Principle of Macroeconomics, Summer B 2017

Practice Exam

1) If real GDP in a small country in 2015 is $8 billion and real GDP in the same country in 2016 is $8.3 billion, the growth rate of real GDP between 2015 and 2016

A) is 3.0%. B) is 3.6%.

C) is 3.75%. D) cannot be determined from the information given.

2) If real GDP grows by 3% in 2014, 3.2% in 2015, and 2.5% in 2016, what is the average annual growth rate of real GDP?

A) 2.6% B) 2.9%

C) 3.1% D) 4.2%

3) In a closed economy, which of the following components of GDP is *not* included?

A) investment B) government spending

C) net exports D) consumption

4) In a closed economy, which of the following equations reflects investment? (Y = GDP, C = Consumption, G = Government purchases, T = Taxes, and TR = Transfers)

A) $Y - C - G$ B) $Y - C - T$

C) $Y - T + TR$ D) $C + G - T$

5) Consider the following data for a closed economy:

Y = $12 trillion C = $8 trillion I= $2 trillion

G = $2 trillion TR = $2 trillion T = $3 trillion

Based on the information above, private saving equals________; public saving equals_______.

6) In a closed economy, public saving plus private saving is equal to

A) investment. B) taxes minus transfers.

C) the budget surplus. D) the budget deficit.

7) There is a federal budget deficit when

A) the government spends less that it collects in taxes.

B) the government spends more that it collects in taxes.

C) the government spends the same amount it collects in taxes.

D) taxes are too high.

8) When the economy enters a recessionary phase of the business cycle, unemployment tends to

A) decrease. B) increase.

C) be unchanged. D) change in the same direction as the rate of inflation.

9) During the expansion phase of the business cycle,

A) production increases.
B) employment decreases.
C) income decreases.
D) unemployment increases.

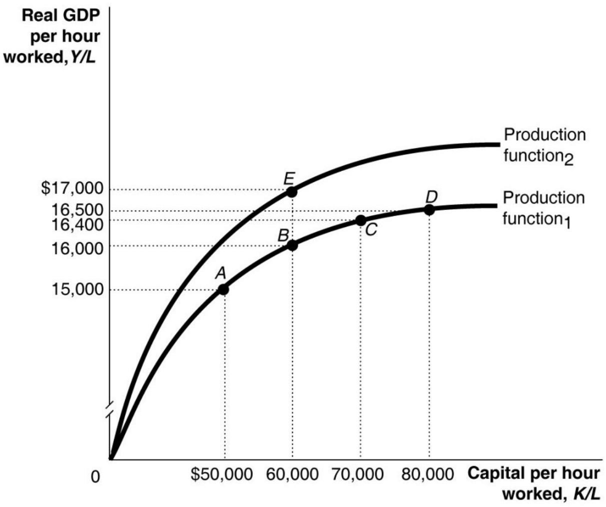
10) Recessions typically cause the unemployment rate to ________ and the inflation rate to ________.

A) rise; rise
B) rise; fall
C) fall; rise
D) fall; fall

11) During an expansion, how do inflation and unemployment typically change?

A) Inflation and unemployment both rise.
B) Inflation and unemployment both fall.
C) Inflation falls and unemployment rises.
D) Inflation rises and unemployment falls.

Figure 1



12) ***Refer to Figure 1.*** Technological change is shown in the figure above by the movement from

A) *B* to *C*.
B) *B* to *D*.
C) *B* to *E*.
D) *B* to *A*.

13) ***Refer to Figure 1.*** Which of the following would cause an economy to move from a point like *A* in the figure above to a point like *B*?

A) an improvement in technology
B) a decrease in capital per hour worked
C) an increase in capital per hour worked
D) a technological regression

14) Because of the slope of the aggregate demand curve, we can say that

A) a decrease in the price level leads to a lower level of real GDP demanded.
B) an increase in the price level leads to no change in the level of real GDP demanded.
C) a decrease in the price level leads to a higher level of real GDP demanded.
D) an increase in the price level leads to a higher level of real GDP demanded.

15) An increase in the price level will

A) shift the aggregate demand curve to the left.

B) shift the aggregate demand curve to the right.

C) move the economy up along a stationary aggregate demand curve.

D) move the economy down along a stationary aggregate demand curve.

16) The aggregate demand curve shows the relationship between the ________ and ________.

A) inflation rate; quantity of real GDP demanded

B) real interest rate: quantity of real GDP supplied

C) nominal interest rate; quantity of real GDP demanded

D) price level; quantity of real GDP demanded

17) A decrease in the price level results in a(n) ________ in the quantity of real GDP demanded because a lower price level ________ consumption, investment, and net exports.

