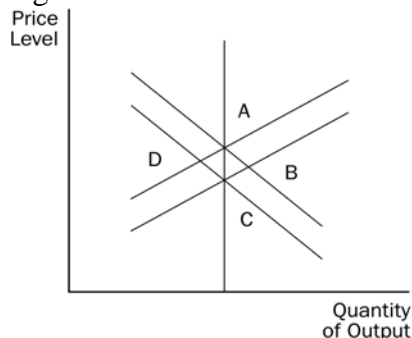


Joint exam 97-2**Multiple Choice**

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

- _____ 1. The natural rate of unemployment is the
- unemployment rate that would prevail with zero inflation.
 - rate associated with the highest possible level of GDP.
 - difference between the long-run and short-run unemployment rates.
 - amount of unemployment that the economy normally experiences.
- _____ 2. Drug companies can usually obtain patents on new drugs. This turns new ideas into
- private goods, and increase the incentive to engage in research.
 - private goods, but decrease the incentive to engage in research.
 - public goods, and increase the incentive to engage in research.
 - public goods, and decrease the incentive to engage in research.
- _____ 3. Which of the following is *not* a cause of the female-male salary gap ?
- Women are underrepresented in high-paying occupations.
 - Proportionately fewer woman than men reach higher-paying jobs in the occupations in which they both work.
 - Because women have greater labor force attachment than men, they are paid less for comparable work.
 - Women who do reach higher-paying jobs do so more slowly than men.
- _____ 4. Last year real GDP in Oceania was 561.0 billion and the population was 2.2 million. The year before real GDP was 500.0 billion and the population was 2.0 million. What was the approximate growth rate of real GDP per person?
- 12 percent
 - 10 percent
 - 4 percent
 - 2 percent
- _____ 5. Liquidity preference theory is most relevant to the
- short run and supposes that the price level adjusts to bring money supply and money demand into balance.
 - short run and supposes that the interest rate adjusts to bring money supply and money demand into balance.
 - long run and supposes that the price level adjusts to bring money supply and money demand into balance.
 - long run and supposes that the interest rate adjusts to bring money supply and money demand into balance.

6. Figure 1



Refer to Figure 1. An increase in the money supply would move the economy from C to

- B in the short run and the long run.
- D in the short run and the long run.
- B in the short run and A in the long run.
- D in the short run and C in the long run.

7. Because of automatic stabilizers, in recessions the government budget deficit _____, while in expansions the deficit _____.

- falls; rises
- rises; rises
- falls; falls
- rises; falls

8. Which of the following would tend to shorten recessions associated with anti-inflation policies of the Fed?

- People adjust their expectations of inflation slowly.
- People believe policy announcements made by Fed officials.
- The short-run Phillips curve does not shift immediately.
- All of the above are correct.

9. The government of Libertina considers two policies. Policy A would shift AD right by 200 units while policy B would shift AD right by 100 units. According to the short-run Phillips curve policy A will lead

- to a lower unemployment rate and a lower inflation rate than policy B.
- to a lower unemployment rate and a higher inflation rate than policy B.
- to a higher unemployment rate and a lower inflation rate than policy B.
- to a higher unemployment rate and a higher inflation rate than policy B.

10. Which part of the Federal Reserve System meets every 6 weeks to determine the nation monetary policy?

- Federal Open Market Committee.
- Board of Governors.
- the Federal Reserve Banks.
- depository institutions such as commercial banks.

11. When a country saves a smaller portion of its GDP, it will have

- more investment, and so have more capital and higher productivity.
- more investment, and so have less capital and lower productivity.
- less investment, and so have more capital and higher productivity.
- less investment, and so have less capital and lower productivity.

- _____ 12. If a doctor raises fees and works fewer hours per week, this suggests that
- the doctor regards leisure as an inferior good.
 - the doctor's choice represents disequilibrium behavior that will soon be modified.
 - the income effect to pursue more leisure activities dominates the substitution effect to work longer hours.
 - All of the above are correct.
- _____ 13. Which of the following statements is correct? An individual worker's labor supply curve
- can never slope downward.
 - slopes downward if that person responds to a higher wage by taking fewer hours of leisure per week.
 - slopes downward if that person responds to a higher opportunity cost of leisure by working fewer hours per week.
 - is horizontal if that person works the same number of hours per week, regardless of the opportunity cost of leisure.
- _____ 14. The supply of labor to McDonalds is
- almost perfectly inelastic if there is considerable unemployment in the economy.
 - almost perfectly elastic if current McDonald workers are fiercely loyal to the company.
 - critically dependent upon fluctuations in the interest rate.
 - more elastic than the supply to all fast-food restaurants as a group.
- _____ 15. Once supply side effects are taken into account, tax cuts for labor income can change
- the supply of labor
 - potential GDP.
- I and II
 - II only
 - I only
 - Neither I nor II.
- _____ 16. According to classical macroeconomic theory, changes in the money supply affect
- real GDP and the price level.
 - real GDP but not the price level.
 - The price level, but not the real GDP.
 - Neither the price level nor the real GDP.
- _____ 17. Which of the following is not a determinant of the long-run level of real GDP?
- the price level
 - the supply of labor
 - available natural resources
 - available technology
- _____ 18. In a certain economy in 2005, the value of imports amounted to 80 percent of the value of exports. Consumption, investment, and government purchases added up to \$5,000. The market value of all final goods and services produced within the economy was \$5,500. It follows that the economy exported
- \$500 worth of goods and services.
 - \$1,000 worth of goods and services.
 - \$1,500 worth of goods and services.
 - \$2,500 worth of goods and services.

- _____ 19. In the country of Mainia, only cranberries and maple syrup are produced. In 2006, 50 units of cranberries are sold at \$20 per unit, and 100 units of maple syrup are sold at \$10 per unit. The price of cranberries was \$10 per unit and the price of maple syrup was \$15 per unit in 2005, which is the base year. For 2006,
- a. nominal GDP is \$2,000, real GDP is \$2,000, and the GDP deflator is 100.
 - b. nominal GDP is \$2,000, real GDP is \$2,500, and the GDP deflator is 125.
 - c. nominal GDP is \$2,500, real GDP is \$2,000, and the GDP deflator is 83.3.
 - d. None of the above is correct.
- _____ 20. The multiplier effect
- a. and the crowding-out effect both amplify the effects of an increase in government expenditures.
 - b. and the crowding-out effect both diminish the effects of an increase in government expenditures.
 - c. diminishes the effects of an increase in government expenditures, while the crowding-out effect amplifies the effects.
 - d. amplifies the effects of an increase in government expenditures, while the crowding-out effect diminishes the effects.
- _____ 21. An increase in the *MPC*
- a. increases the multiplier, so that changes in government expenditures have a larger effect on aggregate demand.
 - b. increases the multiplier, so that changes in government expenditures have a smaller effect on aggregate demand.
 - c. decreases the multiplier, so that changes in government expenditures have a larger effect on aggregate demand.
 - d. decreases the multiplier, so that changes in government expenditures have a smaller effect on aggregate demand.
- _____ 22. When a country removes trade barriers and imports toys and exports farm machinery,
- a. its growth slows.
 - b. its productivity decreases.
 - c. it is essentially transforming farm machinery into toys.
 - d. its economic well-being decreases while that of the country that sells toys increases.
- _____ 23. A minimum wage is said to be binding or effective if
- a. it has been set by a union.
 - b. The minimum is above the market wage that would otherwise prevail.
 - c. It is the lowest wage that affords individuals a subsistence lifestyle.
 - d. All workers who desire employment at that wage are in fact employed.
- _____ 24. An advance in technology that increases productivity and an increase in the working-age population results in a
- a. rightward shift of the labor supply curve.
 - b. rightward shift of the labor demand curve.
 - c. rightward shift of the labor supply curve and of the labor demand curve.
 - d. movement along the production function.

- ____ 25. Which of the following statements is *not* true about the demand for a factor of production?
- It is more elastic the greater the elasticity of demand for the final product
 - It is more elastic in cases where technology dictates its use in fixed proportions with other factors.
 - It is less elastic the smaller a part it is of the total cost of the product.
 - The quantity demanded varies inversely with its price.
- ____ 26. The definition of M2 includes
- M1
 - savings deposits.
 - time deposits.
 - all of the above.
- ____ 27. Which of the following correctly explains the crowding-out effect?
- An increase in government expenditures decreases the interest rate and so increases investment spending.
 - An increase in government expenditures increases the interest rate and so reduces investment spending.
 - A decrease in government expenditures increases the interest rate and so increases investment spending.
 - A decrease in government expenditures decreases the interest rate and so reduces investment spending.
- ____ 28. In an imaginary economy, consumers buy only sandwiches and magazines. The fixed basket consists of 20 sandwiches and 30 magazines. In 2006, a sandwich cost \$4 and a magazine cost \$2. In 2007, a sandwich cost \$5. The base year is 2006. If the consumer price index in 2007 was 125, then how much did a magazine cost in 2007?
- \$2.50
 - \$2.80
 - \$3.20
 - \$3.45
- ____ 29. The Laffer curve shows that increasing _____ increases _____ when _____ low.
- tax rates; tax revenue; tax rates are
 - potential GDP; tax revenue; tax revenue is
 - tax revenue; potential GDP; tax revenue is
 - None of the above answers is correct.
- ____ 30. If the number of workers in an economy doubled, all other inputs stayed the same, and there were constant returns to scale, productivity would
- fall to less than half its former value.
 - fall but by less than half.
 - stay the same.
 - rise but less than double.
- ____ 31. The sticky-wage theory of the short-run aggregate supply curve says that when the price level rises more than expected,
- production is more profitable and employment rises.
 - production is more profitable and employment falls.
 - production is less profitable and employment rises.
 - production is less profitable and employment falls.

- _____ 32. Which of the following would cause prices to fall and output to rise in the short run?
- a. Short-run aggregate supply shifts right.
 - b. Short-run aggregate supply shifts left.
 - c. Aggregate demand shifts right.
 - d. Aggregate demand shifts left.
- _____ 33. Where the supply curve of labor is upward-sloping, the marginal cost curve of labor to the monopsonist
- a. is the same as the supply curve of labor.
 - b. lies above the supply curve of labor.
 - c. lies below and parallel to the supply curve.
 - d. intersects the supply curve at the equilibrium wage.
- _____ 34. The aggregate demand and aggregate supply model implies monetary neutrality
- a. only in the short run.
 - b. only in the long run.
 - c. in both the short run and the long run.
 - d. in neither the short run nor long run.
- _____ 35. If the Central Bank wanted to increase the quantity of money, it would
- a. buy government securities in the open market.
 - b. tell the banks to lower interest rates.
 - c. sell government securities in the open market.
 - d. convince the central government to run a budget deficit.
- _____ 36. Which of the following is not included in aggregate demand?
- a. purchases of stock and bonds.
 - b. purchases of services such as visit to the doctor.
 - c. purchases of capital goods such as equipment in a factory.
 - d. purchases by foreigners of consumer goods produced in Taiwan.
- _____ 37. The most important reason for the slope of the aggregate demand curve is that as the price level
- a. increases, interest rates increase, and investment decreases.
 - b. increases, interest rates decrease, and investment increases.
 - c. decreases, interest rates increase, and investment increases.
 - d. decreases, interest rates decrease, and investment decreases.
- _____ 38. The local Chevrolet dealership has an increase in inventory of 25 cars in 2006. In 2007 it sells all 25 cars. Which of the following statements is correct?
- a. The full value of the increased inventory will be counted as part of GDP in 2006, and the value of the cars sold in 2007 will not cause 2007 GDP to increase.
 - b. The value of the increased inventory will not affect 2006 GDP; instead, the full value of the inventory will be counted as part of 2007 GDP.
 - c. The value of the increased inventory will be counted as part of 2006 GDP and the value of the cars sold in 2007 will increase 2007 GDP.
 - d. One-half of the value of the increased inventory will be counted as part of 2006 GDP and the other one-half of the value will be counted as part of 2007 GDP.
- _____ 39. Which of the following is not a reason actual labor markets experience unemployment?
- a. unions
 - b. job search
 - c. flexible wages
 - d. minimum-wage legislation

- _____ 40. Suppose that there are diminishing returns to capital. Suppose also that two countries are the same except one has more capital and so more real GDP per person than the other. Finally, suppose that the saving rate in both countries increases from 5 percent to 6 percent. Over the next ten years we would expect that
- a. the growth rate will not change in either country.
 - b. the country that started with less capital will grow faster.
 - c. the country with started with more capital will grow faster.
 - d. both countries will grow at the same rate.
- _____ 41. Suppose the tax rate on interest income is 50 percent, the real interest rate is 3 percent, and the inflation rate is 4 percent. In this case, the real after-tax interest rate is
- a. 3.0 percent.
 - b. 4.0 percent.
 - c. -0.5 percent.
 - d. 3.5 percent.
- _____ 42. Which of the following will reduce the price level and real output in the short run?
- a. an increase in the money supply.
 - b. an increase in oil price.
 - c. a decrease in the money supply.
 - d. technical progress.
- _____ 43. A decreased government deficit created by a lump-sum tax increase will increase national saving if
- a. the government runs a primary surplus as a result.
 - b. it causes consumption to fall.
 - c. the value of government bonds outstanding grows slower than the public's wealth.
 - d. the real interest rate is less than the growth rate of real GNP.
- _____ 44. A rapid increase in the number of workers, other things the same, is likely in the short term to
- a. raise real GDP per person, but decrease real GDP.
 - b. decrease both real GDP and real GDP per person.
 - c. raise both real GDP and real GDP per person.
 - d. raise real GDP, but decrease real GDP per person.
- _____ 45. Which of the following is a tool that is used by the Fed to control the quantity of money?
- a. open market operations.
 - b. excess reserves.
 - c. government expenditure multiplier.
 - d. real interest rate.
- _____ 46. Steph (American) buys a designer dress produced by an American-owned fashion shop in France. As a result, U.S. consumption increases, U.S. net exports
- a. decrease, U.S. GDP is unaffected, and U.S. GNP increases.
 - b. decrease, U.S. GDP increases, and U.S. GNP is unaffected.
 - c. decrease, U.S. GNP increases, and French GDP is unaffected.
 - d. are unaffected, U.S. GDP is unaffected, and French GDP increases.
- _____ 47. Keynes believed that economies experiencing high unemployment should adopt policies to
- a. reduce the money supply.
 - b. reduce government expenditures.
 - c. increase aggregate demand.
 - d. increase aggregate supply.

