

Final Exam Student Name: _____

Macroeconomics

Exam Date: Wed. and Thurs., December 11-12, 2003

Instructions:

- I) On your Scantron card you **must** print three things:
 - 1) Print your full name clearly;
 - 2) Print the day and time of your section (for example MWF 9);
 - 3) Print the number I have written in ink on the upper right corner of your copy of this test. (This number tells me which version of the test you have. Without it your test cannot be graded properly and you get no credit for your answers.)
- II) Answer on your Scantron card, using a #2 pencil.
- III) Warning: **SOME QUESTIONS MUST BE ANSWERED SEVERAL TIMES!** Such questions will begin with a phrase such as this:
Repeat this answer on lines 37, 38 and 39.
Remember to do it!
- IV) You must turn in this exam along with your Scantron card to get credit for your score. Put your name on this exam.

Questions:

- 1. **(Repeat your answer on Scantron lines 23 and 24.)** The velocity of money is:
 - A) a measure of how much time it takes to spend a dollar.
 - B) a measure of how often a dollar is spent each year.
 - C) proportional to the price level.
 - D) inversely related to the money supply.
- 2. **(Repeat your answer on Scantron lines 25 and 26.)** According to the quantity theory of money:
 - A) changes in PQ cause changes in MV.
 - B) changes in MV cause changes in PQ.
 - C) changes in PQ can cause changes in MV and vice versa.
 - D) PQ and MV are unrelated.
- 3. Which of the following is the most likely reason a developing country would choose to increase its money supply very rapidly?
 - A) To increase real output.
 - B) To stabilize the value of its currency.
 - C) To finance government expenditures and transfers.
 - D) To raise the wages of the working poor.

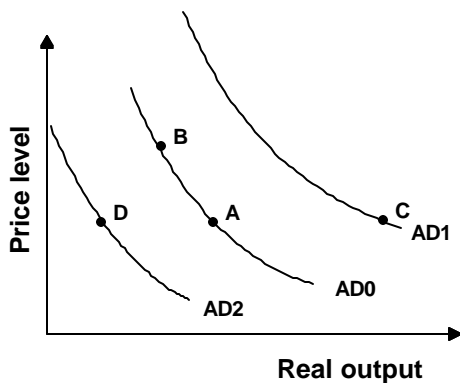
4. **(Repeat your answer on Scantron lines 27 and 28.)** As long as governments use expansionary policies in an attempt to reduce unemployment below the natural rate:
- A) expected inflation will remain constant.
 - B) expected inflation will be falling.
 - C) expected inflation will be rising.
 - D) actual inflation will be constant.
5. According to quantity of money theorists, the policy that is least likely to produce high levels of growth is:
- A) an expansionary monetary policy.
 - B) a policy that establishes the Fed's anti-inflationary reputation.
 - C) a policy that produces price stability.
 - D) a policy that does not attempt to keep output too high.
6. **(Repeat your answer on Scantron lines 29 and 30.)** Unexpectedly low inflation hurts:
- A) lenders.
 - B) borrowers.
 - C) both lenders and borrowers.
 - D) neither lenders nor borrowers.
7. **(Repeat your answer on Scantron lines 31, 32 and 33.)** If the real business cycle theory of the economy is correct, then:
- A) aggregate expenditure is still the most important determinant of equilibrium income.
 - B) supply responds to demand shifts and not vice versa.
 - C) supply conditions have a greater effect on equilibrium income than aggregate expenditure.
 - D) aggregate supply and aggregate demand are even more dependent on one another than in the multiplier model.
8. In the late 1990s the unemployment rate in Japan was 4.5 percent. Most economists, however, believed that attempts to decrease unemployment by increasing government expenditures would be successful. Economists believed this because they felt the Japanese economy:
- A) was in the Classical range.
 - B) was in the Keynesian range.
 - C) was in the intermediate range.
 - D) was below potential output.
9. Which of the following is true?
- A) Keynes believed that the economy was subject to forces that made it difficult to reach potential income.

