

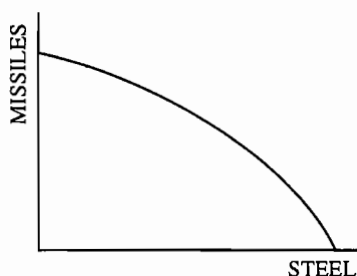
# MACROECONOMICS

## 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.

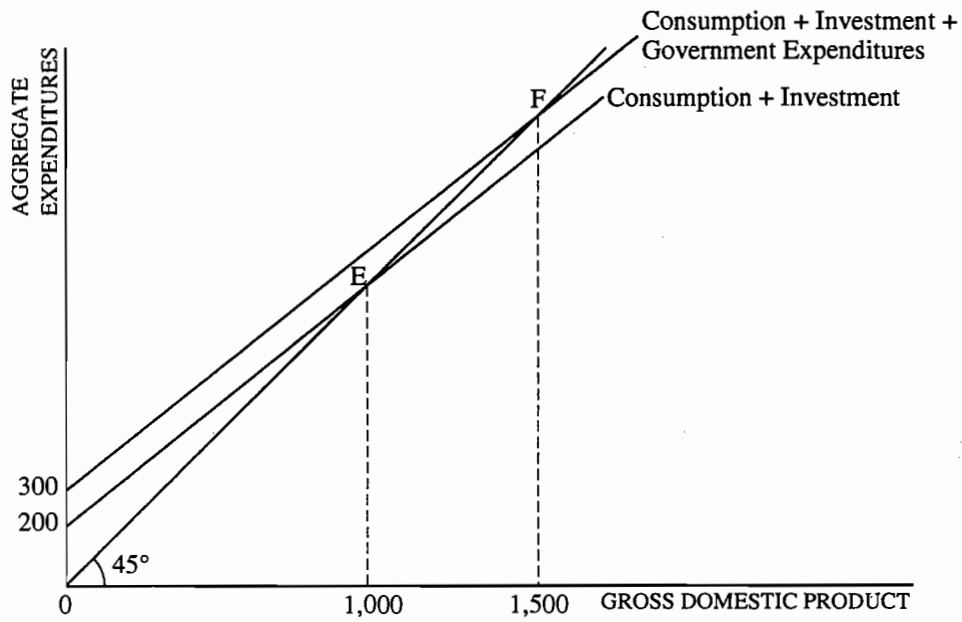


1. Which of the following would cause the production possibilities curve shown above to shift outward?
  - (A) Reopening steel plants that had been closed
  - (B) Rehiring laid-off steelworkers
  - (C) Using machinery for missile production instead of steel production
  - (D) Using machinery for steel production instead of missile production
  - (E) Developing a more efficient steelmaking process
2. If in a specified year nominal gross domestic product grew by 11 percent and real gross domestic product grew by 4 percent, inflation for this year would be
  - (A) -7%
  - (B) 7%
  - (C) 8%
  - (D) 11%
  - (E) 15%
3. Which of the following is an example of structural unemployment?
  - (A) A computer programmer who leaves her job to move to Florida
  - (B) A worker who loses his job during a recession
  - (C) An autoworker who is replaced by a robot
  - (D) A construction worker who is always unemployed during the winter months
  - (E) A worker who is engaged in unproductive work

4. What would be the effect of a large increase in labor productivity on the real gross domestic product and the price level?

	Real Gross Domestic Product	Price Level
(A)	Increase	Increase
(B)	Increase	Decrease
(C)	No effect	Increase
(D)	Decrease	Increase
(E)	Decrease	Decrease

5. An increase in which of the following will increase the value of the spending multiplier?
  - (A) The supply of money
  - (B) Equilibrium output
  - (C) Personal income tax rates
  - (D) The marginal propensity to consume
  - (E) The required reserve ratio
6. According to the Keynesian model, which of the following would increase aggregate demand?
  - (A) An increase in autonomous investment
  - (B) An increase in the discount rate
  - (C) A decrease in unemployment compensation payments
  - (D) A decrease in government expenditures accompanied by an equal reduction in taxes
  - (E) A decrease in government expenditures on public works



7. The graph above indicates equilibrium at E for a closed economy without government spending. If the addition of government spending results in equilibrium at F, which of the following is true?
- (A) Government spending is \$300 and the multiplier is 5.
  - (B) Government spending is \$100 and the multiplier is 5.
  - (C) Government spending is \$100 and consumption increases by \$500.
  - (D) Government spending and gross domestic product increase by \$500 each.
  - (E) Consumption and gross domestic product increase by \$500 each.