- _____ 48. Policymakers
- a. can not exploit a tradeoff between inflation and unemployment either in the short run or the long run.
 - b. can exploit a tradeoff between inflation and unemployment in the short run but not in the long run.
 - c. can exploit a tradeoff between inflation and unemployment in both the short run and the long run.
 - d. can exploit a tradeoff between inflation and unemployment in the long run but not in the short run.
- _____ 49. In 1969, Don bought a Dodge Dart for \$2,500. He drove this car until 2003 when he bought a Honda Civic for \$18,000. If the price index in 1969 was 36.7 and the price index in 2006 was 180, what is the price of the Dodge Dart in 2006 dollars?
- a. \$3,583
 - b. \$4,500
 - c. \$9,762
 - d. \$12,262
- _____ 50. Which of the following is correct?
- a. Both liquidity preference and classical theory assume the interest rate adjusts to bring the money market into equilibrium.
 - b. Both liquidity preference and classical theory assume the price level adjusts to bring the money market into equilibrium.
 - c. Liquidity preference theory assumes the interest rate adjusts to bring the money market into equilibrium. Classical theory assumes the price level adjusts to bring the money market into equilibrium.
 - d. Liquidity preference theory assumes the price level adjusts to bring the money market into equilibrium. Classical theory assumes the interest rate adjusts to bring the money market into equilibrium.

Joint exam 97-2
Answer Section

MULTIPLE CHOICE

- | | |
|------------|-----------------------|
| 1. ANS: D | TOP: 充份就業模型 |
| 2. ANS: A | TOP: 長期經濟成長 |
| 3. ANS: C | TOP: 生產要素的供需 |
| 4. ANS: D | TOP: 長期經濟成長 |
| 5. ANS: B | TOP: 凱因斯模型 |
| 6. ANS: C | TOP: 總合 供需模型 |
| 7. ANS: D | TOP: 財政政策與貨幣政策 |
| 8. ANS: B | TOP: 通貨膨脹 |
| 9. ANS: B | TOP: 通貨膨脹 |
| 10. ANS: A | TOP: 貨幣與銀行 |
| 11. ANS: D | TOP: 長期經濟成長 |
| 12. ANS: C | TOP: 生產要素的供需 |
| 13. ANS: C | TOP: 充份就業模型 |
| 14. ANS: D | TOP: 生產要素的供需 |
| 15. ANS: A | TOP: 財政政策與貨幣政策 |
| 16. ANS: C | TOP: 通貨膨脹 |
| 17. ANS: A | TOP: 總合 供需模型 |
| 18. ANS: D | TOP: 總體經濟與總體指標 |
| 19. ANS: A | TOP: 總體經濟與總體指標 |
| 20. ANS: D | TOP: 凱因斯模型 |
| 21. ANS: A | TOP: 凱因斯模型 |
| 22. ANS: C | TOP: 長期經濟成長 |
| 23. ANS: B | REF: 林祖嘉 TOP: 生產要素的供需 |
| 24. ANS: C | TOP: 充份就業模型 |
| 25. ANS: B | TOP: 生產要素的供需 |
| 26. ANS: D | TOP: 貨幣與銀行 |
| 27. ANS: B | TOP: 凱因斯模型 |
| 28. ANS: A | TOP: 總體經濟與總體指標 |
| 29. ANS: A | TOP: 財政政策與貨幣政策 |
| 30. ANS: B | TOP: 長期經濟成長 |
| 31. ANS: A | TOP: 總合 供需模型 |
| 32. ANS: A | TOP: 總合 供需模型 |
| 33. ANS: B | TOP: 生產要素的供需 |
| 34. ANS: B | TOP: 總合 供需模型 |
| 35. ANS: A | TOP: 財政政策與貨幣政策 |
| 36. ANS: A | TOP: 通貨膨脹 |
| 37. ANS: A | TOP: 凱因斯模型 |
| 38. ANS: A | TOP: 總體經濟與總體指標 |
| 39. ANS: C | TOP: 充份就業模型 |
| 40. ANS: B | TOP: 長期經濟成長 |
| 41. ANS: C | TOP: 財政政策與貨幣政策 |
| 42. ANS: C | TOP: 通貨膨脹 |
| 43. ANS: B | TOP: 財政政策與貨幣政策 |
| 44. ANS: D | TOP: 長期經濟成長 |

- | | |
|------------|----------------|
| 45. ANS: A | TOP: 貨幣與銀行 |
| 46. ANS: A | TOP: 總體經濟與總體指標 |
| 47. ANS: C | TOP: 總合 供需模型 |
| 48. ANS: B | TOP: 通貨膨脹 |
| 49. ANS: D | TOP: 總體經濟與總體指標 |
| 50. ANS: C | TOP: 凱因斯模型 |

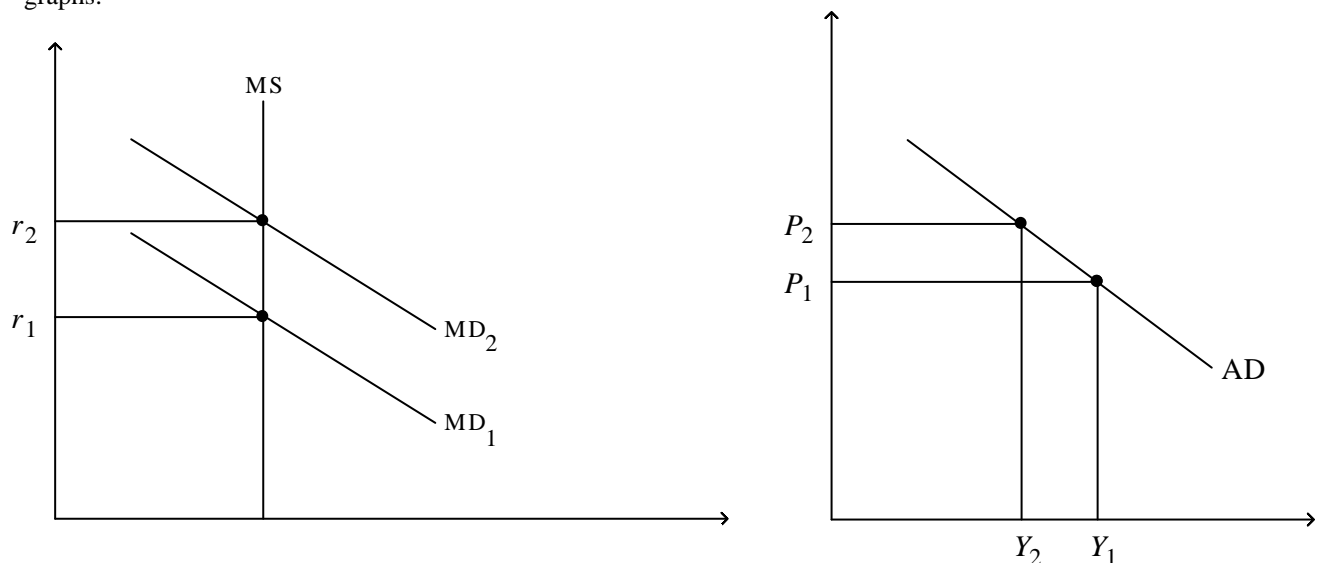
Commerce College Joint Economics Exam 98-2**Multiple Choice**

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

- _____ 1. According to monetary neutrality and the Fisher effect, an increase in the money supply growth rate eventually increases
- inflation, nominal interest rates, and real interest rates.
 - inflation and nominal interest rates, but does not change real interest rates.
 - inflation and real interest rates, but does not change nominal interest rates.
 - neither inflation, nominal interest rates, or real interest rates.
- _____ 2. Suppose that the marginal propensity to consume is 0.8, and government spending increases by \$100 billion. The increase in aggregate demand is:
- \$100 billion, the amount of government spending.
 - \$125 billion, composed of \$100 billion in government spending and \$25 billion in consumption.
 - \$80 billion, composed of \$100 billion in government spending and a decrease in consumption of \$20 billion.
 - \$500 billion, composed of \$100 billion in government spending and \$400 billion in consumption.
- _____ 3. Which of the following is accurate?
- Monetary policy is neutral in both the short run and the long run.
 - Though monetary policy is neutral in the long run, it may have effects on real variables in the short run.
 - Monetary policy has profound effects on real variables in both the short run and the long run.
 - Monetary policy has profound effects on real variables in the long run, but is neutral in the short run.
- _____ 4. If the government of Colombia implemented a policy that reduced national saving, its real exchange rate would
- depreciate and Colombian net exports would rise.
 - depreciate and Colombian net exports would fall.
 - appreciate and Colombian net exports would rise.
 - appreciate and Colombian net exports would fall.
- _____ 5. In a certain economy, households spent \$1,000 on goods and services; purchases of capital equipment, inventories, and structures amounted to \$300; government spent \$400 on goods and services; and the value of imports exceeded the value of exports by \$100. It follows that GDP for the economy in this year is
- \$1,600.
 - \$1,700.
 - \$1,800.
 - \$2,000.
- _____ 6. Given the production function $Y = AF(K,N)$ and assuming constant returns to scale, the contribution of capital to output growth can be estimated by
- adding the growth rate of capital to the term A
 - multiplying the growth rate of capital by capital's share in production
 - subtracting the growth rate of labor from the rate of technological advancement
 - multiplying the capital-labor ratio by the level of output

- _____ 7. Keynes argued that aggregate demand is
- stable, because the economy returns to long-run equilibrium.
 - stable, because changes in consumption are mostly offset by changes in investment.
 - unstable, because seasonal variations create fluctuations in aggregate demand.
 - unstable, because waves of pessimism and optimism create fluctuations in aggregate demand.
- _____ 8. The sticky-wage theory of the short-run aggregate supply curve says that when the price level rises more than expected,
- production is more profitable and employment rises.
 - production is more profitable and employment falls.
 - production is less profitable and employment rises.
 - production is less profitable and employment falls.
- _____ 9. Suppose the economy is in long-run equilibrium. If there is a tax cut at the same time that major new sources of oil are discovered in the country, then in the short-run
- real GDP will rise and the price level might rise, fall, or stay the same.
 - real GDP will fall and the price level might rise, fall, or stay the same.
 - the price level will rise, and real GDP might rise, fall, or stay the same.
 - the price level will fall, and real GDP might rise, fall, or stay the same.

Figure 1. On the left-hand graph, MS represents the supply of money and MD represents the demand for money; on the right-hand graph, AD represents aggregate demand. The usual quantities are measured along the axes of both graphs.



- _____ 10. **Refer to Figure 1.** A decrease in Y from Y_1 to Y_2 is explained as follows:
- The Federal Reserve increases the money supply, causing the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
 - An increase in P from P_1 to P_2 causes the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
 - A decrease in P from P_2 to P_1 causes the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
 - An increase in the price level causes the money-demand curve to shift from MD_2 to MD_1 ; this shift of MD causes r to decrease from r_2 to r_1 ; and this decrease in r causes Y to decrease from Y_1 to Y_2 .

- _____ 11. **Refer to Figure 1.** Assume the money market is always in equilibrium, and suppose $r_1 = 0.08$; $r_2 = 0.12$; $Y_1 = 13,000$; $Y_2 = 10,000$; $P_1 = 1.0$; and $P_2 = 1.2$. Which of the following statements is correct?
- a. When $r = r_2$, nominal output is higher than it is when $r = r_1$.
 - b. When $r = r_2$, real output is higher than it is when $r = r_1$.
 - c. When $r = r_2$, the expected rate of inflation is higher than it is when $r = r_1$.
 - d. If the velocity of money is 4 when $r = r_2$, then the quantity of money is \$3,000.
- _____ 12. **Refer to Figure 1.** Assume the money market is always in equilibrium, and suppose $r_1 = 0.08$; $r_2 = 0.12$; $Y_1 = 13,000$; $Y_2 = 10,000$; $P_1 = 1.0$; and $P_2 = 1.2$. Which of the following statements is correct? When $P = P_2$,
- a. investment is lower than it is when $P = P_1$.
 - b. nominal output is higher than it is when $P = P_1$.
 - c. the expected rate of inflation is higher than it is when $P = P_1$.
 - d. the velocity of money is higher than it is when $P = P_1$.
- _____ 13. Which one of the following is not a function of the Federal Reserve system?
- a. providing banking services for the federal government
 - b. acting as a lender of last resort to the banks
 - c. controlling the supply of money and credit
 - d. lending to business firms
- _____ 14. Which of the following is not a tool of monetary policy?
- a. open market operations
 - b. reserve requirements
 - c. changing the discount rate
 - d. increasing the government budget deficit
- _____ 15. In the context of aggregate demand and aggregate supply, the wealth effect refers to the idea that, when the price level decreases, the real wealth of households
- a. increases and as a result consumption spending increases. This effect contributes to the downward slope of the aggregate-demand curve.
 - b. decreases and as a result consumption spending increases. This effect contributes to the upward slope of the aggregate-supply curve.
 - c. increases and as a result households increase their money holdings; in turn, interest rates increase and investment spending decreases. This effect contributes to the downward slope of the aggregate-demand curve.
 - d. decreases and as a result households increase their money holdings; in turn, interest rates increase and investment spending decreases. This effect contributes to the upward slope of the aggregate-supply curve.
- _____ 16. The money supply in Muckland is \$100 billion. Nominal GDP is \$800 billion and real GDP is \$400 billion. What are the price level and velocity in Muckland?
- a. The price level and velocity are both 8.
 - b. The price level is 2 and velocity is 8.
 - c. The price level and velocity are both 4.
 - d. The price level is 4 and velocity is 8.
- _____ 17. According to the classical dichotomy, which of the following is influenced by monetary factors?
- a. nominal interest rates
 - b. real GDP
 - c. employment
 - d. All of the above are correct.