- B) Keynes believed the economy was always at potential income.
- C) Keynes believed the economy was always moving away from potential income.
- D) Keynes believed the economy was always moving toward potential income.

10. **(Repeat your answer on Scantron line 34.)** If the Federal Reserve Bank adopts a monetary policy that reduces U.S. interest rates, the AD curve would:

- A) shift to the left.
- B) shift to the right.
- C) become flatter.
- D) become steeper.

Use the following to answer question 11:



11. **(Repeat your answer on Scantron lines 35 and 36.)** Refer to the graph above. From 1929 to 1933 the money supply fell in the United States by 40%. The effect of this on the AD curve is best shown by a movement from:

- A) a movement from A to B
- B) a movement from B to A
- C) a shift from AD0 to AD1
- D) a shift from AD0 to AD2

12. The aggregate supply curve shifts down when a significant number of firms:

- A) increase the quantity supplied.
- B) decrease the quantity supplied.
- C) decrease price.
- D) increase price.

13. **(Repeat your answer on Scantron line 37.)** A(n) _____ exists when aggregate demand is less than potential output.

- A) recessionary gap

- B) inflationary gap
 - C) short-run equilibrium
 - D) long-run equilibrium
14. Crowding out occurs when:
- A) financing a budget deficit is no longer possible.
 - B) financing a budget deficit causes interest rates to rise.
 - C) financing a budget deficit causes interest rates to fall.
 - D) tax receipts rise more slowly than anticipated, resulting in the need to cut government spending.
15. All of the following are included in the government spending component of GDP except:
- A) social security payments.
 - B) the wages paid by a local government to its road crews.
 - C) the wages paid by a state government to workers in its welfare department.
 - D) the federal government's purchase of a submarine from a shipbuilder.

Use the following to answer question 16:

$$Y = \left(\frac{1}{1 - c(1 - t) + w} \right) (a + I_g + G + X)$$

16. **(Repeat your answer on Scantron lines 38 and 39.)** In the multiplier equation just above, if $c = .8$, $t = .25$ and $w = .1$, then if "autonomous spending" increases by \$100 billion, nominal GDP:
- A) will increase by \$50 billion
 - B) will increase by \$100 billion
 - C) will increase by \$200 billion
 - D) will not increase.
 - E) none of the other answers are correct.

Use the following to answer question 17:

Equation for the Money Supply*

$$M_s = (C_T + T_f + L_f) \frac{\left(1 + \frac{1}{r_{cd}}\right)}{\left(1 + \frac{r_{d^s d}}{r_{cd}} + \frac{r_{t^s t}}{r_{ct}}\right)}$$

17. **(Repeat your answer on Scantron lines 40 and 41.)** In the money supply equation just above, if the "money multiplier" is **.60**, then if the Fed **sells \$5 billion of Treasury bonds** and at the same time the U.S. Treasury **puts \$5 billion of new currency into circulation**, then the money supply will:
- A) increase by \$3 billion.
 - B) increase by \$5 billion.
 - C) increase by \$6 billion
 - D) increase by \$10 billion.
 - E) neither increase nor decrease.
18. **(Repeat your answer on Scantron lines 42 and 43.)** When all inputs are fully employed:
- A) output is beneath potential output.
 - B) output equals potential output.
 - C) output is above potential output.
 - D) output can be above or below potential output.
19. Gross Domestic Product
- A) is the money value of all final goods and services produced in a country during a year's period of time.
 - B) is the money value of the stock of all goods present in a country at a given period of time.
 - C) is the money value of all transactions that occur in a country during a year's period of time.
 - D) is the money value of all exports from a country during a year's period of time.
20. **(Repeat your answer on Scantron lines 44 and 45.)** Which of the following is NOT included in GDP?
- A) income and output for the year.
 - B) the value of childcare services rendered to their own children by housewives.
 - C) consumer spending on durables.
 - D) different types of investment.