8. Commercial banks can create money by
- (A) transferring depositors' accounts at the Federal Reserve for conversion to cash
  - (B) buying Treasury bills from the Federal Reserve
  - (C) sending vault cash to the Federal Reserve
  - (D) maintaining a 100 percent reserve requirement
  - (E) lending excess reserves to customers
9. If the reserve requirement is 20 percent, the existence of \$100 worth of excess reserves in the banking system can lead to a maximum expansion of the money supply equal to
- (A) \$20
  - (B) \$100
  - (C) \$300
  - (D) \$500
  - (E) \$750
10. If the Federal Reserve lowers the reserve requirement, which of the following would most likely occur?
- (A) Imports will rise, decreasing the trade deficit.
  - (B) The rate of saving will increase.
  - (C) Unemployment and inflation will both increase.
  - (D) Businesses will purchase more factories and equipment.
  - (E) The budget deficit will increase.
11. If the public's desire to hold money as currency increases, what will the impact be on the banking system?
- (A) Banks would be more able to reduce unemployment.
  - (B) Banks would be more able to decrease aggregate supply.
  - (C) Banks would be less able to decrease aggregate supply.
  - (D) Banks would be more able to expand credit.
  - (E) Banks would be less able to expand credit.

12. According to Keynesian theory, decreasing taxes and increasing government spending will most likely change consumption expenditures and unemployment in which of the following ways?

<u>Consumption Expenditures</u>	<u>Unemployment</u>
(A) Decrease	Increase
(B) Decrease	No change
(C) Increase	Decrease
(D) Increase	Increase
(E) No change	Decrease

13. Which of the following policy combinations is most likely to cure a severe recession?

<u>Open-Market Operations</u>	<u>Taxes</u>	<u>Government Spending</u>
(A) Buy securities	Increase	Decrease
(B) Buy securities	Decrease	Increase
(C) Buy securities	Decrease	Decrease
(D) Sell securities	Decrease	Decrease
(E) Sell securities	Increase	Increase

14. In an economy at full employment, a presidential candidate proposes cutting the government debt in half in four years by increasing income tax rates and reducing government expenditures. According to Keynesian theory, implementation of these policies is most likely to increase

(A) unemployment  
(B) consumer prices  
(C) aggregate demand  
(D) aggregate supply  
(E) the rate of economic growth

15. To protect high-cost domestic producers, a country imposes a tariff on an imported commodity, Y. Which of the following is most likely to occur in the short run?

I. A decrease in domestic production of Y  
II. An increase in domestic production of Y  
III. An increase in foreign output of Y

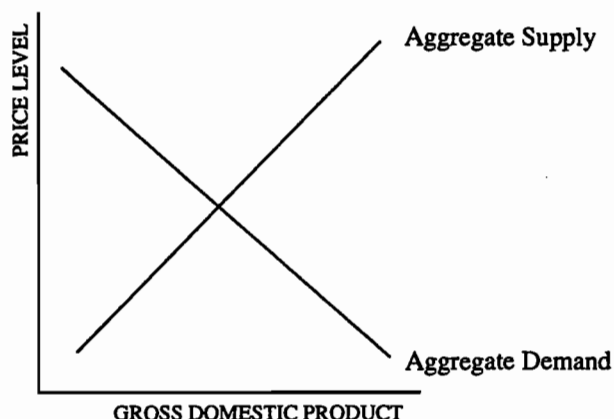
(A) I only  
(B) II only  
(C) III only  
(D) I and III only  
(E) II and III only

16. Suppose two countries are each capable of individually producing two given commodities. Instead, each specializes by producing the commodity for which it has a comparative advantage and then trades with the other country. Which of the following is most likely to result?