- _____ 18. Other things the same, higher population growth
- raises the amount of physical capital per worker and there is some evidence that it raises the pace of technological progress.
 - raises the amount of physical capital per worker, but there is some evidence that it reduces the pace of technological progress.
 - reduces the amount of physical capital per worker, but there is some evidence that it raises the pace of technological progress.
 - reduces the amount of physical capital per worker and there is some evidence that it reduces the pace of technological progress.
- _____ 19. If two countries have the same aggregate production function, rate of technological growth, and savings rate, then
- they will always have the same per-capita income
 - the country with the higher rate of population growth will have a higher per-capita income
 - the country with the lower rate of population growth will have a higher per-capita income
 - the country with the highest depreciation rate will have the highest per-capita income
- _____ 20. Which of the following Fed actions would increase the money supply?
- buy bonds and raise the reserve requirement
 - buy bonds and lower the reserve requirement
 - sell bonds and raise the reserve requirement
 - sell bonds and lower the reserve requirement
- _____ 21. Menu costs refer to the costs of
- comparing prices.
 - changing prices.
 - comparing alternative investments.
 - All of the above are correct.
- _____ 22. If the wage is kept above the equilibrium wage for any reason, the result is
- cyclical unemployment.
 - frictional unemployment.
 - seasonal unemployment.
 - structural unemployment.
- _____ 23. Initially, the economy is in long-run equilibrium. Aggregate demand then shifts leftward by \$50 billion. The government wants to increase its spending in order to avoid a recession. If the crowding-out effect is always half as strong as the multiplier effect, and if the *MPC* equals 0.8, then by how much do government purchases have to increase in order to offset the \$50 billion leftward shift?
- by \$5 billion
 - by \$10 billion
 - by \$20 billion
 - by \$50 billion
- _____ 24. If the reserve ratio is 5 percent, then the money multiplier is
- 2
 - 5
 - 20
 - 50
- _____ 25. GDP is defined as
- the market value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time.
 - the market value of all goods and services produced within a country in a given period of time.
 - the market value of all final goods and services produced within a country in a given period of time.
 - the market value of all goods and services produced by the citizens of a country, regardless of where they are living in a given period of time.

- ____ 26. Which of the following is the most likely result from an increase in a country's government budget surplus?
- a. higher interest rates
 - b. lower imports
 - c. lower net capital outflows
 - d. lower domestic investment
- ____ 27. Growth accounting explains
- a. how economic decisions control the accumulation of capital
 - b. how the current savings rate affects the stock of capital in the future
 - c. what part of growth in total output is due to growth in different factors of production
 - d. all of the above
- ____ 28. Which of the following correctly explains the crowding-out effect?
- a. An increase in government expenditures decreases the interest rate and so increases investment spending.
 - b. An increase in government expenditures increases the interest rate and so reduces investment spending.
 - c. A decrease in government expenditures increases the interest rate and so increases investment spending.
 - d. A decrease in government expenditures decreases the interest rate and so reduces investment spending.
- ____ 29. The doctrine of the neutrality of money states that the quantity of money influences
- a. the level of money prices but has no effect on the real part of the economy.
 - b. the real part of the economy but has no effect on the money part of the economy.
 - c. both the real and money parts of the economy in an identical fashion.
 - d. neither the real nor the money part of the economy.
- ____ 30. Given a nominal interest rate of 6 percent, in which of the following cases would you earn the highest after-tax real rate of interest?
- a. Inflation is 2.5 percent; the tax rate is 25 percent.
 - b. Inflation is 3 percent; the tax rate is 20 percent.
 - c. Inflation is 2 percent; the tax rate is 30 percent.
 - d. The after-tax real interest rate is the same for all of the above.
- ____ 31. At present, the United States uses a system of quotas to limit the amount of sugar imported into the country. Which of the following statements is most likely true?
- a. The quotas are probably the result of lobbying from U.S. consumers of sugar. The quotas increase consumer surplus for the United States, reduce producer surplus for the United States, and harm foreign sugar producers.
 - b. The quotas are probably the result of lobbying from U.S. producers of sugar. The quotas increase producer surplus for the United States, reduce consumer surplus for the United States, and harm foreign sugar producers.
 - c. The quotas are probably the result of lobbying from foreign producers of sugar. The quotas reduce producer surplus for the United States, increase consumer surplus for the United States, and benefit foreign sugar producers.
 - d. U.S. lawmakers did not need to be lobbied to impose the quotas because total surplus for the United States is higher with the quotas than without them.
- ____ 32. According to classical economic theory, changes in the money supply affect
- a. real GDP.
 - b. real interest rates.
 - c. the price level.
 - d. All of the above are correct.

- _____ 33. According to the classical macroeconomic theory, changes in the money supply affect
- real GDP and the price level
 - real GDP but the price level.
 - the price level, but not real GDP
 - neither the price level nor real GDP
- _____ 34. The economy is in long-run equilibrium. Suppose that automatic teller machines become cheaper and more convenient to use, and as a result the demand for money falls. Other things equal, we would expect that, in the short run,
- the price level and real GDP would rise, but in the long run they would both be unaffected.
 - the price level and real GDP would rise, but in the long run the price level would rise and real GDP would be unaffected.
 - the price level and real GDP would fall, but in the long run they would both be unaffected.
 - the price level and real GDP would fall, but in the long run the price level would fall and real GDP would be unaffected.
- _____ 35. Other things the same, an increase in the price level causes the interest rate to
- increase, the dollar to depreciate, and net exports to increase.
 - increase, the dollar to appreciate, and net exports to decrease.
 - decrease, the dollar to depreciate, and net exports to increase.
 - decrease, the dollar to appreciate, and net exports to decrease.
- _____ 36. Chile is an importer of computer chips, taking the world price of \$12 per chip as given. Suppose Chile imposes a \$7 tariff on chips. Which of the following outcomes is possible?
- The price of chips in Chile increases to \$19; the quantity of Chilean-produced chips decreases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$19; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile does not change.
- _____ 37. Tara deposits money into an account with a nominal interest rate of 6 percent. She expects inflation to be 2 percent. Her tax rate is 20 percent. Taras after-tax real rate of interest
- will be 2.8 percent if inflation turns out to be 2 percent; it will be higher if inflation turns out to be higher than 2 percent.
 - will be 2.8 percent if inflation turns out to be 2 percent; it will be lower if inflation turns out to be higher than 2 percent.
 - will be 3.2 percent if inflation turns out to be 2 percent; it will be higher if inflation turns out to be higher than 2 percent.
 - will be 3.2 percent if inflation turns out to be 2 percent; it will be lower if inflation turns out to be higher than 2 percent.
- _____ 38. Keynes explained that recessions and depressions occur because of
- excess aggregate demand.
 - inadequate aggregate demand.
 - excess aggregate supply.
 - inadequate aggregate supply.
- _____ 39. Suppose the real exchange rate is 4/5 pounds of Chilean beef per pound of U.S. beef, a pound of U.S. beef costs \$2 and the nominal exchange rate is 600 Chilean pesos per dollar. It follows that Chilean beef costs
- 960 pesos per pound.
 - 1,200 pesos per pound.
 - 1,500 pesos per pound.
 - None of the above is correct.

- _____ 40. One U.S. citizen who works only in Canada. The value that his labor contributes to U.S. output is
- a. included in both U.S. GDP and U.S. GNP.
 - b. included in U.S. GNP, but it is not included in U.S. GDP.
 - c. included in U.S. GDP, but it is not included in U.S. GNP.
 - d. included in neither U.S. GDP nor U.S. GNP.
- _____ 41. In the United States, a three-pound can of coffee costs about \$5. Suppose the exchange rate is about 0.8 euros per dollar and that a three-pound can of coffee in Belgium costs about 3 euros. What is the real exchange rate?
- a. $5/3$ cans of Belgian coffee per can of U.S. coffee
 - b. $4/3$ cans of Belgian coffee per can of U.S. coffee
 - c. $3/4$ cans of Belgian coffee per can of U.S. coffee
 - d. $3/5$ cans of Belgian coffee per can of U.S. coffee
- _____ 42. The paradox of thrift states that
- a. an increase in the interest rate lowers saving.
 - b. an increase in saving raises output in the long run.
 - c. an increase in saving reduces output in the short run.
 - d. a decrease in the interest rate raises saving.
- _____ 43. A country reported a nominal GDP of \$100 billion in 2009 and \$90 billion in 2008. It also reported a GDP deflator of 105 in 2009 and 100 in 2008. Between 2008 and 2009,
- a. real output and the price level both rose.
 - b. real output rose and the price level fell.
 - c. real output fell and the price level rose.
 - d. real output and the price level both fell.
- _____ 44. In the open-economy macroeconomic model, the demand for dollars shifts right if at any given exchange rate
- a. foreign residents want to buy more U.S. goods and services.
 - b. U.S. residents want to buy fewer foreign goods and services.
 - c. Both A and B are correct.
 - d. None of the above is correct.
- _____ 45. Savings deposits are included in
- a. M1 but not M2.
 - b. M2 but not M1.
 - c. both M1 and M2.
 - d. neither M1 nor M2.
- _____ 46. Which of the following helps to explain why the inflation fallacy *is* a fallacy?
- a. Increases in the price level can be created by increases in money demand.
 - b. Nominal incomes tend to rise at the same time that the price level is rising.
 - c. As the price level rises, the value of a dollar falls.
 - d. Inflation only changes nominal variables.
- _____ 47. If the nominal interest rate is 8 percent and the rate of inflation is 3 percent, then the real interest rate is
- a. -5 percent.
 - b. 1.67 percent.
 - c. 5 percent.
 - d. 11 percent.
- _____ 48. An aide to a U.S. Senator computes the effect on aggregate demand of a \$20 billion tax cut. The actual increase in aggregate demand is less than the aide expected. Which of the following errors in the aide's computation would be consistent with an overestimation of the impact on aggregate demand?
- a. The actual *MPC* was larger than the *MPC* the aide used to compute the multiplier.
 - b. The aide thought the tax cut would be permanent, but the actual tax cut was temporary.
 - c. The increase in income shifted money demand less than the aide had anticipated.
 - d. The increase in income resulted in investment rising more than the aide had anticipated.

- _____ 49. The value of money depends primarily on
- a. the gold backing of the currency alone.
 - b. the gold backing of both currency and deposits.
 - c. its purchasing power.
 - d. who issues it.
- _____ 50. The most important reason for the slope of the aggregate demand curve is that as the price level
- a. increases, interest rates increase, and investment decreases.
 - b. increases, interest rates decrease, and investment increases.
 - c. decreases, interest rates increase, and investment increases.
 - d. decreases, interest rates decrease, and investment decreases.

Commerce College Joint Economics Exam 98-2

Answer Section

MULTIPLE CHOICE

- | | |
|------------|------------------|
| 1. ANS: B | TOP: 5.通貨膨脹 |
| 2. ANS: D | TOP: 3.凱因斯模型 |
| 3. ANS: B | TOP: 5.通貨膨脹 |
| 4. ANS: D | TOP: 9.國際經濟學 |
| 5. ANS: A | TOP: 1.總體經濟與總體指標 |
| 6. ANS: B | TOP: 8.長期經濟成長 |
| 7. ANS: D | TOP: 3.凱因斯模型 |
| 8. ANS: A | TOP: 6.總合 供需模型 |
| 9. ANS: A | TOP: 6.總合 供需模型 |
| 10. ANS: B | TOP: 7.財政政策與貨幣政策 |
| 11. ANS: D | TOP: 7.財政政策與貨幣政策 |
| 12. ANS: A | TOP: 7.財政政策與貨幣政策 |
| 13. ANS: D | TOP: 4.貨幣與銀行 |
| 14. ANS: D | TOP: 4.貨幣與銀行 |
| 15. ANS: A | TOP: 6.總合 供需模型 |
| 16. ANS: B | TOP: 5.通貨膨脹 |
| 17. ANS: A | TOP: 5.通貨膨脹 |
| 18. ANS: C | TOP: 8.長期經濟成長 |
| 19. ANS: C | TOP: 8.長期經濟成長 |
| 20. ANS: B | TOP: 3.凱因斯模型 |
| 21. ANS: B | TOP: 5.通貨膨脹 |
| 22. ANS: D | TOP: 2.充份就業模型 |
| 23. ANS: C | TOP: 7.財政政策與貨幣政策 |
| 24. ANS: C | TOP: 4.貨幣與銀行 |
| 25. ANS: C | TOP: 1.總體經濟與總體指標 |
| 26. ANS: B | TOP: 9.國際經濟學 |
| 27. ANS: C | TOP: 8.長期經濟成長 |
| 28. ANS: B | TOP: 3.凱因斯模型 |
| 29. ANS: A | TOP: 4.貨幣與銀行 |
| 30. ANS: C | TOP: 5.通貨膨脹 |
| 31. ANS: B | TOP: 9.國際經濟學 |
| 32. ANS: C | TOP: 6.總合 供需模型 |
| 33. ANS: C | TOP: 2.充份就業模型 |
| 34. ANS: B | TOP: 7.財政政策與貨幣政策 |
| 35. ANS: B | TOP: 6.總合 供需模型 |
| 36. ANS: C | TOP: 9.國際經濟學 |
| 37. ANS: B | TOP: 5.通貨膨脹 |
| 38. ANS: B | TOP: 6.總合 供需模型 |
| 39. ANS: C | TOP: 9.國際經濟學 |
| 40. ANS: B | TOP: 1.總體經濟與總體指標 |
| 41. ANS: B | TOP: 9.國際經濟學 |
| 42. ANS: C | TOP: 3.凱因斯模型 |
| 43. ANS: A | TOP: 1.總體經濟與總體指標 |
| 44. ANS: C | TOP: 9.國際經濟學 |

