Macroeconomics Example Final Exam from Fall 2001

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

1. 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.

2. 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.

3. 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.

4. 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.

5. REPEAT THIS ANSWER 3 TIMES BY GIVING SAME ANSWER IN QUESTIONS 27, 28 AND 29:

a. an increase in non-wage income is likely to reduce the desire to work.
b. almost any person who has at least some non-wage income will stop working if the wage rate drops low enough.
c. almost any person who has at least some non-wage income will continue working even if the wage rate drops very low.
d. none of the other answers.
e. a. and c. are both true.

6. The largest component of aggregate expenditures is

a. consumption spending
b. government purchases
c. net exports
d. capital expenditures
e. investment spending

7.
a. planned investment does not include unplanned inventory changes; actual investment does
b. there is no difference; they are the same
c. planned investment does not include depreciation; actual investment does
d. planned investment includes inventories; actual investment does not
e. planned investment includes depreciation; actual investment does not

8. REPEAT THIS ANSWER 2 TIMES BY GIVING SAME ANSWER IN QUESTIONS 33 AND 34:
Which of the following statements are true about "the multiplier" and "autonomous spending"?
a. If the Keynesian model is correct, if the multiplier gets larger GDP will get smaller.
b. If the Keynesian model is correct, if the multiplier gets larger autonomous spending will get smaller.
c. Government spending is part of autonomous spending in a simple Keynesian model, but exports are not.
d. none of the above are true.
e. all of the above are true.

9. The marginal rate of taxation
a. is the tax rate on an additional dollar of income
b. measures the amount of taxes paid in a given year
c. is the fraction of total income paid as taxes
d.
e.

10. REPEAT THIS ANSWER 3 TIMES BY GIVING SAME ANSWER IN QUESTIONS 30, 31 AND 32:
Assume an economy has a natural rate of unemployment of about 5%, which means that unemployment cannot be lower than 5% without creating inflation. Assume the economy is in macroeconomic equilibrium with 10% unemployment. If the Federal Reserve increases the money supply by 15% then roughly the following will happen:
a. the economy will grow to full employment and prices will rise by 15%.
b.
c. employment will rise by 15% and prices will not rise.
d. prices will decline and the economy will grow by 10%.
e. the economy will grow to full employment and prices will rise by 10%.

11. Aggregate expenditure is the sum of

a. all types of spending by households
b. spending and savings by households
c. spending by households and governments on final goods and services
d. spending by households, government, firms, and foreigners on final goods and services
e.

12. The Federal Open Market Committee is important because

a. its deliberations are extremely private
b. it sets the course for the nation's money supply
c. it is composed of people who are most knowledgeable about the economy
d. it discusses unemployment and inflation
e. of its influence on fiscal policy

13. Banking panics were greatly reduced when

a. the Federal Reserve was created
b. the federal government started insuring banking deposits
c. the Federal Reserve increased the required reserve ratio
d. the Federal Reserve started using open market operations
e. the Federal Reserve decided to take a less active role in controlling the money supply

14. Which of the following statements about interest rate determination is most accurate?

a. in both the long run and the short run, the interest rate is determined in the market for loanable funds
b. in both the long run and the short run, the interest rate is determined in the money market
c. in the short run the interest rate is determined in the market for loanable funds, and in the long run it is are determined in the money market
d. in the short run the interest rate is determined in the money market, and in the long run it is determined in the market for loanable funds
e. the interest rate is determined through an interaction between the money market and the loanable funds market

15. Which of the following is an accurate description of the U.S. inflation rate since 1950?

a. the rate has always been below 4 percent
b. inflation was low in the 1970s
c. episodes of high inflation occurred in the 1970s and early 1980s
d. inflation rates were very high in the 1960s
e. episodes of high inflation occurred in the 1990s

16. If there is a large increase in the price of oil and the Fed wishes to maintain output stability, which of the following should it do?

a. do nothing, since the self-correcting mechanism will adjust the economy
b. sell bonds in the open market
c. wait, since output seldom changes when there is an increase in the price of oil
d. encourage firms to not adjust the wages they pay
e. buy bonds in the open market

17. What interest rate does the Fed charge when it makes loans to banks?

a. the prime rate
b. the U.S. Treasury Bond rate
c. the discount rate
d. the federal funds rate
e. the U.S. Treasury Bill rate

18. If investment spending increases due to increased optimism in the business sector, which of the following would occur?

a. an increase in GDP, an increase in the price level, an increase in money demand, and an increase in the interest rate
b. an increase in GDP, a decrease in the price level, an increase in money demand, and a decrease in the interest rate
c. a decrease in GDP, a decrease in the price level, a decrease in money demand, and a decrease in the interest rate
d. a decrease in GDP, a decrease in the price level, an increase in money demand, and an increase in the interest rate
e. an increase in GDP, an increase in the price level, a decrease in money demand, and a decrease in the interest rate