A) decrease; increases B) increase; increases

C) decrease; decreases D) increase; decreases

18) If aggregate demand just decreased, which of the following may have caused the decrease?

A) a decrease in exports B) a decrease in the interest rate

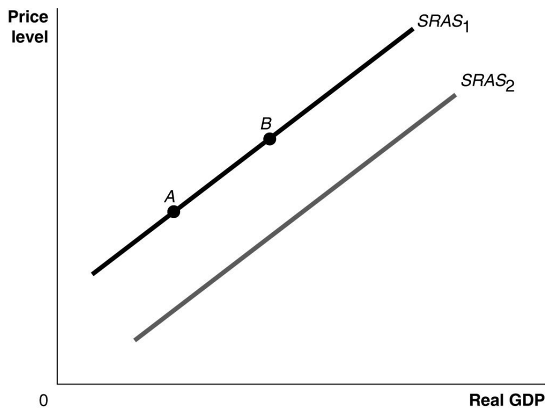
C) a decrease in the price level D) a decrease in imports

19) Which aggregate supply curve has a positive slope?

A) long run only B) short run only

C) both long run and short run D) neither long run nor short run

Figure 2



20) ***Refer to Figure 2.*** *Ceteris paribus*, an increase in the labor force would be represented by a movement from

A) $SRAS_1$ to $SRAS_2$. B) $SRAS_2$ to $SRAS_1$.

C) point *A* to point *B*. D) point *B* to point *A*.

21) ***Refer to Figure 2.*** *Ceteris paribus*, a decrease in the capital stock would be represented by

a movement from

A) $SRAS_1$ to $SRAS_2$.
B) $SRAS_2$ to $SRAS_1$.
C) point *A* to point *B*.
D) point *B* to point *A*.

22) ***Refer to Figure 2***. *Ceteris paribus*, an increase in productivity would be represented by a movement from

A) $SRAS_1$ to $SRAS_2$.
B) $SRAS_2$ to $SRAS_1$.
C) point *A* to point *B*.
D) point *B* to point *A*.

23) ***Refer to Figure 2***. *Ceteris paribus*, an increase in the price level would be represented by a movement from

A) $SRAS_1$ to $SRAS_2$.
B) $SRAS_2$ to $SRAS_1$.
C) point *A* to point *B*.
D) point *B* to point *A*.

24) The narrowest official definition of the money supply is

A) M1.
B) M2.
C) M3.
D) L.

25) The quantity equation states that the

A) money supply divided by the velocity of money equals the price level divided by real output.
B) money supply times the velocity of money equals the price level times real output.
C) money supply times the price level equals real output divided by the velocity of money.
D) money supply times the price level equals real output times the velocity of money.

26) According to the quantity theory of money, the inflation rate equals

A) the money supply minus real output.
B) the growth rate of the money supply minus the growth rate of real output.
C) real output minus the money supply.
D) the growth rate of real output minus the growth rate of the money supply.

27) According to the quantity theory of money, if the money supply grows at 20 percent and real GDP grows at 5 percent, then the inflation rate will be

A) 15 percent.
B) 20 percent.
C) 25 percent.
D) 100 percent.

28) Monetary policy refers to the actions the

A) President and Congress take to manage the money supply and interest rates to pursue their economic objectives.
B) Federal Reserve takes to manage the money supply and interest rates to pursue its macroeconomic policy objectives.
C) President and Congress take to manage government spending and taxes to pursue their economic objectives.
D) Federal Reserve takes to manage government spending and taxes to pursue its economic

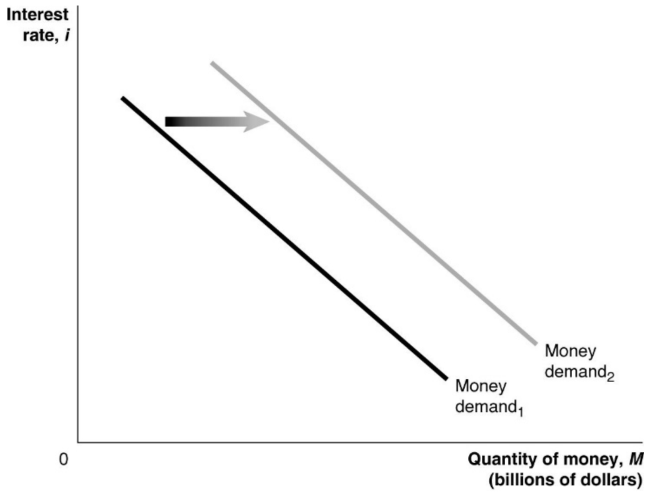
objectives.

