UNK

MACROECONOMICS
Section I
Time – 70 minutes
60 Questions

Directions: Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case and then fill in the corresponding oval on the answer sheet.

1. If a certain combination of goods or services lies outside the production possibilities curve of an economy, which of the following is true?
   (A) Effective trade barriers have reduced
   (B) New technology is being used in production
   (C) Resources are not available to achieve that combination of goods or services
   (D) Resources arc not being used efficiently to achieve that combination of goods or services
   (E) Resources are being used at a more rapid rate than they were in the past

2. Which of the following groups would most likely gain from unanticipated inflation?
   (A) Landlords who own apartments in cities with rent controls
   (B) Individuals who have fixed retirement incomes
   (C) Individuals who earn high income
   (D) Individuals who have borrowed money at fixed interest rates
   (E) Banks that have loaned all excess reserves at a fixed interest rate

3. With a constant money supply, if the demand for money decreases, the equilibrium interest rate and quantity of money will change in which of the following ways?

	Interest Rate	Quantity of Money
(A)	Increase	Decrease
(B)	Increase	No Change
(C)	Decrease	Decrease
(D)	Decrease	Increase
(E)	Decrease	No Change

GROSS DOMESTIC PRODUCT

4. According to the graph above, an increase in aggregate supply will most likely cause income and employment to change in which of the following ways?

	Income	Employment
(A)	Decrease	Decrease
(B)	Decrease	Increase
(C)	No Change	Increase
(D)	Increase	Decrease
(E)	Increase	Increase

5. If the exchange rate between the United States dollar and the British pound changed from $2 per pound to $3 per 1 pound, and domestic prices in both countries stayed the same, then the United States dollar would
   (A) Depreciate, making the United States imports from Britain more expensive
   (B) Depreciate, making United States imports from Britain cheaper
   (C) Appreciate, making United States imports from Britain more expensive
   (D) Appreciate, making United States imports from Britain cheaper
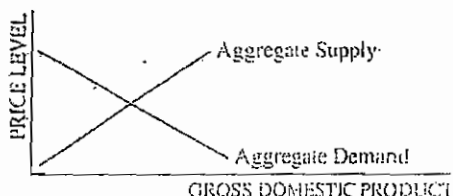   (E) Purchase 3 times more British goods than before the change occurred

6. If an economy is operating with significant unemployment, an increase in which of the following will most likely cause employment to increase and interest rate to decrease?
   (A) Purchases of government bonds by the central bank
   (B) Transfer payments
   (C) Reserve requirements
   (D) Government expenditures
   (E) Investment in basic infrastructure

7. An increase in which of the following is most likely to promote economic growth?
   (A) Consumption spending
   (B) Investment tax credits
   (C) The natural rate of unemployment
   (D) The trade deficit
   (E) Real interest rates

8. An appropriate fiscal policy to combat a recession would be to increase which of the following?
   - (A)   Interest rates
   - (B)   The money supply
   - (C)   Taxes
   - (D)   Government spending
   - (E)   The sales of government bonds

9. The concept of opportunity cost would no longer be relevant if
   - (A)   Poverty in an economy no longer existed
   - (B)   The supply of all resources were unlimited
   - (C)   Resources were allocated efficiently
   - (D)   Exports from the United States
   - (E)   The tariff on goods imported into the United States

10. An appreciation of the United States dollar on the foreign exchange market could be caused by a decrease in which of the following?
    - (A)   United States interest rates
    - (B)   The United States consumer price index
    - (C)   Demand for the dollar by United States residents
    - (D)   Exports from the United States
    - (E)   The tariff on goods imported into the United States

11. Which of the following would indicate that economic growth had occurred?
    - (A)   The production possibilities curve shifts to the left
    - (B)   The long-run aggregate supply curve shifts to the right
    - (C)   The aggregate demand curve shifts to the right
    - (D)   The Phillips curve becomes flatter
    - (E)   Business cycles no longer exist

12. Which of the following is most likely to occur if the Federal Reserve engages in open market operations to reduce inflation?
    - (A)   A decrease in interest rates
    - (B)   A decrease in reserves in the banking system
    - (C)   A decrease in the government deficit
    - (D)   An increase in the money supply
    - (E)   An increase in exports

13. Which Federal Reserve action can shift the aggregate demand curve to the left?
    - (A)   Lowering the federal funds rate
    - (B)   Lowering income taxes
    - (C)   Lowering reserve requirements
    - (D)   Raising the discount rate
    - (E)   Raising government spending on national defense