(A) The two countries will become more independent of each other.  
(B) Unemployment will increase in one country and decrease in the other.  
(C) There will be more efficient production in one country but less efficient production in the other.  
(D) Both countries will become better off.  
(E) Both countries will be producing their commodity inefficiently.

17. Which of the following means of reducing military spending would have the greatest positive impact on gross domestic product for the United States?

(A) Combining two domestic military bases into one overseas base  
(B) Cutting retirement benefits to military personnel  
(C) Closing overseas military bases and relocating those operations to the United States  
(D) Closing overseas military bases and laying off military personnel  
(E) Canceling contracts with domestic producers for new airplanes



18. According to the graph above, which of the following will necessarily result in a decrease in output?

I. A rightward shift of the aggregate demand curve  
II. A leftward shift of the aggregate demand curve  
III. A rightward shift of the aggregate supply curve  
IV. A leftward shift of the aggregate supply curve

(A) I only  
(B) III only  
(C) I and III only  
(D) II and III only  
(E) II and IV only

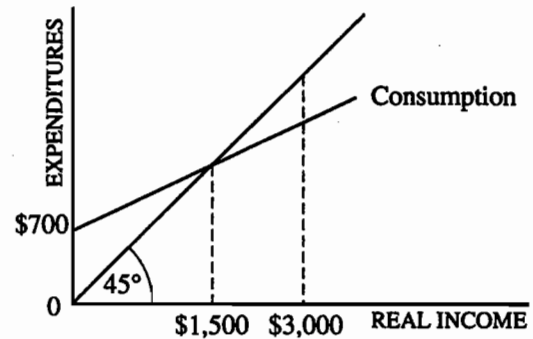
19. Which of the following will result in the greatest increase in aggregate demand?

- (A) A \$100 increase in taxes
- (B) A \$100 decrease in taxes
- (C) A \$100 increase in government expenditures
- (D) A \$100 increase in government expenditures, coupled with a \$100 increase in taxes
- (E) A \$100 increase in government expenditures, coupled with a \$100 decrease in taxes

20. If the economy is in a severe recession, which of the following is the fiscal policy most effective in stimulating production?

- (A) Government spending increases.
- (B) Government spending decreases.
- (C) Personal income taxes are increased.
- (D) The Federal Reserve sells bonds on the open market.
- (E) The Federal Reserve buys bonds on the open market.

Questions 21-22 refer to the diagram below, which depicts an economy's consumption function.



21. If the marginal propensity to consume increases, the equilibrium levels of income and consumption will change in which of the following ways?

<u>Equilibrium Level of Income</u>	<u>Equilibrium Level of Consumption</u>
(A) No change	No change
(B) No change	Increase
(C) Increase	No change
(D) Increase	Increase
(E) Decrease	Decrease

22. If private investment of \$100 is added to the economy, the equilibrium levels of income and consumption will change in which of the following ways?

<u>Equilibrium Level of Income</u>	<u>Equilibrium Level of Consumption</u>
(A) Increase	Decrease
(B) Increase	Increase
(C) Increase	No change
(D) No change	Increase
(E) No change	No change