29) The Federal Reserve System's four monetary policy goals are
A) low government budget deficits, low current account deficits, high employment, and a high foreign exchange value of the dollar.
B) a low rate of bank failures, high reserve ratios, price stability, and economic growth.
C) price stability, high employment, economic growth, and stability of financial markets and institutions.
D) price stability, low government budget deficits, low current account deficits, and a low rate of bank failures.

30) Monetary policy refers to the actions the Federal Reserve takes to manage
A) the money supply and income tax rates to pursue its economic objectives.
B) the money supply and interest rates to pursue its economic objectives.
C) income tax rates and interest rates to pursue its economic objectives.
D) government spending and income tax rates to pursue its economic objectives.

31) The money demand curve has a
A) negative slope because an increase in the interest rate decreases the quantity of money demanded.
B) positive slope because an increase in the interest rate increases the quantity of money demanded.
C) negative slope because an increase in the price level decreases the quantity of money demanded.
D) positive slope because an increase in the price level increases the quantity of money demanded.

Figure 3



32) ***Refer to Figure 1.*** In the figure, the money demand curve would move from Money demand$_1$ to Money demand$_2$ if
A) real GDP increased. B) the price level decreased.

C) the interest rate increased.   D) the Federal Reserve sold Treasury securities.

33)Using the money demand and money supply model, an increase in money demand would cause the equilibrium interest rate to

A) decrease.   B) increase.

C) not change.   D) increase, then decrease.

34) An increase in real GDP can shift

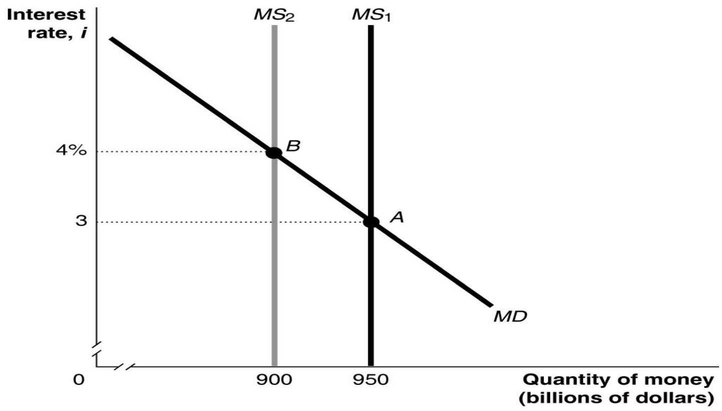
A) money demand to the right and decrease the equilibrium interest rate.

B) money demand to the right and increase the equilibrium interest rate.

C) money demand to the left and decrease the equilibrium interest rate.

D) money demand to the left and increase the equilibrium interest rate.

Figure 4



35) ***Refer to Figure 4.*** In the figure above, the movement from point *A* to point *B* in the money market would be caused by

A) an increase in the price level.

B) a decrease in real GDP.

C) an open market sale of Treasury securities by the Federal Reserve.

D) a decrease in the required reserve ratio by the Federal Reserve.

36) The Fed's two main monetary policy targets are

A) the money supply and the inflation rate.

B) the money supply and the interest rate.

C) the interest rate and real GDP.

D) the inflation rate and real GDP.

37) The money demand curve has a negative slope because

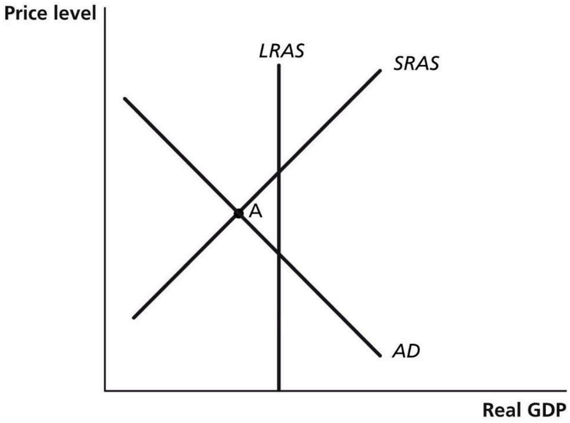
A) lower interest rates cause households and firms to switch from money to financial assets.

B) lower interest rates cause households and firms to switch from financial assets to money.

C) lower interest rates cause households and firms to switch from money to stocks.

D) lower interest rates cause households and firms to switch from money to bonds.

Figure 5



38) ***Refer to Figure 5.*** In the figure above, if the economy is at point *A*, the appropriate monetary policy by the Federal Reserve would be to

A) lower interest rates. B) raise interest rates.

C) lower income taxes. D) raise income taxes.

39) Fiscal policy refers to changes in

A) state and local taxes and purchases that are intended to achieve macroeconomic policy objectives.