14. Crowding out refers to the decrease in
    - (A)   National output caused by higher taxes
    - (B)   Domestic production caused by increased imports
    - (C)   Private investment due to increased borrowing by the government
    - (D)   Employment caused by higher inflation
    - (E)   Exports caused by an appreciating currency of a country

15. If the real interest rate in the United States increases relative to that of the rest of the world, capital should flow
    - (A)   Into the United States and the dollar will depreciate
    - (B)   Into the United States and the dollar will appreciate
    - (C)   Out of the United States and the dollar will depreciate
    - (D)   Out of the United States and the dollar will appreciate
    - (E)   Out of the United States and the value of the dollar will not change

16. Which of the following policy choices represents a combination of fiscal and monetary policies designed to bring the economy out of a recession?
    - (A)   Decreasing both taxes and the money supply
    - (B)   Increasing both taxes and the money supply
    - (C)   Increasing government spending and decreasing the federal funds rate
    - (D)   Increasing both taxes and the discount rate
   - (E)   Engaging in deficit spending and government bond sales

17. Which of the following will be counted as unemployed by the United States Bureau of Labor Statistics?
    - (A)   Persons who quit their previous jobs to stay at home to care for sick parents
    - (B)   Persons who were laid off from their previous jobs and have not applied for a job in two years
    - (C)   Persons who were fired from their previous jobs and are actively applying for work
    - (D)   Persons who have given up looking for jobs after long searches
    - (E)   Persons who quit their previous jobs to start their own businesses
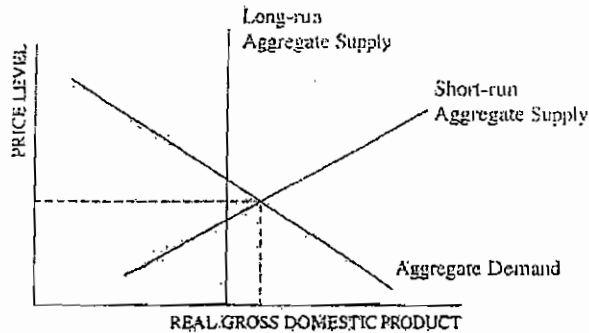
18. Which of the following sequences of events would occur if the Federal Reserve implemented Contractionary monetary policy?
    (A) Interest rates increase, investment and consumption spending decrease, aggregate demand decreases, and output and prices decrease.
    (B) Interest rates increase, investment and consumption spending decrease, aggregate demand increases, and output and prices decrease.
    (C) Interest rates increase, investment and consumption spending increase, aggregate demand decreases, and output and prices decrease.
    (D) Interest rates decrease, investment and consumption spending decrease, aggregate demand decreases, and output and prices decrease.
    (E) Interest rates decrease, investment and consumption spending decrease, aggregate demand decreases, and output and prices increase.

19. Suppose that autonomous consumption is $400 and that the marginal propensity to consume is 0.8. If disposable income increases by $1,200, consumption spending will increase by
    (A) $1,600
    (B) $1,360
    (C) $1,200
    (D) $960
    (E) $400

20. In an economy in which all prices, including wages, are completely flexible an increase in labor productivity will result in which of the following changes in output and real wages?

Output		Real Wages
(A)	Increases	Increases
(B)	Increases	Decreases
(C)	Decreases	No change
(D)	Decreases	Increases
(E)	Decreases	Decreases

21. When the average price level increases by 10% in a given year, which of the following must increase by 10% for real output to remain the constant?
    (A) Real national income
    (B) Nominal national income
    (C) The international value of the currency
    (D) Real interest rates
    (E) Nominal interest rates

22. Which of the following will occur in a competitive market when the price of a good is less than the equilibrium price?
    (A) Price will decrease to eliminate the surplus and restore equilibrium
    (B) Price will decrease to eliminate the shortage and restore equilibrium
    (C) Price will increase to eliminate the surplus and restore equilibrium
    (D) Price will increase to eliminate the shortage and restore equilibrium
    (E) Price will remain constant, because supply will increase to eliminate the shortage

23. A short-run Phillips curve shows an inverse relationship between
    (A) Interest rates and borrowing
    (B) Inflation and unemployment
    (C) Income and consumption
    (D) Prices and quantity demanded
    (E) Input and outputs