23. The real value of the United States dollar is determined by
- (A) federal regulations regarding purchasing power
  - (B) the value of the gold backing the dollar
  - (C) the goods and services it will buy
  - (D) the money multiplier
  - (E) the marginal propensity to consume
24. The demand for money increases when national income increases because
- (A) spending on goods and services increases
  - (B) interest rates increase
  - (C) the budget deficit increases
  - (D) the money supply increases
  - (E) the public becomes more optimistic about the future
25. An aggregate supply curve may be horizontal over some range because within that range
- (A) a higher price level leads to higher interest rates, which reduce the money supply and consumer spending
  - (B) changes in the aggregate price level do not induce substitution
  - (C) output cannot be increased unless prices and interest rates increase
  - (D) rigid prices prevent employment from fluctuating
  - (E) resources are underemployed and an increase in demand will be satisfied without any pressure on the price level
26. If the Federal Reserve wishes to use monetary policy to reinforce Congress' fiscal policy changes, it should
- (A) increase the money supply when government spending is increased
  - (B) increase the money supply when government spending is decreased
  - (C) decrease the money supply when government spending is increased
  - (D) increase interest rates when government spending is increased
  - (E) decrease interest rates when government spending is decreased
27. Which of the following relationships is illustrated by a short-run Phillips curve?
- (A) A decrease in the rate of inflation is accompanied by an increase in the rate of economic growth.
  - (B) A decrease in the rate of inflation is accompanied by an increase in the rate of unemployment.
  - (C) An increase in the rate of inflation is accompanied by a decrease in the rate of economic growth.
  - (D) An increase in the rate of inflation is accompanied by an increase in the rate of unemployment.
  - (E) A decrease in the rate of economic growth is accompanied by a decrease in the rate of unemployment.
28. Which of the following could cause simultaneous increases in inflation and unemployment?
- (A) A decrease in government spending
  - (B) A decrease in the money supply
  - (C) A decrease in the velocity of money
  - (D) An increase in inflationary expectations
  - (E) An increase in the overall level of productivity
29. If other things are held constant, an increase in United States imports will
- (A) tend to cause the dollar to appreciate because the world supply of dollars will rise
  - (B) tend to cause the dollar to appreciate because the world demand for dollars will rise
  - (C) have no effect on the exchange rate for the dollar because exports will also increase
  - (D) tend to cause the dollar to depreciate because the world supply of dollars will rise
  - (E) tend to cause the dollar to depreciate because the world demand for dollars will rise

30. An increase in which of the following is most likely to cause an improvement in the standard of living over time?
- (A) Size of the population
  - (B) Size of the labor force
  - (C) Number of banks
  - (D) Level of taxation
  - (E) Productivity of labor
31. The long-run aggregate supply curve is likely to shift to the right when there is
- (A) an increase in the cost of productive resources
  - (B) an increase in productivity
  - (C) an increase in the federal budget deficit
  - (D) a decrease in the money supply
  - (E) a decrease in the labor force
32. The consumer price index measures which of the following?
- (A) The change over time of the weighted prices of a particular group of goods and services
  - (B) The change over time of the weighted wholesale price index
  - (C) The change over time of the difference between the gross domestic product deflator and the wholesale price index
  - (D) Inflation corrected for changes in the real gross domestic product
  - (E) Inflation corrected for changes in the wholesale price index
33. Which of the following is true if the economy is producing at the full-employment level of output?
- (A) The unemployment rate is zero.
  - (B) No person is receiving unemployment compensation from the government.
  - (C) There is frictional unemployment.
  - (D) The government's budget is balanced.
  - (E) The balance of trade is in equilibrium.
34. Which of the following is a basic tenet of classical economic analysis?
- (A) Saving is usually greater than investment.
  - (B) The economy is self-correcting to full employment.
  - (C) The economy may be in equilibrium at less than full employment.
  - (D) Inflation is not a serious economic problem.
  - (E) The prices of products tend to be inflexible.
35. Which of the following will most likely result from a decrease in government spending?
- (A) An increase in output
  - (B) An increase in the price level
  - (C) An increase in employment
  - (D) A decrease in aggregate supply
  - (E) A decrease in aggregate demand
36. Current equilibrium output equals \$2,500,000, potential output equals \$2,600,000, and the marginal propensity to consume equals 0.75. Under these conditions, a Keynesian economist is most likely to recommend
- (A) decreasing taxes by \$25,000
  - (B) decreasing taxes by \$100,000
  - (C) increasing government spending by \$25,000
  - (D) increasing government spending by \$33,333
  - (E) increasing government spending by \$100,000
37. An inflationary gap could be reduced by
- (A) an increase in government spending
  - (B) an increase in the supply of money
  - (C) an increase in the income tax rate
  - (D) a decrease in the discount rate
  - (E) a decrease in the reserve requirement



