

Macroeconomics

1. All except one of the following are in the area of macroeconomics. Which is the exception?
- a. Why unemployment rises during recession.
 - b. Effects of inflation on people and economic activity.
 - c. The cycles of recession and expansion since World War II.
 - * d. Expansion of the application of computers to health care diagnoses.
 - e. None of the above.

2. Normative statements in economics are
- a. the result of the scientific method.
 - b. derived by the inductive method.
 - c. based upon careful observation and testing, though such statements have not yet gained the status of a 'law'.
 - * d. based upon subjective values or opinions.
 - e. related to macroeconomics but not microeconomics.

3. "If you can gain more business and profit by lowering your price by 10%, so can all the others in your line of business." This statement is vulnerable to
- a. the post hoc fallacy.
 - b. the law of diminishing returns.
 - c. Occam's Razor.
 - * d. the fallacy of composition.
 - e. normative fallacy limitation.

4. Consider the production possibilities table at the right. As wheat production is increased from 8 to 12 bushels, each added bushel of wheat requires the sacrifice of how much corn output?
- | Alternative | A | B | C | D | E |
|-----------------|----|----|----|----|----|
| Wheat (bushels) | 0 | 4 | 8 | 12 | 16 |
| Corn (bushels) | 40 | 38 | 33 | 21 | 0 |
- a. 12
 - b. 4
 - * c. 3
 - d. 1.6
 - e. 1/3

5. All except one of the following will cause the production possibilities curve to shift. Which is the exception?
- * a. Recovery from a recession.
 - b. Decrease in skilled labor.
 - c. Increased capital stock.
 - d. Discovery of new inexpensive energy sources.
 - e. None of the above.

6. Points outside the production possibilities curve indicate
- a. inflation.
 - b. combinations of outputs that can be achieved only when prices rise.
 - c. outputs that can be produced only if prices fall.
 - * d. output combinations that cannot be produced currently.

7. The demand for cabbage would be expected to shift to the right if
- a. people's incomes fall and cabbage is a normal good.
 - * b. the price of a complement such as corned beef falls.
 - c. good weather increases cabbage production and cabbage prices fall.

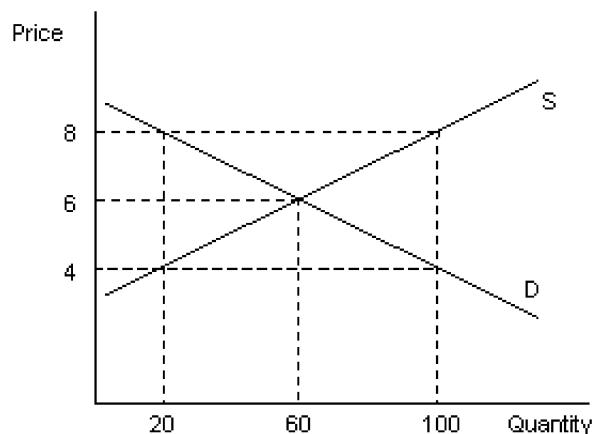
- d. there is a subsidy given to cabbage producers.
- e. the prices of substitutes for cabbage decline.

8. When moving along a fixed demand curve, all of the following except one is being held constant. Which is the exception?
- a. The prices of substitute goods.
 - b. Incomes and wealth.
 - * c. The price of the good itself.
 - d. Prices and availability of complementary goods.
 - e. Expectations as to the future price and availability of the good itself.

9. According to the law of supply
- a. higher prices mean higher profits.
 - b. higher prices result in a shift of the supply curve to the right.
 - * c. greater quantities will be supplied at higher prices.
 - d. increased costs shift the supply curve to the right.
 - e. all of the above.

10. If beans are inferior goods, then
- a. decreased bean prices result in people buying less beans.
 - b. there is no relationship between bean purchases and prices of complements.
 - * c. the demand for beans falls as income rises.
 - d. people will substitute other goods for beans as the prices of substitutes rise.
 - e. beans are a necessity.

11. In the graph to the right, if a \$4 ceiling price is imposed by the government, there will be a
- a. shortage of 60.
 - b. tendency for the price to fall.
 - c. surplus of 80.
 - * d. shortage of 80.
 - e. shift in the supply curve to the right.



12. Assume leather is an input in the production of belts. An increase in the price of leather would be expected to
- a. increase the supply of belts.
 - b. decrease the demand for belts.
 - c. decrease the price of belts.
 - * d. increase the price of belts.
 - e. increase the demand for belts.

13. If both the demand and supply for a good increase, the equilibrium price will _____ and equilibrium quantity will _____
- a. rise, rise.
 - b. rise, fall.
 - c. be indeterminate, fall.
 - * d. be indeterminate, rise.
 - e. rise, be indeterminate.