24. Which of the following can be expected to cause an increase in gross domestic product in the short run?
    (A) An increase in the tax rate
    (B) An increase in the interest rate
    (C) Equal increases in both imports and exports
    (D) Equal increases in both taxes and government expenditures
    (E) Equal decreases in both investment and government expenditures

25. If the federal government reduces its budget deficit when the economy is close to full employment, which of the following will most likely result?
    (A) Inflation will increase
    (B) Tax revenues will increase
    (C) Interest rates will decrease
    (D) Unemployment will decrease
    (E) The international value of the dollar will increase

26. Which of the following will cause the United States dollar to depreciate relative to the euro?
    (A) An increase in household income in the United States
    (B) An increase in interest rates in the United States
    (C) An increase in household income in Europe
    (D) A decrease in interest rates in Europe
    (E) A decrease in price level in the United States

27. Stagflation is most likely to be caused by
    (A) An increase in aggregate demand
    (B) A decrease in aggregate demand
    (C) An increase in aggregate supply
    (D) A decrease in aggregate supply
    (E) A large increase in the money supply
28. Assume that the nominal interest rate is 10%. If the expected inflation rate is 5%, the real interest rate is
    (A) 0.5%
    (B) 2%
    (C) 5%
    (D) 10%
    (E) 15%
29. Which of the following will lead to an increase in the United States gross domestic product?
    (A) More individuals prepare their own personal income tax returns
    (B) Some citizens begin working abroad as computer programmers
    (C) The government prohibits the sale of alcoholic beverages
    (D) Foreign companies build new assembly plants in the United States
    (E) A million United States households sell their used cars to their children
30. An advance in technology will cause the
    (A) Aggregate demand curve to shift to the right
    (B) Aggregate demand curve to shift to the left
    (C) Short-run aggregate supply curve to shift to the right
    (D) Long-run aggregate supply curve to shift to the right
    (E) Long-run aggregate supply curve to shift to the right
31. Suppose that the Federal Reserve buys $400 billion worth of government securities from the public. If the required reserve ratio is 20%, the maximum increase in the money supply is
    (A) $1,600 billion
    (B) $1,800 billion
    (C) $2,000 billion
    (D) $2,200 billion
    (E) $2,400 billion

Questions 32-34 are based on the diagram below, which shows the production alternatives of two countries, Alpha and Beta, producing two goods, grain and still, using all of their available resources.
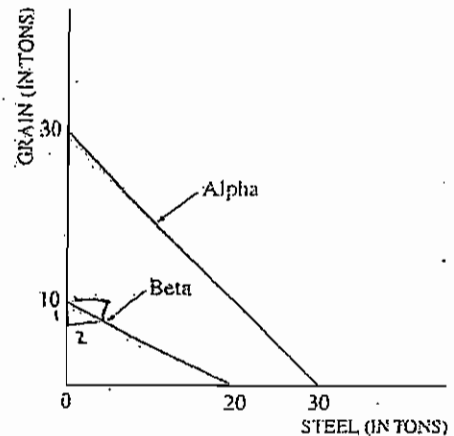
32. Before specialization and trade, the domestic opportunity cost of producing 1 ton of grain in Alpha and in Beta is which of the following?

	Alpha	Beta
(A)	1 ton of steel	1 ton of steel
(B)	1 ton of steel	2 ton of steel
(C)	2ton of steel	1 ton of steel
(D)	1 ton of steel	0.5 ton of steel
(E)	0.33 ton of steel	1.5 ton of steel

33. The theory of 0comparative advantage implies that Alpha would find it advantageous to
    (A) Exports grain and import steel
    (B) Export steel and import grain
    (C) Export both grain and steel and export nothing
    (D) Import both grain and steel and export nothing
    (E) Trade 1 ton of grain for 0.5 of steel
34. At what real exchange ratio, also referred to as the terms of trade, between grain (G) and steel (S) would both Alpha and Beta find it mutually advantageous to specialize and trade.
    (A) 1 G = 3.0 S
    (B) 1 G = 1.5 S
    (C) 1 G = 1.0 S
    (D) 1 G = 0.5 S
    (E) There is no real exchange ratio that would enable both countries to benefit, since Alpha as an absolute advantage in both goods.