21. **(Repeat your answer on Scantron lines 46 and 47.)** Which of the following is an example of Monetary Policy?
- A) The federal government cuts taxes.
 - B) The U.S. Treasury Department issues bonds to finance debt.
 - C) The Federal Reserve buys bonds in the open market.
 - D) Defense spending is cut to balance the budget.
22. **(Repeat your answer on Scantron lines 48, 49 and 50.)** What would be the appropriate Monetary Policy to fight inflation?
- A) The Federal Reserve could sell bonds.
 - B) The Federal Reserve could decrease the discount rate.
 - C) The Federal Reserve could lower the reserve ratio.
 - D) The Federal Reserve could increase taxes.

Answer Key -- F03FinalExam

1. B a measure of how often a dollar is spent each year.
LO: 15-3
Page: 353
Source: Revised
Origin: Chapter 15: Inflation and Its.....33
2. B changes in MV cause changes in PQ.
LO: 15-3
Page: 354
Source: Old
Origin: Chapter 15: Inflation and Its.....46
3. C To finance government expenditures and transfers.
LO: 15-3
Page: 355
Source: New
Origin: Chapter 15: Inflation and Its.....58
4. C expected inflation will be rising.
LO: 15-5
Page: 365
Source: Old
Origin: Chapter 15: Inflation and Its.....128
5. A an expansionary monetary policy.
LO: 15-6
Page: 367
Source: New
Origin: Chapter 15: Inflation and Its.....146
6. B borrowers.
LO: 15-1
Page: 351
Source: New
Origin: Chapter 15: Inflation and Its.....15
7. C supply conditions have a greater effect on equilibrium income than aggregate expenditure.

LO: 10-5
Page: 244
Source: New
Origin: Chapter 10: The Multiplier Model....162
8. B was in the Keynesian range.
LO: 9-6
Page: 223

- Source: Revised
Origin: Chapter 9: Aggregate Demand.....182
9. A Keynes believed that the economy was subject to forces that made it difficult to reach potential income.
LO: 9-1
Page: 207
Source: Revised
Origin: Chapter 9: Aggregate Demand.....29
10. B shift to the right.
LO: 9-2
Page: 212
Source: New
Origin: Chapter 9: Aggregate Demand.....76
11. D a shift from AD0 to AD2
LO: 9-2
Page: 212
Source: Revised
Origin: Chapter 9: Aggregate Demand.....84
12. C decrease price.
LO: 9-3
Page: 214
Source: New
Origin: Chapter 9: Aggregate Demand.....100
13. A recessionary gap
LO: 9-5
Page: 218
Source: New
Origin: Chapter 9: Aggregate Demand.....135
14. B financing a budget deficit causes interest rates to rise.
LO: 11-5
Page: 264
Source: Old
Origin: Chapter 11: Demand Management Policy....112
15. A social security payments.
LO: 7-4
Page: 168
Source: Old
Origin: Chapter 7: National Income Accounting....63
16. C will increase by \$200 billion
LO: (None)
Page: (None)

- Source: *(None)*
Origin: GTA Questions....70
17. E neither increase nor decrease.
LO: *(None)*
Page: *(None)*
Source: *(None)*
Origin: GTA Questions....71
18. B output equals potential output.
LO: 9-4
Page: 215
Source: New
Origin: Chapter 9: Aggregate Demand.....119
19. A is the money value of all final goods and services produced in a country during a year's period of time.
LO: *(None)*
Page: *(None)*
Source: *(None)*
Origin: ACC Dept Macro Questions....1
20. B the value of childcare services rendered to their own children by housewives.
LO: *(None)*
Page: *(None)*
Source: *(None)*
Origin: ACC Dept Macro Questions....2
21. C The Federal Reserve buys bonds in the open market.
LO: *(None)*
Page: *(None)*
Source: *(None)*
Origin: ACC Dept Macro Questions....3
22. A The Federal Reserve could sell bonds.
LO: *(None)*
Page: *(None)*
Source: *(None)*
Origin: ACC Dept Macro Questions....4