B) federal taxes and purchases that are intended to achieve macroeconomic policy objectives.

C) federal taxes and purchases that are intended to fund the war on terrorism.

D) the money supply and interest rates that are intended to achieve macroeconomic policy objectives.

40) Congress and the president carry out fiscal policy through changes in

A) interest rates and the money supply. B) taxes and the interest rate.

C) government purchases and the money supply.

D) government purchases and taxes.

41) Fiscal policy is determined by

A) the Federal Reserve. B) the president and the Federal Reserve.

C) Congress and the Federal Reserve. D) Congress and the president.

42) Expansionary fiscal policy involves

A) increasing government purchases or decreasing taxes.

B) increasing taxes or decreasing government purchases.

C) increasing the money supply and decreasing interest rates.

D) decreasing the money supply and increasing interest rates.

43) Which of the following is considered contractionary fiscal policy?

A) Congress increases the income tax rate.

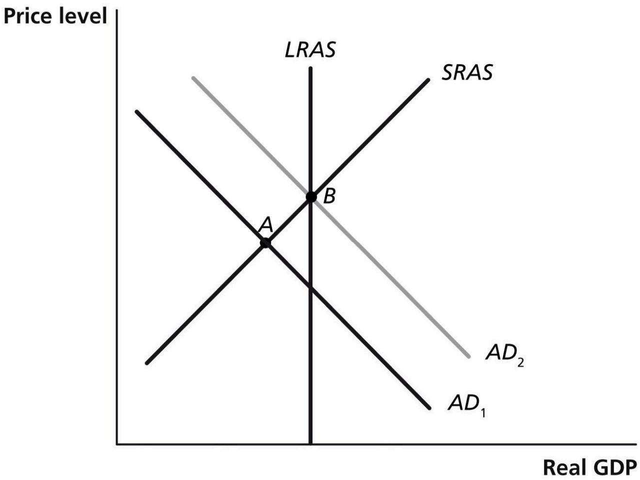
B) Congress increases defense spending.

C) Legislation removes a college tuition deduction from federal income taxes.
D) The New Jersey legislature cuts highway spending to balance its budget.

44) Expansionary fiscal policy to prevent real GDP from falling below potential real GDP would cause the inflation rate to be ________ and real GDP to be ________.
A) higher; higher B) higher; lower
C) lower; higher D) lower; lower

45) Expansionary fiscal policy will
A) shift the aggregate demand curve to the left.
B) shift the aggregate demand curve to the right.
C) not shift the aggregate demand curve.
D) shift the short-run aggregate supply curve to the left.

Figure 6

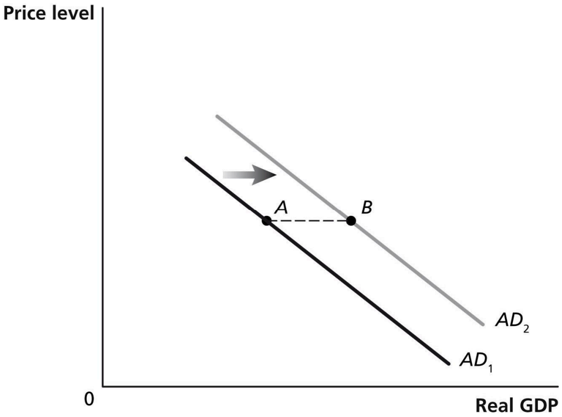


46) ***Refer to Figure 6.*** In the graph above, suppose the economy is initially at point *A*. The movement of the economy to point *B* as shown in the graph illustrates the effect of which of the following policy actions by Congress and the president?
A) a decrease in income taxes B) a decrease in interest rates
C) a decrease in government purchases D) an increase in the money supply

47) Economists refer to the series of induced increases in consumption spending that result from an initial increase in autonomous expenditures as the ________ effect.
A) multiplier B) expenditure
C) consumption D) aggregate demand

48) The government purchases multiplier equals the change in ________ divided by the change in ________.
A) government purchases; equilibrium real GDP
B) equilibrium real GDP; government purchases
C) government purchases; consumption spending
D) consumption spending; government purchases

Figure 5



49) ***Refer to Figure 5.*** In the graph above, the shift from *AD*1 to *AD*2 represents the total change in aggregate demand. If government purchases increased by $500 billion, then the distance from point *A* to point *B* ________ $500 billion.

A) would be equal to
B) would be greater than
C) would be less than
D) may be greater than or less than

50) If Congress wanted to counteract the effects of a recession it could

A) increase tax rates.
B) increase taxes by a fixed amount.
C) increase government purchases.
D) decrease government purchase.