PRICE LEVEL

Long-run Aggregate Supply

Short-run Aggregate Supply

Aggregate Demand

REAL GROSS DOMESTIC PRODUCT

35. According to the graph above, which of the following is true about the long-run equilibrium of the economy depicted?
   (A) The economy is in long-run equilibrium
   (B) The aggregate demand curve will shift from left to right
   (C) The long-run aggregate supply curve will remain in a recession
   (D) Without a fiscal policy stimulus, the economy will remain in recession
   (E) As wages increase, the short-run aggregate supply curve will shift to the left to restore long run equilibrium

36. An increase in personal income taxes will most likely cause aggregate demand and aggregate supply to change in which of the following ways in the short run?

Aggregate Demand	Aggregate Supply
(A) Not change	Decrease
(B) Not change	Increase
(C) Decrease	Not change
(D) Decrease	Increase
(E) Increase	Not change

37. Which type of unemployment would increase if workers lost their jobs because of a recession?
   (A) Cyclical
   (B) Frictional
   (C) Seasonal
   (D) Search
   (E) Structural

38. Which of the following is true about the marginal propensity to consume?
   (A) It is the percentage of total income that is spent on consumption
   (B) It determines the size of the simple spending multiplier
   (C) It increases as incomes increase because increases in income cause people to spend more.
   (D) It is the same as the money multiplier
   (E) It is equal to the average propensity to consume for people with low incomes

39. When the economy is operating below full employment level of output, an appropriate monetary policy would be to increase which of the following?
   (A) The discount rate
   (B) The required reserve ratio
   (C) The international value of the dollar
   (D) Open market purchases of government bonds
   (E) Government expenditures on goods and services

40. Assume that the economy is at full employment. Policymakers which to maintain the price level but want to encourage greater investment. Which of the following combinations of monetary and fiscal policies would best achieve that goal?

	Monetary Policy	Fiscal Policy
(A)	No change	Contractionary
(B)	Expansionary	No change
(C)	Expansionary	Contractionary
(D)	Expansionary	Expansionary
(E)	Contractionary	Expansionary

41. In one year, spending on consumption, investment, and government purchases was equal to 103% of a country's gross domestic product. This would be possible only if
   (A) The money supply increased
   (B) Net exports were positive
   (C) Net exports were negative
   (D) The government ran a budget surplus
   (E) The government had a balanced budget

42. When firms restructure their operations to decrease production costs, the aggregate supply curve, the price level, and real output will change in which of the following ways?

	Aggregate Supply Curve	Price Level	Real Output
(A)	Shift to the left	Increase	Increase
(B)	Shift to the left	Increase	No change
(C)	Shift to the right	Increase	Increase
(D)	Shift to the right	Decrease	Increase
(E)	Shift to the right	Decrease	Decrease

43. An economy is in short-run equilibrium at a level of output that is less than full-employment output. If there were no fiscal or monetary policy intervention, which of the following changes in output and the price level would occur in the long run?

	Output	Price Level
(A)	Increase	Decrease
(B)	Increase	Increase
(C)	Decrease	Decrease
(D)	Decrease	Increase
(E)	No change	No change

44. Assume that the world operates under a flexible exchange rate system. If the central bank of Mexico increases its money supply but other countries do not change theirs, Mexico's inflation rate and the international value of the Mexican peso will most likely change in which of the following ways?

	Inflation Rate	International Value of the Peso
(A)	Increase	Appreciate
(B)	Increase	Depreciate
(C)	Increase	No change
(D)	Decrease	Appreciate
(E)	Decrease	Depreciate

45. The Federal Reserve decreases the federal funds rate by
   (A) Decreasing the reserve requirement
   (B) Decreasing the discount rate
   (C) Increasing the discount rate
   (D) Selling government bonds on the open market
   (E) Buying government bonds on the open market

Labor Market Data for Country X (in millions of people)

Population	180
Employed	94
Unemployed	6
Not in the labor force	80

46. Based on the information in the table above, what is the unemployment rate for Country X?
   (A) 3.3%
   (B) 4.0%
   (C) 6.0%
   (D) 6.38%
   (E) 7.5%

47. Suppose that the government decreases taxes and at the same time the central bank decreases the discount rate. The combined actions will result in
   (A) An increase in unemployment and a decrease in the interest rate
   (B) An increase in unemployment and a increase in the interest rate
   (C) An increase in the real gross domestic product and a decrease in the interest rate
   (D) An increase in the real gross domestic product and an increase in the interest rate
   (E) An increase in the real gross domestic product and an indeterminate change in the interest rate