38. The circular flow of economic activity between consumers and producers includes which of the following?
- I. Households buy factor services from firms.
  - II. Households sell factor services to firms.
  - III. Households buy outputs from firms.
  - IV. Households sell outputs to firms.
- (A) III only
  - (B) IV only
  - (C) I and II only
  - (D) II and III only
  - (E) III and IV only
39. Suppose the required reserve ratio is 20 percent and a single bank with no excess reserves receives a \$100 deposit from a new customer. The bank now has excess reserves equal to
- (A) \$20
  - (B) \$80
  - (C) \$100
  - (D) \$400
  - (E) \$500
40. Which of the following is most likely to increase if the public decides to increase its holdings of currency?
- (A) The interest rate
  - (B) The price level
  - (C) Disposable personal income
  - (D) Employment
  - (E) The reserve requirement
41. During a mild recession, if policymakers want to reduce unemployment by increasing investment, which of the following policies would be most appropriate?
- (A) Equal increases in government expenditure and taxes
  - (B) An increase in government expenditure only
  - (C) An increase in transfer payments
  - (D) An increase in the reserve requirement
  - (E) Purchase of government securities by the Federal Reserve

42. Which of the following monetary and fiscal policy combinations would most likely result in a decrease in aggregate demand?

	<u>Discount Rate</u>	<u>Open-Market Operations</u>	<u>Government Spending</u>
(A)	Lower	Buy bonds	Increase
(B)	Lower	Buy bonds	Decrease
(C)	Raise	Sell bonds	Increase
(D)	Raise	Buy bonds	Increase
(E)	Raise	Sell bonds	Decrease

43. Which of the following is true of supply shocks?

- (A) They tend to change both relative prices and the general price level in the economy.
- (B) They affect only the general price level.
- (C) They can be anticipated and offset with appropriate fiscal policy.
- (D) They can be anticipated and offset with appropriate monetary policy.
- (E) They make the aggregate supply curve vertical.

44. Suppose that, from 1985 to 1986, unemployment fell from 7.2 to 7.0 percent and inflation fell from 3.8 to 1.1 percent. An explanation of these changes might be that the

- (A) aggregate demand curve shifted to the left
- (B) aggregate demand curve shifted to the right
- (C) aggregate supply curve shifted to the left
- (D) aggregate supply curve shifted to the right
- (E) short-run Phillips curve shifted to the right

45. If higher United States interest rates cause foreign demand for the dollar to increase, which of the following will occur to the international value of the dollar and to United States exports?

<u>International Value of the Dollar</u>	<u>Exports</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) Increase	No change
(D) Decrease	Increase
(E) Decrease	Decrease

46. The table below indicates the number of labor hours required in Countries X and Y to produce one unit of food or one unit of clothing.

<u>Country</u>	<u>Food</u>	<u>Clothing</u>
X	20 hours	50 hours
Y	10 hours	20 hours

Given this information, which of the following statements is correct?

- (A) X has a comparative advantage in the production of both food and clothing.  
 (B) Y has a comparative advantage in the production of both food and clothing.  
 (C) X has a comparative advantage in food production, whereas Y has a comparative advantage in clothing production.  
 (D) Y has a comparative advantage in food production, whereas X has a comparative advantage in clothing production.  
 (E) Neither country has a comparative advantage in the production of either good.
47. Which of the following groups of people would benefit from unanticipated inflation?
- I. Savers  
 II. Borrowers  
 III. Lenders
- (A) I only  
 (B) II only  
 (C) III only  
 (D) I and II only  
 (E) I and III only

48. An increase in the labor force participation rate will

- (A) increase investment and decrease savings  
 (B) increase savings and decrease investment  
 (C) have no effect on unemployment  
 (D) make it easier to reduce unemployment  
 (E) make it more difficult to reduce unemployment

49. Which of the following is a key feature of Keynesian economics?

- (A) The level of saving depends mostly on interest rates.  
 (B) The level of government expenditure depends mostly on interest rates.  
 (C) Supply creates its own demand.  
 (D) Macroeconomic equilibrium can occur at less than full employment.  
 (E) Wages are more flexible than prices.

