TOP: 1. 總體經濟與總體指標
41. ANS: A  REF: 4-2  TOP: 4. 貨幣與銀行 Money and banking
42. ANS: B  REF: 1-1  TOP: 1. 總體經濟與總體指標
43. ANS: A  REF: 7-1  TOP: 7. 財政政策與貨幣政策
44. ANS: C  REF: 1-1  TOP: 1. 總體經濟與總體指標
45. ANS: A  REF: 8-1  TOP: 8. 国際貿易 International trade
46. ANS: B  REF: 2-1  TOP: 2. 充分就業模型
47. ANS: C  REF: 7-1  TOP: 7. 財政政策與貨幣政策
48. ANS: C  REF: 9-1  TOP: 9. 国際金融 International finance
49. ANS: C  REF: 1-2  TOP: 1. 総體経済與總體指標
50. ANS: A  REF: 9-1  TOP: 9. 国際金融 International finance