48. In a closed economy with only lump-sun taxation, if the marginal propensity to consume is equal to 0.75, a $70 billion increase in government spending could cause a maximum increase in output of
   (A) $52.5 billion
   (B) $70 billion
   (C) $122.5 billion
   (D) $210 billion
   (E) $280 billion

49. Which of the following is NOT a function of fiat money?
   (A) A standard of deferred payment
   (B) A unit of account
   (C) A store of intrinsic value
   (D) A store of value
   (E) A medium of exchange

50. When an economy is at full employment, which of the following will most likely create demand-pull inflation in the short run?
   (A) An increase in the discount rate
   (B) An increase in personal taxes
   (C) A decrease in the real rate of interest
   (D) A decrease in government spending
   (E) A decrease in the money supply

51. Under rational expectations, an announced expansion in the money supply will change nominal and real gross domestic products in which of the following ways?

(A)	Increase	Increase
(B)	Increase	Decrease
(C)	Increase	No change
(D)	No change	Decrease
(E)	No change	No change

52. A decrease in labor productivity will shift the
   (A) Aggregate demand curve to the right
   (B) Aggregate demand curve to the left
   (C) Long-run aggregate supply curve to the right
   (D) Short-run aggregate supply curve to the right
   (E) Short-run aggregate supply curve to the left

53. In the long-run, if aggregate demand decreases, real gross domestic product and the price level will change in which of the following ways

	Real GDP	Price Level
(A)	Decrease	Decrease
(B)	Decrease	Increase
(C)	No change	Decrease
(D)	Increase	Decrease
(E)	No change	Increase

54. Suppose that all banks keep only the minimum reserves required by law and that there are no currency drains. The legal reserve requirement is 10%. If Maggie deposits the $100 bill she reserved as a graduation gift from her grandmother into her checking account, the maximum increase in the total money supply will be
(A) $10
(B) $100
(C) $900
(D) $1,000
(E) $1,100

55. Assuming fixed exchanged rates, if country Z's rate of inflation increases relative to its trading patterns, Country Z's imports and exports are most likely to change in which of the following ways?

	Imports	Exports
(A)	Decrease	Decrease
(B)	Decrease	Increase
(C)	Increase	Decrease
(D)	Increase	Increase
(E)	No change	No change

56. Which of the following household purchases will be counted as part of gross private investment in a country's gross domestic product?
(A) Government bonds
(B) Shares of a company stock
(C) Corporate bonds
(D) A new car for personal use
(E) A newly constructed home

57. An increase in aggregate demand will cause which of the following?
(A) A movement along a given short-run Phillips curve
(B) The long-run Phillips curve to become horizontal
(C) The short-run Phillips curve to shift to the left
(D) The long-run Phillips curve to shift the right
(E) The long-run Phillips curve to shift to the left

58. Which of the following would cause the short-run aggregate supply curve to shift to the right?
(A) An increase in the wage rate
(B) An increase in the interest rate
(C) An increase in the natural rate of unemployment
(D) A decrease in the capital stock
(E) A decrease in the expected price level

59. A decrease in business taxes would lead to an increase in national income by increasing which of the following?
(A) The money supply
(B) Unemployment
(C) Aggregate demand only
(D) Aggregate supply only
(E) Both aggregate demand and aggregate supply

60. In an open economy, an increase in government budget deficit tends to cause the international value of a country's currency and its trade deficit to change in which of the following ways?

(A)	Appreciate	Become smaller
(B)	Appreciate	Become larger
(C)	Depreciate	Become smaller
(D)	Depreciate	Become larger
(E)	Not change	Not change

Answers

1.	C	13.	D	25.	C	37.	A	49.	C
2.	D	14.	C	26.	A	38.	B	50.	C
3.	E	15.	B	27.	D	39.	D	51.	C
4.	E	16.	C	28.	C	40.	C	52.	E
5.	A	17.	C	29.	D	41.	C	53.	C
6.	A	18.	A	30.	E	42.	D	54.	C
7.	B	19.	D	31.	C	43.	A	55.	C
8.	D	20.	A	32.	B	44.	B	56.	E
9.	B	21.	B	33.	A	45.	E	57.	A
10.	B	22.	D	34.	B	46.	C	58.	E
11.	B	23.	B	35.	E	47.	E	59.	E
12.	B	24.	D	36.	C	48.	E	60.	B