- | | |
|------------|------------------|
| 45. ANS: B | TOP: 4.貨幣與銀行 |
| 46. ANS: B | TOP: 5.通貨膨脹 |
| 47. ANS: C | LOC: 1.總體經濟與總體指標 |
| 48. ANS: B | TOP: 7.財政政策與貨幣政策 |
| 49. ANS: C | TOP: 4.貨幣與銀行 |
| 50. ANS: A | TOP: 6.總合 供需模型 |

Commerce College Joint Economics Exam 99-2**Multiple Choice**

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

- _____ 1. In the country of Hyrkania, the CPI in 2000 was 120 and the CPI in 2001 was 132. Jake, a resident of Hyrkania, borrowed money in 2000 and repaid the loan in 2001. If the nominal interest rate on the loan was 12 percent, then the real interest rate was
- 12 percent.
 - 10 percent.
 - 2 percent.
 - impossible to determine without knowing the base year for the CPI.
- _____ 2. Which of the following changes shifts the *AD* curve down and to the left?
- A temporary increase in government purchases
 - A rise in the nominal money supply
 - A decrease in corporate taxes
 - A decrease in consumer confidence
- _____ 3. Suppose the price of a quart of milk rises from \$1 to \$1.25 and the price of a T-shirt rises from \$8 to \$10. If the CPI rises from 150 to 175 people will likely buy
- more milk and more T-shirts.
 - more milk and fewer T-shirts.
 - less milk and more T-shirts.
 - less milk and fewer T-shirts.
- _____ 4. Sam just lost his job, but isn't looking for a new one. Sam is
- counted as unemployed and part of the labor force.
 - counted as unemployed, but not part of the labor force.
 - not counted as unemployed, but counted as part of the labor force.
 - not counted as unemployed or counted as part of the labor force.
- _____ 5. In the aggregate expenditure model, when real GDP is greater than aggregate planned expenditure,
- unplanned inventories are being accumulated.
 - inventories are being depleted.
 - inventories are not being changed.
 - this cannot happen, because the two variables are always equal.
- _____ 6. When the nation of Econoland allows trade and becomes an exporter of televisions,
- residents of Econoland who produce televisions become worse off; residents of Econoland who buy televisions become better off; and the economic well-being of Econoland rises.
 - residents of Econoland who produce televisions become worse off; residents of Econoland who buy televisions become better off; and the economic well-being of Econoland falls.
 - residents of Econoland who produce televisions become better off; residents of Econoland who buy televisions become worse off; and the economic well-being of Econoland rises.
 - residents of Econoland who produce televisions become worse off; residents of Econoland who buy televisions become worse off; and the economic well-being of Econoland falls.

- _____ 7. If the central bank tightens monetary policy, which of the following will be the most likely sequence of events?
- higher real domestic interest rates, inflow of funds, currency appreciation
 - lower real domestic interest rates, outflow of funds, currency appreciation
 - lower real domestic interest rates, outflow of funds, currency depreciation
 - lower inflation, lower nominal domestic interest rates, outflow of funds, currency depreciation
- _____ 8. If the Fed increases the money supply,
- the interest rate increases, which tends to raise stock prices.
 - The interest rate increases, which tends to reduce stock prices.
 - the interest rate decreases, which tends to raise stock prices.
 - the interest rate decreases, which tends to reduce stock prices
- _____ 9. Which list contains only actions that decrease the money supply
- lower the discount rate, make open-market purchases
 - lower the discount rate, make open-market sales
 - raise the discount rate, make open-market purchases
 - raise the discount rate, make open-market sales
- _____ 10. The country of Veridian has a tax system identical to that of the United States. Suppose someone in Veridian bought a parcel of land for 10,000 deera (the local currency) in 1964 when the price index equaled 100. In 2005, the person sold the land for 100,000 deera, and the price index equaled 500. The tax rate on nominal capital gains was 20 percent. Compute the taxes the person paid on the nominal gain and the change in the real value of the land in terms of 2005 prices to find the after-tax real rate of capital gain.
- 20 percent
 - 20 percent
 - 42 percent
 - 64 percent
- _____ 11. An increase in expected inflation shifts
- the long-run Phillips curve right.
 - the short-run Phillips curve right.
 - neither the short-run nor long-run Phillips curve right.
 - both the short-run and long-run Phillips curve right.
- _____ 12. Government spending and taxation rules that cause fiscal policy to be expansionary when the economy contracts and contractionary when the economy expands are known as:
- discretionary fiscal policy.
 - automatic stabilizers.
 - autonomous spending policies.
 - destabilizing fiscal policies.
- _____ 13. If you deposit \$100 into a demand deposit at a bank, this action by itself
- does not change the money supply.
 - increases the money supply.
 - decreases the money supply.
 - has an indeterminate effect on the money supply.

- _____ 14. Canada and the U.S. both produce wheat and computer softwares. Canada is said to have the comparative advantage in producing wheat if
- Canada requires fewer resources than the U.S. to produce a bushel of wheat
 - the opportunity cost of producing a bushels of wheat is lower for Canada than it is for the U.S.
 - the opportunity cost of producing a bushels of wheat is lower for the U.S. than it is for Canada
 - the U.S. has an absolute advantage over Canada in producing computer software
- _____ 15. An example of a double coincidence of wants is:
- a car mechanic who wants a TV finding an owner of an electronics store who wants a car repaired.
 - a car dealer who wants a TV finding an electronics store owner who wants money.
 - an electronics store owner who wants car repairs finding a car mechanic who wants money.
 - a car dealer who wants a new employee finding a car mechanic who wants money.
- _____ 16. Which of the following would decrease the unemployment rate?
- an increase in the efficiency wages firms pay
 - a decrease in the efficiency wages firms pay
 - an increase in the minimum wage
 - an increase in unemployment compensation
- _____ 17. A country has a comparative advantage in a product if the world price is
- lower than that country's domestic price without trade.
 - higher than that country's domestic price without trade.
 - equal to that country's domestic price without trade.
 - not subject to manipulation by organizations that govern international trade.
- _____ 18. Under a fixed exchange rate system, the central bank of a country that experiences a temporary current account deficit will most likely
- devalue the currency
 - permit depreciation of the currency
 - sell foreign currency to keep the exchange rate from depreciating
 - buy foreign currency to influence exchange rates
- _____ 19. You put money into an account and earn a real interest rate of 4 percent. Inflation is 2 percent, and your marginal tax rate is 20 percent. What is your after-tax real rate of interest?
- 1.2 percent
 - 2.8 percent
 - 4.8 percent
 - None of the above is correct.
- _____ 20. In the 1970s in response to recessions caused by an increase in the price of oil, the central banks in many countries increased the money supply. The central banks might have done this by
- selling bonds on the open market, which would have raised the value of money.
 - purchasing bonds on the open market, which would have raised the value of money.
 - selling bonds on the open market, which would have raised the value of money.
 - purchasing bonds on the open market, which would have lowered the value of money.

- _____ 21. Suppose there are only two firms in an economy: Rolling Rawhide produces rawhide and sells it to Chewy Chomp, Inc., which uses the rawhide to produce and sell dog chews. With each \$2 of rawhide that it buys from Rolling Rawhide, Chewy Chomp, Inc. produces a dog chew and sells it for \$5. Neither firm had any inventory at the beginning of 2007. During that year, Rolling Rawhide produced enough rawhide for 1000 dog chews. Chewy Chomp, Inc. bought 75% of that rawhide for \$1500 and promised to buy the remaining 25% for \$500 in 2008. Chewy Chomp, Inc. produced 750 dog chews during 2007 and sold each one during that year for \$5. What was the economy's GDP for 2007?
- \$3750
 - \$4250
 - \$5250
 - \$5750
- _____ 22. The short-run aggregate supply (SAS) curve is upward sloping because
- a lower price level creates a wealth effect.
 - lower taxes motivate people to work more.
 - money wage rates do not immediately change when the price level changes.
 - most business firms operate with long-term contracts for output but not labor.
- _____ 23. Suppose most people had anticipated that inflation would be 3% in the coming year because the Fed would increase the money supply by 3%. Instead, the Fed increases the money supply by 5%. In the short run, this would cause actual output to be _____ full-employment output and prices to increase by _____ 3%.
- above; more than
 - above; less than
 - below; more than
 - below; less than
- _____ 24. Suppose a Starbucks tall-latte cost \$4.00 in the United States and 3.2 euros in the Euro area. Suppose a McDonald's Big Mac costs \$3.50 in the United States and 2.45 euros in Euro area. If the nominal exchange rate is 0.8 euros per dollar, which goods have prices that are consistent with purchasing power parity?
- Both the tall-latte and the Big Mac
 - Neither the tall-latte nor the Big Mac
 - The tall-latte but not the Big Mac
 - The Big Mac but not the tall-latte
- _____ 25. Suppose the economy is producing at the natural rate of output. An open market purchase of bonds by the Fed will cause _____ in real GDP the the short run and _____ in the aggregate price level in the short run, everything else held constant.
- an increase; an increase
 - a decrease; a decrease
 - no change; an increase
 - no change; a decrease
- _____ 26. According to aggregate demand and supply analysis, the rising oil prices coupled with the subprime financial crisis in 2007-2008 caused the unemployment rate to _____ and the level of real aggregate output to _____.
- increase; increase
 - increase; decrease
 - decrease; increase
 - decrease; decrease

- ____ 27. Which of the following correctly explains the crowding-out effect?
- a. An increase in government expenditures decreases the interest rate and so increases investment spending.
 - b. An increase in government expenditures increases the interest rate and so reduces investment spending.
 - c. A decrease in government expenditures increases the interest rate and so increases investment spending.
 - d. A decrease in government expenditures decreases the interest rate and so reduces investment spending.
- ____ 28. When a country runs a balance of payments deficit under a system of fixed exchange rates, which of the following is NOT part of the automatic adjustment process?
- a. a decrease in money supply leads to a lower level of spending
 - b. a decrease in aggregate demand lowers domestic prices
 - c. a decrease in domestic prices relative to foreign prices reduces the level of imports
 - d. an increase in tariffs reduces the level of imports
- ____ 29. Which of the following combination of assets are considered to be money?
- a. currency in circulation, checkable bank deposits, and credit cards
 - b. currency in circulation, checkable bank deposits, and travelers' checks
 - c. currency in circulation and in bank vaults, checkable bank deposits, and travelers' checks
 - d. currency in circulation and in bank vaults, checkable bank deposits, and credit cards
- ____ 30. The theory of rational expectations suggests that
- a. people never make forecast errors.
 - b. people make intelligent use of available information.
 - c. people make systematic forecast errors.
 - d. people are slow to incorporate new information into their forecasts.
- ____ 31. When the interest rate decreases, the opportunity cost of holding money
- a. decreases, so the quantity of money demanded increases.
 - b. decreases, so the quantity of money demanded decreases.
 - c. increases, so the quantity of money demanded increases.
 - d. increases, so the quantity of money demanded decreases.
- ____ 32. Friedman and Phelps suggested that there should not be a stable relationship between inflation and unemployment, but there should be a stable relationship between
- a. anticipated inflation and frictional unemployment.
 - b. anticipated inflation and cyclical unemployment.
 - c. unanticipated inflation and frictional unemployment.
 - d. unanticipated inflation and cyclical unemployment.
- ____ 33. Darla, a Canadian citizen, works only in the United States. The value of the output she produces is
- a. included in both U.S. GDP and U.S. GNP.
 - b. included in U.S. GDP, but it is not included in U.S. GNP.
 - c. included in U.S. GNP, but it is not included in U.S. GDP.
 - d. included in neither U.S. GDP nor U.S. GNP.

- ____ 34. Suppose that, holding prices of other goods and services constant, a local manufacturer raises the price on industrial tractors it produces in their country. Which of the following is correct on describing the impact on the CPI and GDP deflator?
- The GDP deflator decreases but the CPI does not.
 - The GDP deflator increases but the CPI does not.
 - The GDP deflator and the CPI both changes.
 - The GDP deflator and the CPI both do not change.
- ____ 35. Government's efforts to stabilize the business cycle through fiscal policy can destabilize the economy due to the presence of:
- lags in the process of crafting a budget appropriate to the circumstances.
 - a negative interaction between fiscal and monetary policy due to the multiplier effect.
 - a tendency of prices to change faster than the interest rate.
 - business cycles that are closely synchronized to the political cycle.
- ____ 36. Which of the following shifts the short-run aggregate supply curve?
- I. changes in the size of the labor force
II. changes in the money wage rate
- I only
 - II only
 - both I and II
 - neither I nor II
- ____ 37. Suppose the central bank pursues an unexpectedly expansionary monetary policy. In the short-run the effects of this are shown by
- shifting the short run Phillips curve right.
 - shifting the short run Phillips curve left.
 - moving to the left along the short-run Phillips curve.
 - moving to the right along the short-run Phillips curve.
- ____ 38. The logic of the multiplier effect applies
- only to changes in government spending.
 - to any change in spending on any component of GDP.
 - only to changes in the money supply.
 - only when the crowding-out effect is sufficiently strong.
- ____ 39. Critics of free trade sometimes argue that allowing imports from foreign countries causes a reduction in the number of domestic jobs. An economist would argue that
- foreign competition may cause unemployment in import-competing industries, but the effect is temporary because other industries, especially exporting industries, will be expanding.
 - foreign competition may cause unemployment in import-competing industries, but the increase in consumer surplus due to free trade is more valuable than the lost jobs.
 - the critics are correct, so countries must protect their industries with tariffs or quotas.
 - foreign competition may cause unemployment in import-competing industries, but the increase in the variety of goods consumers can choose from is more valuable than the lost jobs.