14. The non exclusion characteristic, as it applies to public goods, means that
- * a. the producer of the good is unable to keep people from consuming the good once it is produced.
 - b. only people with high incomes can afford the good.
 - c. taxes will prevent consumption of such goods.
 - d. no person benefits from this good, for example, pollution.
 - e. there is an abundance of the good.
-
15. A progressive tax is a tax that
- a. takes more dollars of taxation from those with higher incomes.
 - b. is on luxuries but not necessities.
 - c. follows the benefits received principle of taxation.
 - * d. has a higher average tax rate at higher income levels.
 - e. has a lower marginal tax rate as income rises.
-
16. The natural rate of unemployment is the unemployment rate associated with
- a. zero inflation.
 - b. a balanced budget.
 - * c. a stable rate of inflation.
 - d. no unemployment at all.
 - e. maximum economic growth.
-
17. Mary lost her job as a drill press operator when computer assisted drilling equipment was installed by her former employer. Mary is now seeking medical training. Mary's unemployment is
- a. frictional.
 - b. secular.
 - * c. structural.
 - d. natural.
 - e. cyclical.
-
18. The inflation rate can be found by
- a. subtracting real income from nominal income.
 - b. subtracting last year's price index from this year's price index.
 - c. calculating the percent change in real income.
 - * d. subtracting last year's price index from this year's price index and dividing this difference by last year's price index.
 - e. subtracting real income from nominal income and dividing this difference by nominal income.
-
19. Which of the following would be excluded from GDP?
- * a. The purchase price of 200 shares of WalMart stock.
 - b. The output of clothing bought by the Defense Department for members of the Air Force.
 - c. The value of trucks exported to Germany.
 - d. The purchase of tractors by farmers.
 - e. None of the above.
-
20. Which of the following is a transfer payment as that term is used in economics?
- a. Salary received by IRS employee.
 - b. Profits earned by an entrepreneur.
 - c. Tips earned by a waiter.
 - * d. Unemployment compensation benefits.
 - e. Commissions earned by a salesperson.
-
21. If a country's stock of privately owned capital is greater at the end of the year than it was at the beginning of the year, it must be the case that
- a. depreciation was less than net private domestic investment.
 - b. net private domestic investment exceeded gross private domestic investment.
 - c. interest rates have fallen.

- * d. net private domestic investment was positive.
- e. the change in business inventories was positive.

22. Use the table at the right. The marginal propensity to consume is

- a. .3
- b. .4
- c. .5
- d. .6
- * e. .7

Income	Saving
\$0	\$-20
100	10
200	40
300	70

23. Assume the MPC is .7. Equilibrium GDP is \$200 below natural or potential GDP. What change in investment will close this gap?

- * a. + \$60.
- b. + \$66.7.
- c. + \$140.
- d. - \$66.7.
- e. - \$140.

24. Use the table at the right. Assume no taxes or government. Which of the following is correct?

- a. The MPS is .2.
- b. The MPC is .2.
- * c. The multiplier is 2.5.
- d. The multiplier is 4.
- e. The multiplier is 5.

Income	Saving
\$0	\$-40
50	-20
100	0
150	20
200	40

25. If actual investment exceeds planned (intended) investment, the most likely result is

- a. a decrease in inventory investment.
- * b. an increase in inventory investment.
- c. a decrease in the value of the multiplier.
- d. imminent inflation.
- e. increasing profits.

26. Assume an MPS of .2, an increase in autonomous (lump-sum) taxes of \$40 would be expected to lower income by

- a. \$40.
- b. \$80.
- * c. \$160.
- d. \$180.
- e. \$200.

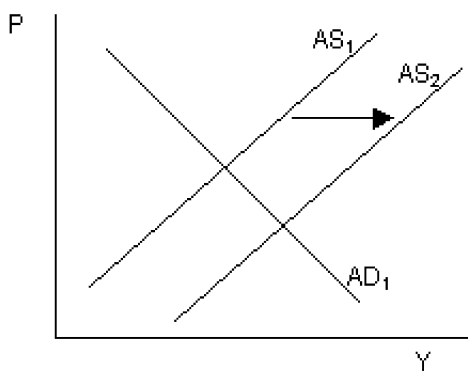
27. Which would be the most appropriate discretionary fiscal policy in time of severe inflation?
- a. Equal increases in taxes and government spending.
 - b. Lowering taxes and government spending by equal amounts.
 - * c. Increasing taxes while reducing spending.
 - d. Increasing spending with my change in taxes.
 - e. Decrease in the money supply.
-
28. Assume the economy is at an equilibrium income level of \$600. The MPC is .6. Next the government increases taxes and spending by \$75. The new equilibrium income level will be
- a. \$600.
 - b. \$645.
 - * c. \$675.
 - d. \$750.
 - e. None of these.
-
29. When you put \$.50 into a vending machine, you are using money as a
- a. store of value.
 - b. standard of deferred payment.
 - c. standard of value.
 - d. medium of contract fulfillment.
 - * e. medium of exchange.
-
30. According to the quantity theory of money, the long term influence of money is on the
- a. unemployment rate.
 - * b. price level.
 - c. growth of real output.
 - d. real interest rates.
 - e. budget deficit.
-
31. Assume the Capital Bank initially has no excess reserves. The required reserve ratio is 12.5% on checkable deposits. Next, the Capital Bank receives a new \$200 checkable deposit. Excess reserves at this bank are now
- a. \$1600.
 - b. \$200.
 - * c. \$175.
 - d. \$125.
 - e. \$25.
-
32. Legal (actual) reserves of a bank consist of
- a. cash in vault and U.S. government securities.
 - b. cash in vault and borrowing at the Federal Reserve.
 - * c. cash in vault and deposits at the Federal Reserve.
 - d. cash in vault and time deposits.
 - e. gold and U.S. government securities.
-
33. The Federal Funds rate is the rate of interest
- a. a bank charges its biggest and best commercial customer.
 - b. the Federal Reserve charges a bank when the bank borrows reserves.
 - c. paid on U.S. Treasury Bills.
 - * d. one bank pays another when borrowing its excess reserves.
 - e. the federal government charges banks for loans.
-
34. When the required reserve ratio is 12.5% and the Federal Reserve buys \$10 billion of government securities, bank actual/legal reserves _____ by \$_____ and the potential money supply _____ by \$_____.
- a. rise, 10, rises, 40.