19. If we look at governmental budgets over time using nominal figures, we

a.
b. are able to focus on the real impact of government spending on potential GNP
c. tend to overestimate the size of the budgetary growth
d. usually underestimate the size of the burden of the debt
e. are ignoring what we can learn from nominal data

20. In the long run, monetary policy can

a. change the form of inflation
b. change the type of unemployment
c. change the level of unemployment
d. stop the flow of currency abroad
e. change the rate of inflation

21. In 1999, the nominal GDP of the United States was approximately

a. $8.5 billion
b. $9.2 trillion

c. $4.5 billion
d. $6 million
e. $7.5 trillion

22. When measuring GDP, economists count only the values of final goods and services because

a. the final value is the highest value of good
b. adding the values of intermediate products is too difficult a task
c. the value of all intermediate products is automatically included in the value of those final goods
d. intermediate products are overpriced
e. the final cost is the selling price, which is what economists want to know

23. Susie grows corn in her backyard garden to feed her family. The corn she grows is not counted in GDP because

a. it was not produced for the marketplace
b. it is an intermediate good which Susie will process further before feeding her family
c. goods produced using land are not included in GDP
d. the corn has no value
e. it reduces the amount of corn she will buy at the store

24. REPEAT THIS ANSWER 3 TIMES BY GIVING SAME ANSWER IN QUESTIONS 38, 39 AND 40:
Assume net exports are -$220, consumption is $5,000, tax revenues are $1,000, government purchases are $1,500, and 1997 GDP, calculated by the expenditure approach, is $8,000. We can conclude that

a. private investment was $1,940
b. public investment was $310
c. private investment was $320
d. private investment was $1,720
e. public investment was $1,730

25. Financial intermediaries are important because

a. the process of finding loans is complicated
b. firms are usually unwilling to part with extra revenue
c. they are examples of banks
d. we could not function in society without them
e. they facilitate efficient transactions between borrowers and lenders

26. REPEAT THIS ANSWER 3 TIMES BY GIVING SAME ANSWER IN QUESTIONS 35, 36 AND 37:
Using the equation of exchange, Py
increases the money supply the following sequence is likely if the economy is already at full

employment:

a. Economic activity will increase within 18-24 months followed by an increase in prices within 2-3 years.
b. Real interest rates will fall while the money supply is rising and the actual velocity of money is declining. Then households and firms will attempt to reduce individual quantities of money held, resulting in spending in excess of income. This will lead to increases in wages and prices without much of an increase in real economic activity. As wages and prices rise, the demand for money will increase until eventually the demand for money is equal to the increased supply. As this happens, the real interest rate will go back to its original level and the economy will still be at full employment, with prices now higher.
c. Real interest rates will rise while the money supply is rising and the actual velocity of money is declining. Then households and firms will attempt to increase individual quantities of money held, resulting in spending in excess of income. This will lead to increases in wages and prices without much of an increase in real economic activity. As wages and prices rise, the demand for money will increase until eventually the demand for money is equal to the increased supply. As this happens, the real interest rate will go back to its original level and the economy will still be at full employment, with prices now higher.
d. expected inflation will rise, so nominal interest rates will rise also.
e. none of the other answers.

Macroeconomics Final Exam MWF am
Answer Section

MULTIPLE CHOICE

1. ANS: A TOP: ACC Assessment Question

2. ANS: A TOP: ACC Assessment Question

3. ANS: C TOP: ACC Assessment Questions

4. ANS: B TOP: ACC Assessment Questions

5. ANS: B

6. ANS: A DIF: 2 TOP: Consumption Spending

7. ANS: A DIF: 2 TOP: Investment Spending

8. ANS: D

9. ANS: A DIF: 2 TOP: Federal Tax Revenues

10. ANS: E

11. ANS: D DIF: 2 TOP: Summing Up: Aggregate Expenditures

12. ANS: B DIF: 2 TOP: The Federal Open Market Committee

13. ANS: B DIF: 2 TOP: Using the Theory: Bank Failures and Banking Panics

14. ANS: D DIF: 2 TOP: Are There Two Theories of the Interest Rate?

15. ANS: C DIF: 1 TOP: The Fed's Performance

16. ANS: E DIF: 2 TOP: Responding to Supply Shocks

17. ANS: C DIF: 2 TOP: The Functions of the Federal Reserve

18. ANS: A DIF: 2 TOP: Demand Shocks in the Short Run

19. ANS: C DIF: 2 TOP:

20. ANS: E DIF: 2 TOP: Ongoing Inflation and the Phillips Curve

21.	ANS: B	DIF: 1	TOP: GDP: A Definition
22.	ANS: C	DIF: 2	TOP: GDP: A Definition
23.	ANS: A	DIF: 2	TOP: GDP: A Definition
24.	ANS: D	DIF: 3	TOP: The Expenditure Approach to GDP
25.	ANS: E	DIF: 2	TOP: Financial Intermediaries
26.	ANS: B		