- _____ 40. The difference between budget deficit and government debt is that:
- deficit is the amount by which government spending exceeds tax revenues whereas debt is the amount the government owes.
 - debt is the amount by which government spending exceeds tax revenues whereas deficit is the amount the government owes.
 - deficit is measured as of a particular point in time whereas debt is measured over a period of time.
 - deficit is a stock variable whereas debt is a flow variable.
- _____ 41. An increase in the price of a resource such as oil
- shifts the aggregate demand curve leftward.
 - shifts the long-run aggregate supply curve rightward.
 - shifts the short-run aggregate supply curve leftward.
 - increases the price level and decreases real GDP in the short run.
- I only is correct.
 - Both I and II are correct.
 - III only is correct.
 - Both III and IV are correct.
- _____ 42. Which of the following is NOT a method of eliminating a current account deficit?
- levying tariffs
 - implementing expenditure-switching policies
 - implementing expenditure-reducing policies
 - subsidizing imports
- _____ 43. If the MPC(marginal propensity to consume) = $1/5$, then the government purchases multiplier is
- $1/5$.
 - 2.5
 - 5.
 - 15.
- _____ 44.
- The money supply in Tazland is \$100 billion. Nominal GDP is \$800 billion and real GDP is \$200 billion. What are the price level and velocity in Tazland?
- the price level and velocity are both 8
 - the price level is 8 and velocity is 4
 - the price level and velocity are both 4
 - the price level is 4 and velocity is 8
- _____ 45. Suppose the economy is experiencing a recessionary gap. In the long run, if aggregate demand does not change, then the money wage rate _____, unemployment _____, and the price level _____.
- falls; rises; falls
 - falls; falls; falls
 - rises; rises; rises
 - rises; falls; rises

- _____ 46. An economy starts with \$10,000 in currency. All of this currency is deposited into a single bank, and the bank then makes loans totaling \$9,250. The T-account of the bank is shown below.

Assets		Liabilities	
Reserves	\$750	Deposits	\$10,000
Loans	9,250		

If all banks in the economy have the same reserve ratio as this bank, then the value of the economy's money multiplier is

- a. 1.33.
b. 10.00.
c. 10.81.
d. 13.33.
- _____ 47. An increase in _____ could start a demand-pull inflation?
a. the quantity of money.
b. government expenditures.
c. exports.
d. All of the above answers are correct.
- _____ 48. If there is a trade deficit, then
a. saving is greater than domestic investment and $Y > C + I + G$
b. saving is greater than domestic investment and $Y < C + I + G$
c. saving is less than domestic investment and $Y > C + I + G$
d. saving is less than domestic investment and $Y < C + I + G$
- _____ 49. Other things the same, automatic stabilizers tend to
a. raise expenditures during expansions and recessions.
b. lower expenditures during expansions and recessions.
c. raise expenditures during recessions and lower expenditures during expansions.
d. raise expenditures during expansions and lower expenditures during recessions.
- _____ 50. Suppose a gardener produces both green beans and corn in her garden. If she must give up 14 bushels of corn to get 5 bushels of green beans, Then her opportunity cost of 1 bushel of green beans is
a. 0.36 bushels of corn
b. 2.4 bushels of corn
c. 2.8 bushels of corn
d. 70 bushels of corn

Commerce College Joint Economics Exam 99-2

Answer Section

MULTIPLE CHOICE

- | | |
|------------|-------------------------------|
| 1. ANS: C | TOP: 1.總體經濟與總體指標 |
| 2. ANS: D | TOP: 6.總合 供需模型 |
| 3. ANS: D | TOP: 1.總體經濟與總體指標 |
| 4. ANS: D | TOP: 2.充分就業模型 |
| 5. ANS: A | TOP: 3.凱因斯模型 |
| 6. ANS: C | TOP: 8.國際貿易 |
| 7. ANS: A | TOP: 9.國際金融 |
| 8. ANS: C | TOP: 3.凱因斯模型 |
| 9. ANS: D | TOP: 4.貨幣與銀行 |
| 10. ANS: D | TOP: 5.通貨膨脹 |
| 11. ANS: B | TOP: 2.充分就業模型 |
| 12. ANS: B | TOP: 7.財政政策與貨幣政策 |
| 13. ANS: A | TOP: 4.貨幣與銀行 |
| 14. ANS: B | TOP: 8.國際貿易 |
| 15. ANS: A | TOP: 4.貨幣與銀行 |
| 16. ANS: B | TOP: 2.充分就業模型 |
| 17. ANS: B | TOP: 8.國際貿易 |
| 18. ANS: C | TOP: 9.國際金融 |
| 19. ANS: B | TOP: 5.通貨膨脹 |
| 20. ANS: D | TOP: 4.貨幣與銀行 |
| 21. ANS: B | TOP: 1.總體經濟與總體指標 |
| 22. ANS: C | TOP: 6.總合 供需模型 |
| 23. ANS: A | TOP: 2.充分就業模型 |
| 24. ANS: C | TOP: 9.國際金融 |
| 25. ANS: A | TOP: 6.總合 供需模型 |
| 26. ANS: B | TOP: 6.總合 供需模型 |
| 27. ANS: B | TOP: 7.財政政策與貨幣政策 |
| 28. ANS: D | TOP: 9.國際金融 |
| 29. ANS: B | TOP: 4.貨幣與銀行 |
| 30. ANS: B | TOP: 2.充分就業模型 |
| 31. ANS: A | TOP: 3.凱因斯模型 |
| 32. ANS: D | TOP: 2.充分就業模型 |
| 33. ANS: B | TOP: 1.總體經濟與總體指標 |
| 34. ANS: B | TOP: 1.總體經濟與總體指標 |
| 35. ANS: A | TOP: 7.財政政策與貨幣政策 |
| 36. ANS: C | TOP: 6.總合 供需模型 |
| 37. ANS: C | TOP: 2.充分就業模型 |
| 38. ANS: B | TOP: 3.凱因斯模型 |
| 39. ANS: A | TOP: 8.國際貿易 |
| 40. ANS: A | TOP: 7.財政政策與貨幣政策 |
| 41. ANS: D | TOP: 5.通貨膨脹 |
| 42. ANS: D | TOP: 9.國際金融 |
| 43. ANS: C | TOP: 3.凱因斯模型 |
| 44. ANS: D | TOP: 4.貨幣與銀行Money and banking |

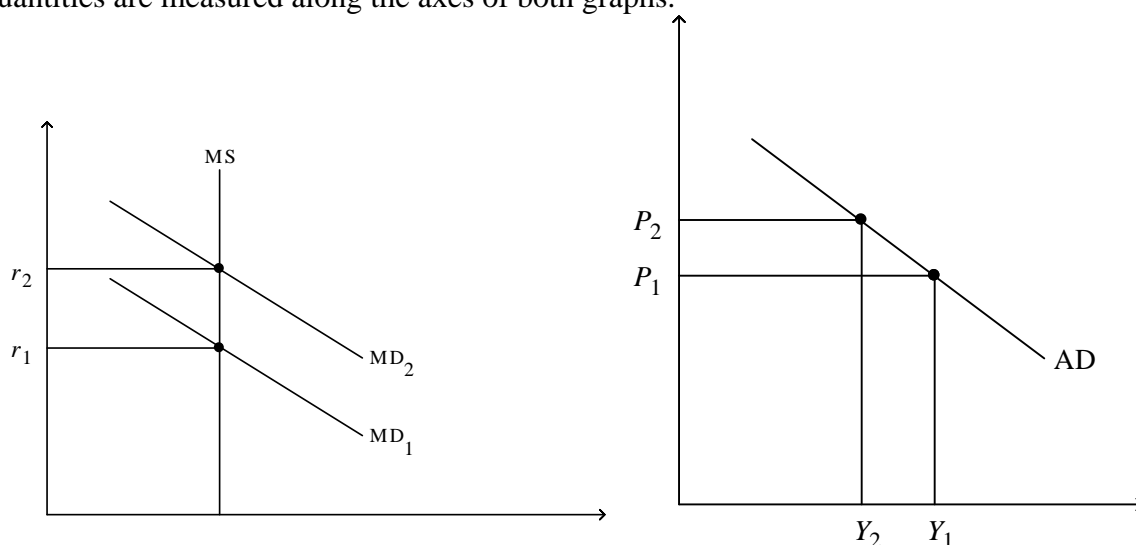
- | | |
|------------|------------------|
| 45. ANS: B | TOP: 6.總合 供需模型 |
| 46. ANS: D | TOP: 4.貨幣與銀行 |
| 47. ANS: D | TOP: 5.通貨膨脹 |
| 48. ANS: D | TOP: 9.國際金融 |
| 49. ANS: C | TOP: 7.財政政策與貨幣政策 |
| 50. ANS: C | TOP: 8.國際貿易 |

Commerce College Joint Economics Exam 100-2**Multiple Choice**

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

- _____ 1. If aggregate planned expenditures are less than the level of real GDP,
- a. real GDP and income will increase.
 - b. real GDP and income remain unchanged.
 - c. real GDP and income will either decrease or remain unchanged, depending on the *MPC*.
 - d. inventories will increase above their target level and real GDP will decrease.
- _____ 2. Last summer when you went to Stockholm Sweden you exchanged \$20 to get 16 kronas to buy a meal. This summer you exchanged \$25 to get 18 kronas to buy the same meal. The nominal exchange rate
- a. rose. If purchasing-power parity holds, than prices in the Sweden rose faster than prices in the U.S.
 - b. rose. If purchasing-power parity holds, than prices in the U.S. rose faster than prices in the Sweden.
 - c. fell. If purchasing-power parity holds, than prices in the Sweden rose faster than prices in the U.S.
 - d. fell. If purchasing-power parity holds, than prices in the U.S. rose faster than prices in the Sweden.
- _____ 3. The change in aggregate demand that results form fiscal expansion changing the interest rate is called the
- a. multiplier effect
 - b. crowding- out effect
 - c. accelerator effect
 - d. Ricardian equivalence effect

Figure 1. On the left-hand graph, MS represents the supply of money and MD represents the demand for money; on the right-hand graph, AD represents aggregate demand. The usual quantities are measured along the axes of both graphs.



4.

Refer to Figure 1. A decrease in Y from Y_1 to Y_2 is explained as follows:

- The Federal Reserve increases the money supply, causing the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
- An increase in P from P_1 to P_2 causes the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
- A decrease in P from P_2 to P_1 causes the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
- An increase in the price level causes the money-demand curve to shift from MD_2 to MD_1 ; this shift of MD causes r to decrease from r_2 to r_1 ; and this decrease in r causes Y to decrease from Y_1 to Y_2 .

5. Refer to Figure 1. Assume the money market is always in equilibrium, and suppose $r_1 = 0.08$; $r_2 = 0.12$; $Y_1 = 13,000$; $Y_2 = 10,000$; $P_1 = 1.0$; and $P_2 = 1.2$. Which of the following statements is correct?

- When $r = r_2$, nominal output is higher than it is when $r = r_1$.
- When $r = r_2$, real output is higher than it is when $r = r_1$.
- When $r = r_2$, the expected rate of inflation is higher than it is when $r = r_1$.
- If the velocity of money is 4 when $r = r_2$, then the quantity of money is \$3,000.

- _____ 6. The purchasing power parity theory is a good predictor of
- the long-run tendencies between changes in the price level and the exchange rate of two countries.
 - interest rate differentials between two countries when there are strong barriers preventing trade between the two countries.
 - how intervention in exchange markets by central banks influences prices in various countries.
 - the day-to-day relationship between changes in the price level and the exchange rate of two countries.
- _____ 7. The United States has imposed taxes on some imported goods that have been sold here by foreign countries at below their cost of production. These taxes
- benefit the United States as a whole, because they generate revenue for the government. In addition, because the goods are priced below cost, the taxes do not harm domestic consumers.
 - benefit the United States as a whole, because they generate revenue for the government and increase producer surplus.
 - harm the United States as a whole, because they reduce consumer surplus by an amount that exceeds the gain in producer surplus and government revenue.
 - harm the United States as a whole, because they reduce producer surplus by an amount that exceeds the gain in consumer surplus and government revenue.
- _____ 8. Which of the following shifts aggregate demand to the left?
- an increase in the price level
 - a decrease in the money supply
 - an increase in net exports
 - Congress passes a new investment tax credit
- _____ 9. In 1998 the Russian government defaulted on its bonds. According to the open-economy macroeconomic model, this should have
- increased Russian interest rates and net exports.
 - reduced Russian interest rates and net exports.
 - increased Russian interest rates and reduced Russian net exports.
 - reduced Russian interest rates and increased Russian net exports.
- _____ 10. Initially, the economy is in long-run equilibrium. Aggregate demand then shifts leftward by \$50 billion. The government wants to increase its spending in order to avoid a recession. If the crowding-out effect is always half as strong as the multiplier effect, and if the MPC equals 0.8, then by how much do government purchases have to increase in order to offset the \$50 billion leftward shift?
- by \$5 billion
 - by \$10 billion
 - by \$20 billion
 - by \$50 billion
- _____ 11. Which list contains only actions that decrease the money supply
- lower the discount rate, make open-market purchases
 - lower the discount rate, make open-market sales
 - raise the discount rate, make open-market purchases
 - raise the discount rate, make open-market sales

- _____ 12. If desired investment equals 500, desired saving equals 400, desired consumption equals 1,800, and desired net exports are -100, for equilibrium national income to be 2,500, government spending must be
- 100.
 - 100.
 - 200.
 - 300.
- _____ 13. Policymakers who control monetary and fiscal policy and want to offset the effects on output of an economic contraction caused by a shift in aggregate supply could use policy to shift
- aggregate supply to the right.
 - aggregate supply to the left.
 - aggregate demand to the right.
 - aggregate demand to the left.
- _____ 14. Other things the same, a country could move from having a trade surplus to having a trade deficit if either
- saving rose or domestic investment rose.
 - saving rose or domestic investment fell.
 - saving fell or domestic investment rose.
 - saving fell or domestic investment fell.
- _____ 15. Savings deposits are included in
- M1 but not M2 .
 - M2 but not M1.
 - both M1 and M2.
 - neither M1 nor M2.
- _____ 16. Economists consider an economy to be at full employment when
- all individuals actively seeking a job have one.
 - all individuals between the ages of 16 and 70 are employed.
 - both frictional unemployment and structural unemployment are equal to zero.
 - the only types of unemployment in the economy are frictional and structural unemployment.
- _____ 17. According to the liquidity preference theory, equilibrium in the money market is achieved by adjustments in
- the price level
 - the interest rate
 - the exchange rate
 - real wealth
- _____ 18. The Consumer Price Index measures the level of prices in a given year relative to some base year and is calculated using a weighted average of prices for a typical bundle of goods. The weights are
- the same for each good.
 - equal to the share of income spent on each good in the base year.
 - equal to the share of income spent on each good in the current year.
 - different across goods but assigned randomly.