- * b. rise, 10, rises, 80.
- c. rise, 10, rises, 87.5.
- d. fall, 10, falls, 12.5.
- e. rise, 10, rises, 125.

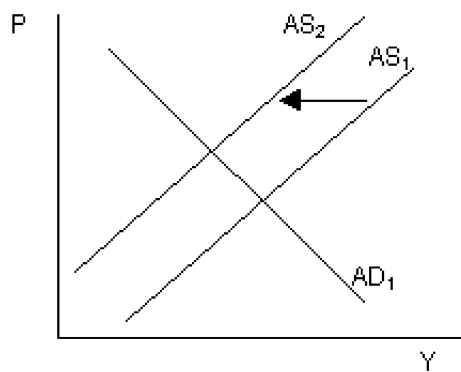
35. The most expansionary monetary policy consists of

- * a. buying securities, lowering the reserve requirement, and lowering the discount rate.
- b. selling securities, lowering the reserve requirement, and lowering the discount rate.
- c. buying securities, lowering the reserve requirement, and raising the discount rate.
- d. lowering the discount rate and lowering the reserve requirement.
- e. increasing the Federal Funds rate, lowering the discount rate, and selling government securities.

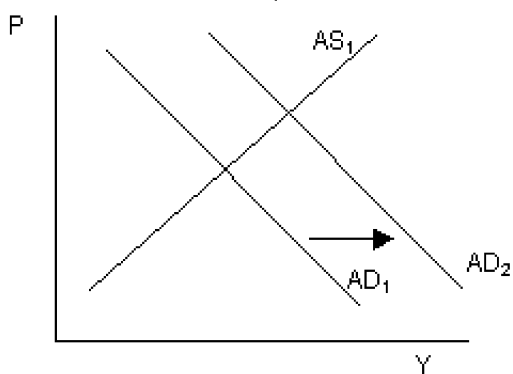
Use the Following Graphs to Answer Question 36



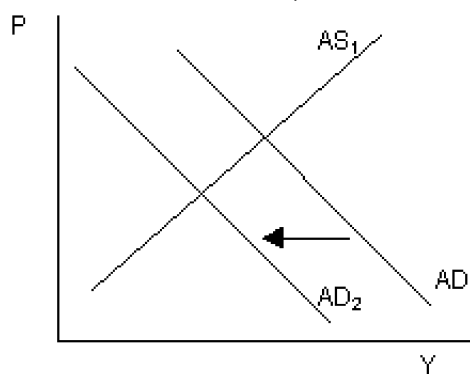
Graph A



Graph B



Graph C



Graph D

36. Which depicts an increase in exports?

- a. Graph A.
- b. Graph B.
- * c. Graph C.
- d. Graph D.
- e. None of these.

37. Using the model of Aggregate Demand and a positively sloped short-run Aggregate Supply, assume equilibrium exists.

An increase in government spending will result in

- a. increased output but decreased prices.
- * b. increased prices and output.
- c. increased output and no change in prices.
- d. no change in output or prices.
- e. increased prices but no change in output.

38. The short run Phillips curve is _____ and the long run Phillips curve is _____.
- positively sloped, negatively sloped.
 - vertical, negatively sloped.
 - negatively sloped, positively sloped.
 - negatively sloped, vertical.
 - horizontal, vertical.

39. Free trade based upon comparative advantage is economically beneficial because
- it promotes an efficient allocation of the world's scarce resources.
 - it increases competition.
 - it enables countries to consume beyond their respective production possibility frontiers.
 - of all the above reasons.

40. Consider the two country, two good world given in the table to the right. According to the principle of comparative advantage,
- the US will import beef from Mexico and export pork to Mexico.
 - the US will export beef to Mexico and import pork from Mexico.
 - the US will export both goods to Mexico.
 - the US will import both goods from Mexico.
 - no trade will take place between the US and Mexico.

Output per unit of Labor		
	Beef	Pork
USA	6	9
Mexico	3	4.5