50. If a large increase in total spending has no effect on real gross domestic product, it must be true that

- (A) the price level is rising  
 (B) the economy is experiencing high unemployment  
 (C) the spending multiplier is equal to 1  
 (D) the economy is in short-run equilibrium  
 (E) aggregate supply has increased

51. According to Keynesian theory, the most important determinant of saving and consumption is the

- (A) interest rate  
 (B) price level  
 (C) level of income  
 (D) level of employment  
 (E) flexibility of wages and prices

52. Under which of the following circumstances would increasing the money supply be most effective in increasing real gross domestic product?

<u>Interest Rates</u>	<u>Employment</u>	<u>Business Optimism</u>
(A) High	Full	High
(B) High	Less than full	High
(C) Low	Full	High
(D) Low	Full	Low
(E) Low	Less than full	Low

53. Faced with a large federal budget deficit, the government decides to decrease expenditures and tax revenues by the same amount. This action will affect output and interest rates in which of the following ways?

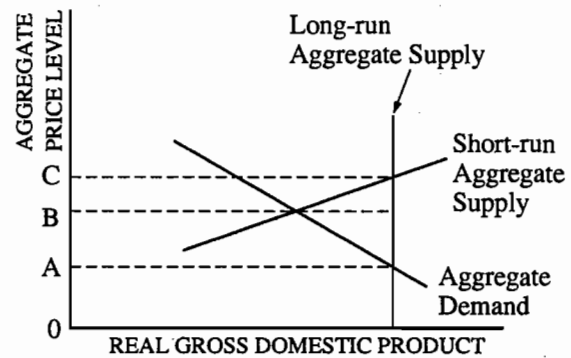
<u>Output</u>	<u>Interest Rates</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) No change	Decrease
(D) Decrease	Increase
(E) Decrease	Decrease

54. If crowding out only partially offsets the effects of a tax cut, which of the following changes in interest rates and gross domestic product are most likely to occur?

<u>Interest Rates</u>	<u>Gross Domestic Product</u>
(A) Increase	Increase
(B) Increase	Remain unchanged
(C) Increase	Decrease
(D) Remain unchanged	Increase
(E) Decrease	Decrease

55. All of the following are components of the money supply in the United States EXCEPT

- (A) paper money
- (B) gold bullion
- (C) checkable deposits
- (D) coins
- (E) demand deposits



56. The graph above depicts an economy's aggregate demand and aggregate supply curves. If aggregate demand remains constant, the equilibrium price levels in the short run and in the long run will be which of the following?

<u>Short Run</u>	<u>Long Run</u>
(A) 0A	0A
(B) 0B	0A
(C) 0B	0C
(D) 0C	0A
(E) 0C	0C

57. According to both monetarists and Keynesians, which of the following happens when the Federal Reserve reduces the discount rate?

- (A) The demand for money decreases and market interest rates decrease.
- (B) The demand for money increases and market interest rates increase.
- (C) The supply of money increases and market interest rates decrease.
- (D) The supply of money increases and market interest rates increase.
- (E) Both the demand for money and the supply of money increase and market interest rates increase.

58. An increase in which of the following is most likely to increase the long-run growth rate of an economy's real per capita income?
- (A) Population growth
  - (B) The proportion of gross domestic product consumed
  - (C) The educational attainment of the population
  - (D) The supply of money in circulation
  - (E) Personal income taxes
59. An increase in the money supply will have the greatest effect on real gross domestic product if
- (A) the marginal propensity to consume is low
  - (B) unemployment is very low
  - (C) investment spending is not sensitive to changes in interest rates
  - (D) the quantity of money demanded is not very sensitive to interest rates
  - (E) the required reserve ratio is high
60. If the Federal Reserve undertakes a policy to reduce interest rates, international capital flows will be affected in which of the following ways?
- (A) Long-run capital outflows from the United States will decrease.
  - (B) Long-run capital inflows to the United States will increase.
  - (C) Short-run capital outflows from the United States will decrease.
  - (D) Short-run capital inflows to the United States will decrease.
  - (E) Short-run capital inflows to the United States will not change.