- _____ 19. Which of the following would **not** be included in measures of the consumption component of aggregate expenditure?
- expenditures for new houses
 - expenditures for services
 - expenditures for durable goods, such as automobiles
 - expenditures for nondurable goods, such as fresh food
- _____ 20. If the reserve ratio is 8 percent, banks do not hold excess reserves, and people do not hold currency, then when the Fed purchases \$20 million of government bonds, bank reserves
- increase by \$20 million and the money supply eventually increases by \$250 million.
 - decrease by \$20 million and the money supply eventually increases by \$250 million.
 - increase by \$20 million and the money supply eventually decreases by \$250 million.
 - decrease by \$20 million and the money supply eventually decreases by \$250 million.
- _____ 21. Meredith is looking for work as a computer programmer. Although her prospects are good she hasn't yet taken a job. Julie is looking for work in a steel mill. Every time she shows up for an interview there are more people looking for work than there are openings. Someone waiting in line with her tells her its been that way a long time.
- Meredith and Julie are both frictionally unemployed.
 - Meredith and Julie are both structurally unemployed.
 - Meredith is frictionally unemployed, and Julie is structurally unemployed.
 - Meredith is structurally unemployed, and Julie is frictionally unemployed
- _____ 22. Given a constant price level, if desired aggregate expenditure exceeds total output, we would expect
- inventories to rise, and then production, employment, and income to rise.
 - inventories to fall, and then production, employment, and income to fall.
 - inventories to rise, and then production, employment, and income to fall.
 - inventories to fall, and then production, employment, and income to rise.
- _____ 23. Imagine that business in general believe that the economy is likely to head into recession and so they reduce capital purchases. Their reaction would initially shift
- aggregate demand right
 - aggregate demand left
 - aggregate supply right
 - aggregate supply left
- _____ 24. The residents of country A earn \$500 million of income from abroad. Residents of other countries earn \$200 million in country A. These earnings are accounted for in country A's
- GNP which is larger than GDP in country A.
 - GNP which is smaller than GDP in country A.
 - GDP which is larger than GNP in country A.
 - GDP which is smaller than GNP in country A.

- _____ 25. Mary Sue is the newly appointed CEO of a company that manufactures CD drives on an assembly line. Her staff has told her that the output the firm produces, given the number of workers employed, indicates that some workers may be shirking. According to efficiency wage theory, what should she do?
- pay all workers more than the equilibrium wage rate
 - pay all workers below the equilibrium wage rate to make up for the loss from shirking
 - make sure that workers are getting paid exactly the equilibrium wage rate
 - None of the above is correct according to efficiency wage theory.
- _____ 26. Other things the same, a decrease in the price level causes the interest rate to
- increase, the dollar to appreciate, and net exports to increase.
 - increase, the dollar to depreciate, and net exports to decrease.
 - decrease, the dollar to depreciate, and net exports to increase.
 - decrease, the dollar to appreciate, and net exports to decrease.
- _____ 27. Recently Greece ran large deficits and people became worried about the ability of its government to make payments on its debt. Which of these events reduces a country's real exchange rate?
- an increase in the budget deficit, and increased concerns about the ability of the government to pay back its debt
 - an increase in the budget deficit, but not increased concerns about the ability of the government to pay back its debt
 - increased concerns about the ability of the government to pay back its debt, but not an increase in the budget deficit
 - neither an increase in the budget deficit, nor increased concerns about the ability of the government to pay back its debt
- _____ 28. If inflation expectations decline, then the short-run Phillips curve shifts
- left, meaning that at any given inflation rate unemployment will be lower in the short run than before.
 - right, meaning that at any given inflation rate unemployment will be lower in the short run than before.
 - right, meaning that at any given inflation rate unemployment will be higher in the short run than before.
 - left, meaning that at any given inflation rate unemployment will be higher in the short run than before.
- _____ 29. In December 1999 people feared that there might be computer problems at banks as the century changed. Consequently, people wanted to hold relatively more in currency and relatively less in deposits. In anticipation banks raised their reserve ratios to have enough cash on hand to meet depositors' demands. These actions by the public
- would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
 - would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.
 - would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
 - would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.

- ____ 30. According to monetary neutrality and the Fisher effect, an increase in the money supply growth rate eventually increases
- inflation, nominal interest rates, and real interest rates.
 - inflation and nominal interest rates, but does not change real interest rates.
 - inflation and real interest rates, but does not change nominal interest rates.
 - neither inflation, nominal interest rates, or real interest rates.
- ____ 31. According to purchasing-power parity, which of the following necessarily equals the ratio of the foreign price level divided by the domestic price level?
- the real exchange rate, but not the nominal exchange rate
 - the nominal exchange rate, but not the real exchange rate
 - the real exchange rate and the nominal exchange rate
 - neither the real exchange rate nor the nominal exchange rate
- ____ 32. For the quantity theory of money to yield useful predictions,
- fiscal policy must be ineffective in altering aggregate demand.
 - fiscal policy must be effective in altering aggregate demand.
 - the economy must be operating at the potential level of real Gross Domestic Product.
 - velocity must be stable or predictable.
- ____ 33. If the government reduced the minimum wage and pursued contractionary monetary policy, then in the long run
- both the unemployment rate and the inflation rate would be lower.
 - the unemployment rate would be lower and the inflation rate would be higher.
 - the unemployment rate would be higher and the inflation rate would be lower.
 - the unemployment rate and the inflation rate would be higher.
- ____ 34. Suppose a Starbucks tall latte cost \$4.00 in the United States and 3.20 euros in the Euro area. Also, suppose a McDonald's Big Mac costs \$3.50 in the United States and 2.45 euros in Euro area. If the nominal exchange rate is .80 euros per dollar, which goods have prices that are consistent with purchasing power parity?
- Both the tall latte and the Big Mac.
 - Neither the tall latte nor the Big Mac.
 - The tall latte but not the Big Mac.
 - The Big Mac but not the tall latte.
- ____ 35. When the aggregate expenditure function becomes steeper, the simple national income multiplier becomes
- smaller.
 - larger.
 - less predictable.
 - non-convergent.
- ____ 36. If speculators gained greater confidence so that they wanted to buy more assets of foreign countries and fewer U.S. bonds,
- the dollar would appreciate which would cause aggregate demand to shift right
 - the dollar would appreciate which would cause aggregate demand to shift left
 - the dollar would depreciate which would cause aggregate demand to shift right
 - the dollar would depreciate which would cause aggregate demand to shift left

- _____ 37. An aide to a U.S. Senator computes the effect on aggregate demand of a \$20 billion tax cut. The actual increase in aggregate demand is less than the aide expected. Which of the following errors in the aide's computation would be consistent with an overestimation of the impact on aggregate demand?
- The actual MPC was larger than the MPC the aide used to compute the multiplier.
 - The aide thought the tax cut would be permanent, but the actual tax cut was temporary.
 - The increase in income shifted money demand less than the aide had anticipated.
 - The increase in income resulted in investment rising more than the aide had anticipated.
- _____ 38. Chile is an importer of computer chips, taking the world price of \$12 per chip as given. Suppose Chile imposes a \$7 tariff on chips. Which of the following outcomes is possible?
- The price of chips in Chile increases to \$19; the quantity of Chilean-produced chips decreases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$19; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile does not change.
- _____ 39. Which of the following will decrease U.S. net capital outflow?
- capital flight from the United States
 - the government budget deficit increases
 - the U.S. imposes import quotas
 - None of the above is correct.
- _____ 40. The GNP, as measured, understates the total production of goods and services for all but which of the following reasons?
- No allowances are included for the services of owner-occupied homes.
 - Illegal activities are ruled out of the GNP estimate.
 - Legal production in the "underground economy" is not reported for income tax purposes.
 - Nonmarketed services of housewives or househusbands are not included.
- _____ 41. If you deposit \$100 into a demand deposit at a bank, this action by itself
- does not change the money supply.
 - increases the money supply.
 - decreases the money supply.
 - has an indeterminate effect on the money supply.
- _____ 42. One bag of flour is sold for \$1.00 to a bakery, which uses the flour to bake bread that is sold for \$3.00 to consumers. A second bag of flour is sold for \$1 to a grocery store who sells it to a consumer for \$2.00. Taking these four transactions into account, what is the effect on GDP?
- GDP increases by \$3.00.
 - GDP increases by \$5.00.
 - GDP increases by \$6.00.
 - GDP increases by \$7.00.

- _____ 43. Open market purchases
- increase the price level and real GDP
 - decrease the price level and real GDP
 - increase the price level and decrease real GDP
 - decrease the price level and increase real GDP
- _____ 44. JR sells RV's. In 2010 she added \$400,000 to her inventory. \$100,000 of this addition was from used RV's she purchased while the remaining \$300,000 was from her purchases of newly manufactured RV's. How much of JR's inventory is included in 2010 GDP?
- \$0
 - \$100,000
 - \$300,000
 - \$400,000
- _____ 45. Suppose the United States exports cars to Canada and imports bananas from Mexico. This situation suggests
- the United States has a comparative advantage relative to Canada in producing cars, and Mexico has a comparative advantage relative to the United States in producing bananas.
 - the United States has a comparative advantage relative to Canada in producing bananas, and Mexico has a comparative advantage relative to the United States in producing cars.
 - the United States has an absolute advantage relative to Canada in producing cars, and Mexico has an absolute advantage relative to the United States in producing bananas
 - the United States has an absolute advantage relative to Mexico in producing bananas, and Canada has an absolute advantage relative to the United States in producing cars.
- _____ 46. Suppose that during the Great Depression long-run aggregate supply shifted left. To be consistent with what happened to the price level and output, what would have had to happen to aggregate demand?
- It would have to have shifted left by less than aggregate supply.
 - It would have to have shifted left by more than aggregate supply.
 - It would have to have shifted right by less than aggregate supply.
 - It would have to have shifted right by more than aggregate supply.
- _____ 47. In the short run an increase in government expenditures
- raises the price level, but not real GDP
 - raise real GDP, but not the price level
 - raises real GDP and the price level
 - raises neither real GDP nor the price level
- _____ 48. A citizen of Saudi Arabia uses previously obtained U.S. dollars to purchase apples from the United States. This transaction
- increases Saudi net capital outflow, and increases U.S. net exports.
 - increases Saudi net capital outflow, and decreases U.S. net exports.
 - decreases Saudi net capital outflow, and increases U.S. net exports.
 - decreases Saudi net capital outflow, and decreases U.S. net exports.

- _____ 49. An example of frictional unemployment is
- a. GM workers idled because of slow car sales.
 - b. Pittsburgh steelworkers laid off by a plant closing.
 - c. a teenager who has quit work at McDonald's, temporarily waiting to take a job next week at the car wash.
 - d. inner-city welfare mothers taking classes to earn high-school equivalency degrees.
- _____ 50. Suppose that the nominal exchange rate is 80 yen per dollar, that the price of a basket of goods in the U.S. is \$500 and the price of a basket of goods in Japan is 50,000 yen. Suppose that these values change to 100 yen per dollar, \$600, and 70,000 yen. Then the real exchange rate would
- a. appreciate which by itself would make U.S. net exports fall.
 - b. appreciate which by itself would make U.S. net exports rise.
 - c. depreciate which by itself would make U.S. net exports fall.
 - d. depreciate which by itself would make U.S. net exports rise.

Commerce College Joint Economics Exam 100-2

Answer Section

MULTIPLE CHOICE

1. ANS: D	REF: 3-1	TOP: 3.凱因斯模型
2. ANS: D	REF: 9-1	TOP: 9.國際金融International finance
3. ANS: B	REF: 7-1	TOP: 7.財政政策與貨幣政策
4. ANS: B	REF: 7-2	TOP: 7.財政政策與貨幣政策
5. ANS: D	REF: 7-2	TOP: 7.財政政策與貨幣政策
6. ANS: A	REF: 9-2	TOP: 9.國際金融International finance
7. ANS: C	REF: 8-1	TOP: 8.國際貿易International trade
8. ANS: B	REF: 6-2	TOP: 6.總合 供需模型Aggregate supply and demand
9. ANS: A	REF: 9-1	TOP: 9.國際金融International finance
10. ANS: C	REF: 7-2	TOP: 7.財政政策與貨幣政策
11. ANS: D	REF: 4-2	TOP: 4.貨幣與銀行Money and banking
12. ANS: D	REF: 3-2	TOP: 3.凱因斯模型Keynesian model
13. ANS: C	REF: 2-1	TOP: 2.充分就業模型
14. ANS: C	REF: 8-2	TOP: 8.國際貿易International trade
15. ANS: B	REF: 4-2	TOP: 4.貨幣與銀行Money and banking
16. ANS: D	REF: 1-2	TOP: 1.總體經濟與總體指標
17. ANS: B	REF: 7-1	TOP: 7.財政政策與貨幣政策
18. ANS: B	REF: 1-2	TOP: 1.總體經濟與總體指標
19. ANS: A	REF: 1-2	TOP: 1.總體經濟與總體指標
20. ANS: A	REF: 4-1	TOP: 4.貨幣與銀行Money and banking
21. ANS: C	REF: 2-2	TOP: 2.充分就業模型
22. ANS: D	REF: 3-2	TOP: 3.凱因斯模型Keynesian model
23. ANS: B	REF: 6-1	TOP: 6.總合 供需模型Aggregate supply and demand
24. ANS: A	REF: 1-1	TOP: 1.總體經濟與總體指標
25. ANS: A	REF: 2-2	TOP: 2.充分就業模型
26. ANS: C	REF: 6-2	TOP: 6.總合 供需模型Aggregate supply and demand
27. ANS: C	REF: 9-1	TOP: 9.國際金融International finance
28. ANS: A	REF: 2-2	TOP: 2.充分就業模型
29. ANS: D	REF: 4-1	TOP: 4.貨幣與銀行Money and banking
30. ANS: B	REF: 5-1	TOP: 5.通貨膨脹Inflation
31. ANS: B	REF: 8-2	TOP: 8.國際貿易International trade
32. ANS: D	REF: 5-2	TOP: 5.通貨膨脹Inflation
33. ANS: A	REF: 2-2	TOP: 2.充分就業模型
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39. ANS: B	REF: 9-1	TOP: 9.國際金融International finance
40. ANS: A	REF: 1-2	TOP: 1.總體經濟與總體指標
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42. ANS: B	REF: 1-1	TOP: 1.總體經濟與總體指標
43. ANS: A	REF: 7-1	TOP: 7.財政政策與貨幣政策
44. ANS: C	REF: 1-1	TOP: 1.總體經濟與總體指標

45. ANS: A	REF: 8-1	TOP: 8.國際貿易International trade
46. ANS: B	REF: 2-1	TOP: 2.充分就業模型
47. ANS: C	REF: 7-1	TOP: 7.財政政策與貨幣政策
48. ANS: C	REF: 9-1	TOP: 9.國際金融International finance
49. ANS: C	REF: 1-2	TOP: 1.總體經濟與總體指標
50. ANS: A	REF: 9-1	TOP: 9.國際金融International finance

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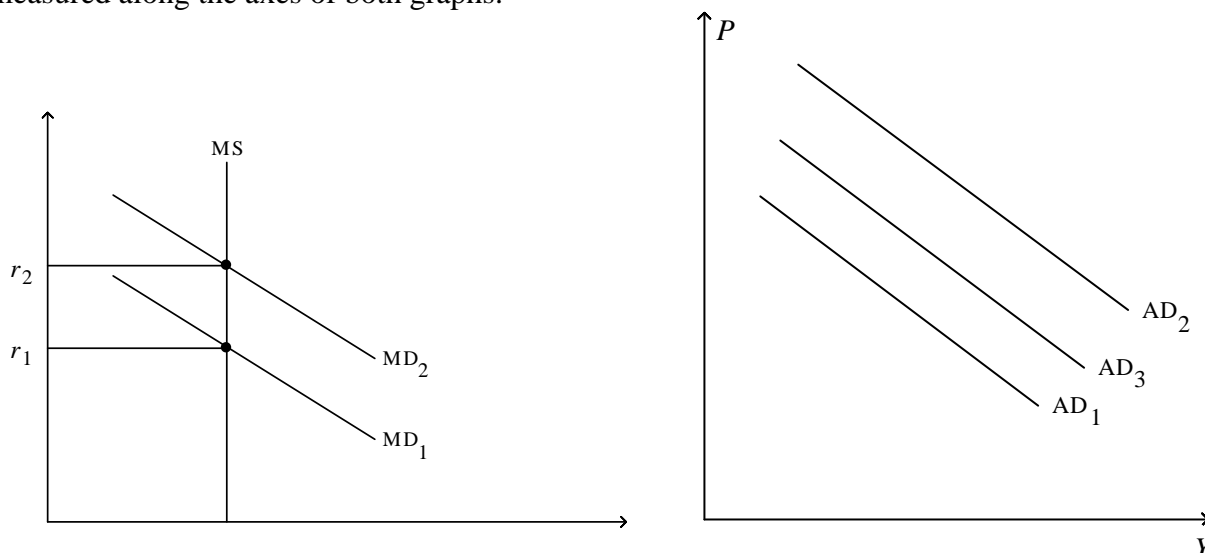
Multiple Choice

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

- ____ 1. Over time, people have come to rely more on market-produced goods and less on goods that they produce for themselves. By itself, busy people with high income, rather than cleaning their own houses, hire people to clean their houses. By itself, this change has
- caused GDP to fall.
 - not caused any change in GDP.
 - caused GDP to rise.
 - probably changed GDP, but in an uncertain direction; the direction of the change depends on the differences in the quality of the cleaning that has resulted.

Figure B

On the left-hand graph, MS represents the supply of money and MD represents the demand for money; on the right-hand graph, AD represents aggregate demand. The usual quantities are measured along the axes of both graphs.



- ____ 2.

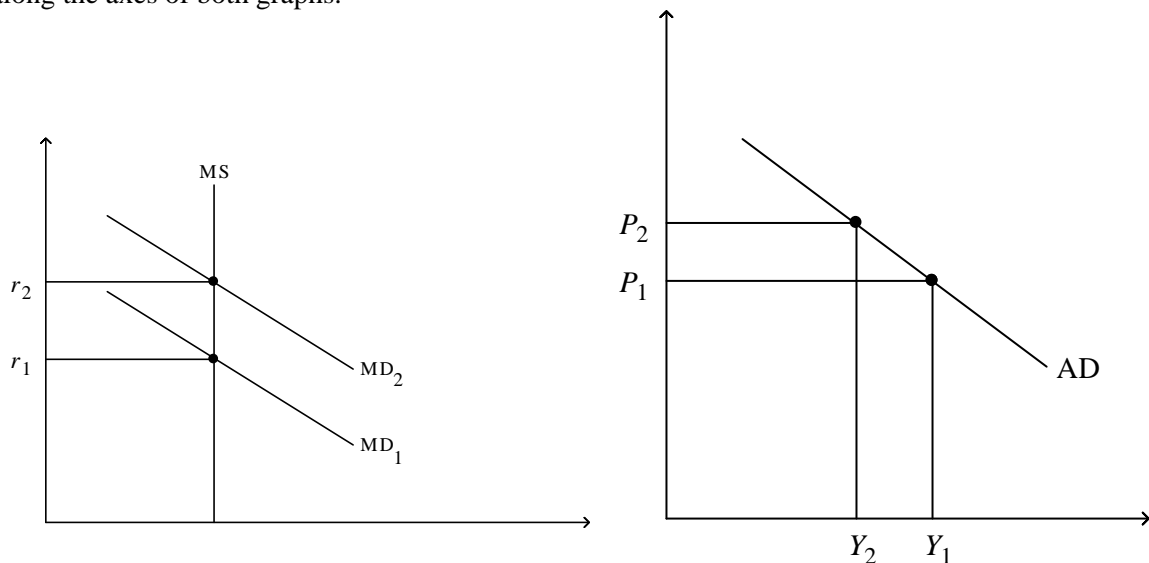
Refer to Figure B. Suppose the multiplier is 5 and the government increases its purchases by \$25 billion. Also, suppose the AD curve would shift from AD_1 to AD_2 if there were *no* crowding out; the AD curve actually shifts from AD_1 to AD_3 *with* crowding out. Finally, assume the horizontal distance between the curves AD_1 and AD_3 is \$80 billion. The extent of crowding out, for any particular level of the price level, is

- the horizontal distance between the curves MD_1 and MD_2 .
- \$45 billion.
- \$60 billion.
- \$75 billion.

- _____ 3. Refer to Figure B. Suppose the graphs are drawn to show the effects of an increase in government purchases. If it were *not* for the increase in r from r_1 to r_2 , then
- the AD curves that actually apply, before and after the change in government purchases, would be separated horizontally by the distance equal to the multiplier times the change in government purchases.
 - the full multiplier effect of the increase in government purchases would be realized.
 - there would be no crowding out.
 - All of the above are correct.
- _____ 4. Which of the following contains a list only of things that decrease when the budget deficit of the U.S. increases?
- U.S. net exports, U.S. domestic investment, U.S. net capital outflow
 - U.S. supply of loanable funds, U.S. interest rates, U.S. domestic investment
 - U.S. imports, U.S. interest rates, the real exchange rate of the dollar
 - None of the above is correct.
- _____ 5. Which of the following statements is NOT true of free trade ?
- Free trade leads to a maximization of world output.
 - Free trade maximizes world living standards.
 - Free trade always makes each individual better off.
 - Free trade can increase the average income in a country.
- _____ 6. Suppose that the money supply increases. In the short run this decreases unemployment according to
- the short-run Phillips curve, but not the aggregate demand and supply model.
 - the aggregate demand and aggregate supply model, but not the short-run Phillips curve.
 - both the short-run Phillips curve and the aggregate demand and aggregate supply model.
 - neither the short-run Phillips curve nor the aggregate demand and aggregate supply model.
- _____ 7. An example of frictional unemployment is
- GM workers idled because of slow car sales.
 - Pittsburgh steel workers laid off by a plant closing.
 - A teenager who has quit work at McDonald's, temporarily waiting to take a job next week at the car wash.
 - inner-city welfare mothers taking classes to earn high-school equivalency degrees.

8.

Figure A. On the left-hand graph, MS represents the supply of money and MD represents the demand for money; on the right-hand graph, AD represents aggregate demand. The usual quantities are measured along the axes of both graphs.



Refer to Figure A. A decrease in Y from Y_1 to Y_2 is explained as follows:

- The Federal Reserve increases the money supply, causing the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
- An increase in P from P_1 to P_2 causes the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
- A decrease in P from P_2 to P_1 causes the money-demand curve to shift from MD_1 to MD_2 ; this shift of MD causes r to increase from r_1 to r_2 ; and this increase in r causes Y to decrease from Y_1 to Y_2 .
- An increase in the price level causes the money-demand curve to shift from MD_2 to MD_1 ; this shift of MD causes r to decrease from r_2 to r_1 ; and this decrease in r causes Y to decrease from Y_1 to Y_2 .

9. Harvey, a U.S. taxpayer, purchased 10 shares of MVC stock for \$100 per share; one year later he sold the 10 shares for \$150 a share. Over the year, the price level increased from 140.0 to 147.0.

What is Harvey's before-tax real capital gain?

- $\$1,500 - \$1,000 \times (1.05)$ and this is the gain he is to report on his income tax
- $\$1,500 - \$1,000 \times (1.07)$ and this is the gain he is to report on his income tax
- $\$1,500 - \$1,000 \times (1.05)$ but he is to report a \$500 gain on his income tax
- $\$1,500 - \$1,000 \times (1.07)$ but he is to report a \$500 gain on his income tax

10. A country reported a nominal GDP of \$115 billion in 2006 and \$125 billion in 2005; it reported a GDP deflator of 85 in 2006 and a deflator of 100 in 2005. Between 2005 and 2006

- real output and the price level both rise.
- real output rose and the price level fell.
- real output fell and the price level rose.
- real output and the price level both fell.

- _____ 11. Suppose an economy produces only eggs and ham. In 2009, 100 dozen eggs are sold at \$3 per dozen and 50 pounds of ham sold at \$4 per pound. In 2010, the base year, eggs sold at \$1.50 per dozen and ham sold at \$5 per pound. For 2009,
- nominal GDP is \$400, real GDP is \$500, and the GDP deflator is 80.
 - nominal GDP is \$400, real GDP is \$500, and the GDP deflator is 125.
 - nominal GDP is \$500, real GDP is \$400, and the GDP deflator is 80.
 - nominal GDP is \$500, real GDP is \$400, and the GDP deflator is 125.
- _____ 12. When the real exchange rate for the dollar depreciates, U.S. goods become
- less expensive relative to foreign goods, which makes exports rise and imports fall.
 - less expensive relative to foreign goods, which makes exports fall and imports rise.
 - more expensive relative to foreign goods, which makes exports rise and imports fall.
 - more expensive relative to foreign goods, which makes exports fall and imports rise.
- _____ 13. If the government reduced the minimum wage and pursued contractionary monetary policy, then in the long run
- the unemployment rate would be lower and the inflation rate would be higher.
 - the unemployment rate would be higher and the inflation rate would be lower.
 - both the unemployment rate and the inflation rate would be higher.
 - both the unemployment rate and the inflation rate would be lower.
- _____ 14. Suppose the U.S. imposes an import quota on steel. U.S. exports
- increase, the real exchange rate of the U.S. dollar appreciates, and U.S. net capital outflow increases.
 - increase, the real exchange rate of the U.S. dollar depreciates, and U.S. net capital outflow is unchanged.
 - decrease, the real exchange rate of the U.S. dollar appreciates, and U.S. net capital outflow is unchanged.
 - decrease, the real exchange rate of the U.S. dollar depreciates, and U.S. net capital outflow decreases.
- _____ 15. In the U.S. a digital camera costs \$150. The same camera in London sells for 60 pounds. If the exchange rate is .50 pounds per dollar, then which of the following is correct?
- The real exchange rate is greater than 1. A person in London with \$150 could exchange them for pounds and have more than enough to buy the camera there.
 - The real exchange rate is greater than 1. A person in London with \$150 could exchange them for pounds but then wouldn't have enough to buy the camera there.
 - The real exchange rate is less than 1. A person in London with \$150 could exchange them for pounds and have more than enough to buy the camera there.
 - The real exchange rate is less than 1. A person in London with \$150 could exchange them for pounds but then wouldn't have enough to buy the camera.
- _____ 16. Which of the following by itself is consistent with the directions that the price level and real GDP changed at the onset of the Great Depression?
- aggregate demand shifted right
 - aggregate demand shifted left
 - aggregate supply shifted right
 - aggregate supply shifted left
- _____ 17. Suppose a certain country imposes a tariff on a good. Which of the following results of the tariff is possible?
- Consumer surplus decreases by \$100; producer surplus increases by \$100; and government revenue from the tariff amounts to \$50.
 - Consumer surplus decreases by \$200; producer surplus increases by \$100; and government revenue from the tariff amounts to \$50.
 - Consumer surplus increases by \$100; producer surplus decreases by \$200; and government revenue from the tariff amounts to \$50.
 - Consumer surplus decreases by \$50; producer surplus increases by \$200; and government revenue from the tariff amounts to \$150.

- _____ 18. If the Fed wishes to prevent depreciation of the (US) dollar in the foreign exchange market, it could
- Lower the discount rate.
 - Buy U.S. treasury bills.
 - Sell foreign exchange from its holdings of reserves.
 - Purchase more gold.
- _____ 19. An increase in the budget deficit
- reduces net capital outflow and domestic investment.
 - reduces net capital outflow and raises domestic investment.
 - raises net capital outflow and domestic investment
 - raises net capital outflow and reduces domestic investment.
- _____ 20. In an imaginary economy, consumers buy only shirts and pants. The fixed basket consists of 6 shirts and 4 pairs of pants. A shirt cost \$20 in 2006 and \$25 in 2007. A pair of pants cost \$30 in 2006 and \$40 in 2007. Using 2006 as the base year, which of the following statement is correct?
- For the typical consumer, the number of dollars spent on shirts is Equal to the number of dollars spent on pants in each of the two Years.
 - The consumer price index is 134 in 2007.
 - the rate of inflation is 29.17% in 2007.
 - All of the above are correct.
- _____ 21. A steel company sells some steel to a bicycle company for \$100. The bicycle Company uses the steel to produce a bicycle, which it sells for \$200. Taken together, these two transactions contribute
- \$100 to GDP.
 - \$200 to GDP.
 - between \$200 and \$300 to GDP, depending on the profit earned by the bicycle company when it sold the bicycle.
 - \$300 to GDP.
- _____ 22. If the natural rate of unemployment is 5.2 percent and the actual rate of unemployment is 5.7 percent, then by definition there is
- cyclical unemployment amounting to 0.5 percent of the labor force.
 - frictional unemployment amounting to 0.5 percent of the labor force.
 - structural unemployment amounting to 0.5 percent of the labor force.
 - search unemployment amounting to 0.5 percent of the labor force.
- _____ 23. Initially, the economy is in long-run equilibrium. Aggregate demand then shifts leftward by \$50 billion. The government wants to increase its spending in order to avoid a recession. If the crowding-out effect is always half as strong as the multiplier effect, and if the MPC equals 0.8, then by how much do government purchases have to increase in order to offset the \$50 billion leftward shift?
- by \$5 billion
 - by \$10 billion
 - by \$20 billion
 - by \$50 billion
- _____ 24. Suppose that the velocity of money is constant. According to the quantity theory of money, if the money supply increases 5 per-cent, then
- both the price level and real GDP would rise by 5 percent.
 - the price level would rise by 5 percent and real GDP would be unchanged.
 - the price level would be unchanged and real GDP would rise by 5 percent.
 - both the price level and real GDP would be unchanged.
- _____ 25. Which of the following lists two things that both decrease the money supply?
- make open market purchases, raise the reserve requirement ratio.
 - make open market purchases, lower the reserve requirement ratio.
 - make open market sales , raise the reserve requirement ratio.
 - make open market sales , lower the reserve requirement ratio.

- _____ 26. An aide to a U.S. Senator computes the effect on aggregate demand of a \$20 billion tax cut. The actual increase in aggregate demand is less than the aide expected. Which of the following errors in the aide's computation would be consistent with an overestimation of the impact on aggregate demand?
- The actual MPC was larger than the MPC the aide used to compute the multiplier.
 - The aide thought the tax cut would be permanent, but the actual tax cut was temporary.
 - The increase in income shifted money demand less than the aide had anticipated.
 - The increase in income resulted in investment rising more than the aide had anticipated.
- _____ 27. Alice says that the present value of \$700 to be received one year from today if the interest rate is 6 percent is less than the present value of \$700 to be received two years from today if the interest rate is 3 percent. Beth says that \$700 saved for one year at 6 percent interest has a smaller future value than \$700 saved for two years at 3 percent interest.
- Both Alice and Beth are correct.
 - Both Alice and Beth are incorrect.
 - Only Alice is correct.
 - Only Beth is correct.
- _____ 28. Suppose that in a country people gain more confidence in the banking system. And so hold relatively less currency and more deposits, then bank reserves will
- decrease and the money supply will eventually decrease.
 - decrease and the money supply will eventually increase.
 - increase and the money supply will eventually decrease.
 - increase and the money supply will eventually increase.
- _____ 29. An economic contraction caused by a shift in aggregate demand causes prices to
- rise in the short run, and rise even more in the long run.
 - rise in the short run, and fall back to their original level in the long run.
 - fall in the short run, and fall even more in the long run.
 - fall in the short run, and rise back to their original level in the long run.
- _____ 30. If the reserve ratio is 10 percent, banks do not hold excess reserves, and people do not hold currency, then when the Fed purchases \$20 million of government bonds, bank reserves
- decrease by \$20 million and the money supply eventually increases by \$200 million.
 - decrease by \$20 million and the money supply eventually decreases by \$200 million.
 - increase by \$20 million and the money supply eventually increases by \$200 million.
 - increase by \$20 million and the money supply eventually decreases by \$200 million.

Use the (hypothetical) information in the following table to answer the following questions.

Table 1

Country	Currency	Currency per U.S. Dollar	U.S. Price Index	Country Price Index
Bolivia	boloviano	8.00	200	1600
Japan	yen	125.00	200	50,000
Morocco	dinar	10.00	200	2,000
Norwegian	kroner	6.5	200	1,500
Thailand	baht	40.00	200	7,000

- _____ 31. Refer to Table 1. Which currency(ies) is(are) less valuable than predicted by the doctrine of purchasing-power parity?
- boloviano and dinar
 - yen and kroner
 - baht and kroner
 - baht

- _____ 32. Refer to Table 1. For which country(ies) in the table does purchasing-power parity hold?
- Bolivia and Japan
 - Bolivia and Morocco
 - Japan and Morocco
 - Norway and Thailand
- _____ 33. Suppose the economy is in long-run equilibrium. If there is a sharp decline in the stock market combined with a significant increase in immigration of skilled workers, then in the short run,
- real GDP will rise and the price level might rise, fall, or stay the same. In the long-run, real GDP will rise and the price level might rise, fall, or stay the same.
 - the price level will fall, and real GDP might rise, fall, or stay the same. In the long-run, real GDP and the price level will be unaffected.
 - the price level will rise, and real GDP might rise, fall, or stay the same. In the long run, real GDP will rise and the price level will fall.
 - the price level will fall, and real GDP might rise, fall, or stay the same. In the long run, real GDP will rise and the price level will fall.
- _____ 34. Under the assumptions of the Fisher effect and monetary neutrality, if the money supply growth rate rises, then
- both the nominal and the real interest rate rise.
 - neither the nominal nor the real interest rate rise.
 - the nominal interest rate rises, but the real interest rate does not.
 - the real interest rate rises, but the nominal interest rate does not.
- _____ 35. The nation of Aquilonia has decided to end its policy of not trading with the rest of the world. When it ends its trade restrictions, it discovers that it is importing incense, exporting steel, and neither importing nor exporting rugs. We can conclude that Aquilonia's new free-trade policy has
- increased consumer surplus and producer surplus in the incense market.
 - increased consumer surplus in the steel market and left producer surplus in the rug market unchanged.
 - decreased consumer surplus in both the steel and rug markets.
 - decreased consumer surplus in the steel market and increased total surplus in the incense market.
- _____ 36. As the marginal propensity to save (MPS) increases, the multiplier will:
- increase.
 - remain constant.
 - either increase or decrease depending on the size of the change in investment.
 - decrease.
- _____ 37. Import quotas and tariffs produce some common results. Which of the following is not one of those common results?
- Total surplus in the domestic country falls.
 - Producer surplus in the domestic country increases.
 - The domestic country experiences a deadweight loss.
 - Revenue is raised for the domestic government.
- _____ 38. In a 100-percent-reserve banking system, if people decided to decrease the amount of currency they held by increasing the amount they held in checkable deposits, then
- M1 would increase.
 - M1 would decrease.
 - M1 would not change.
 - M1 might rise or fall.

- ____ 39. During recessions, banks typically choose to hold more excess reserves relative to their deposits. This action
- increases the money multiplier and increase the money supply.
 - decreases the money multiplier and decreases the money supply.
 - does not change the money multiplier, but increase the money supply.
 - does not change the money multiplier, but decrease the money supply.
- ____ 40. A roll of duct tape costs 2 Canadian dollars in Canada and 3 U.S. dollars in the U.S. If the nominal exchange rate is .80 Canadian dollars per U.S. dollar.
- A profit could be made by buying duct tape in Canada and selling it in the U.S. This would tend to drive up the price of U.S. duct tape.
 - A profit could be made by buying duct tape in Canada and selling it in the U.S. This would tend to drive up the price of Canadian duct tape.
 - A profit could be made by buying duct tape in the U.S. and selling it in Canada. This would tend to drive up the price of U.S. duct tape.
 - A profit could be made by buying duct tape in the U.S. and selling it in Canada. This would tend to drive up the price of Canadian duct tape.
- ____ 41. According to the classical dichotomy, when the money supply doubles, which of the following also doubles?
- the price level
 - nominal wages
 - nominal GDP
 - All of the above are correct.
- ____ 42. In the open-economy macroeconomic model, the amount of U.S. net capital outflow represents the quantity of dollars
- supplied for the purpose of selling assets domestically.
 - supplied for the purpose of buying foreign assets.
 - demand for the purpose of buying U.S. net exports of goods and services.
 - demand for the purpose of importing foreign goods and services.
- ____ 43. Suppose an apartment complex converts to a condominium, so that the former renters are now owners of their housing units. Suppose further that a current estimate of the value of the condominium owners' housing services is the same as the rent they previously paid. What happens to GDP as a result of this conversion?
- GDP necessarily increases.
 - GDP necessarily decreases.
 - GDP is unaffected because neither the rent nor the estimate of the value owner-occupied housing services is included in GDP.
 - GDP is unaffected because previously the rent payments were included in GDP and now the rent payments are replaced in GDP by the estimate of the value of owner occupied housing services.
- ____ 44. If people had been expecting prices to rise but in fact prices fell, then who among the following would benefit?
- lenders but not people holding a lot of currency
 - lenders and people holding a lot of currency
 - people holding a lot of currency but not lenders
 - neither lenders nor people holding a lot of currency

- _____ 45. Chile is an importer of computer chips, taking the world price of \$12 per chip as given. Suppose Chile imposes a \$7 tariff on chips. Which of the following outcomes is possible?
- The price of chips in Chile increases to \$19; the quantity of Chilean-produced chips decreases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$19; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile decreases.
 - The price of chips in Chile increases to \$16; the quantity of Chilean-produced chips increases; and the quantity of chips imported by Chile does not change.
- _____ 46. If net exports are negative, then
- net capital outflow is positive, so foreign assets bought by Americans are greater than American assets bought by foreigners.
 - net capital outflow is positive, so American assets bought by foreigners are greater than foreign assets bought by Americans.
 - net capital outflow is negative, so foreign assets bought by Americans are greater than American assets bought by foreigners.
 - net capital outflow is negative, so American assets bought by foreigners are greater than foreign assets bought by Americans.
- _____ 47. Which of the following statements is correct?
- Both liquidity preference theory and classical theory assume the interest rate adjusts to bring the money market into equilibrium.
 - Both liquidity preference theory and classical theory assume the price level adjusts to bring the money market into equilibrium.
 - Liquidity preference theory assumes the price level adjusts to bring the money market into equilibrium; classical theory assumes the interest rate adjusts to bring the money market into equilibrium.
 - Liquidity preference theory assumes the interest rate adjusts to bring the money market into equilibrium; classical theory assumes the price level adjusts to bring the money market into equilibrium.
- _____ 48. Suppose there are only two firms in an economy: Rolling Rawhide produces rawhide and sells it to Chewy Chomp, Inc., which uses the rawhide to produce and sell dog chews. With each \$2 of rawhide that it buys from Rolling Rawhide, Chewy Chomp, Inc. produces a dog chew and sells it for \$5. Neither firm had any inventory at the beginning of 2008. During that year, Rolling Rawhide produced enough rawhide for 1000 dog chews. Chewy Chomp, Inc. bought 75% of that rawhide for \$1500 and promised to buy the remaining 25% for \$500 in 2009. Chewy Chomp, Inc. produced 750 dog chews during 2008 and sold each one during that year for \$5. What was the economy's GDP for 2008?
- \$3750
 - \$4250
 - \$5250
 - \$5750
- _____ 49. The country of Wiknam has net capital outflow of \$1,000, government purchases of \$5,000 and consumption of \$20,000. Which of the following is correct?
- If its domestic investment is \$1,000, its GDP is \$26,000.
 - If its domestic investment is \$2,000, its GDP is \$28,000.
 - If its domestic investment is \$5,000, its GDP is \$29,000.
 - None of the above are correct.

Name: _____

ID: A

- _____ 50. Laura bought word of processing software in 2005 for \$50. Laura's twin brother, Laurence, buys an upgrade of the same software in 2006 for \$50. What problem in the construction of the CPI does this situation best represent?
- a. substitution bias.
 - b. unmeasured quality change.
 - c. introduction of new goods.
 - d. income bias.

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Answer Section

MULTIPLE CHOICE

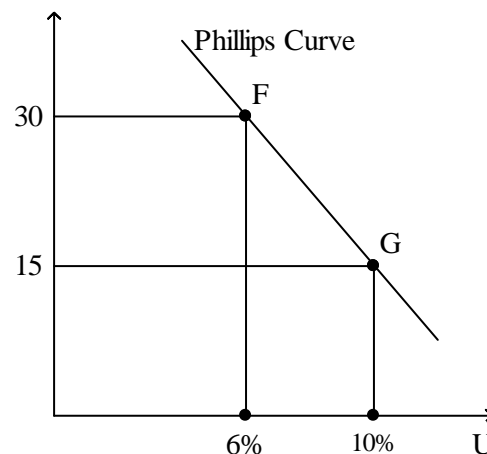
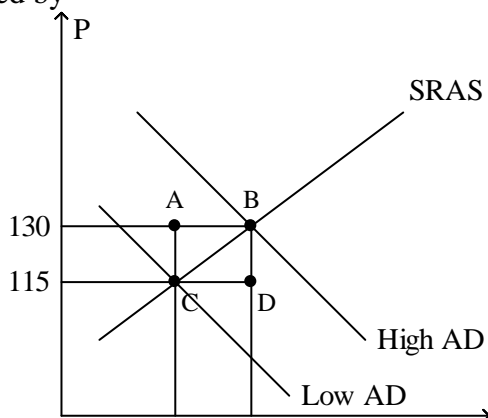
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3. ANS: D	REF: 7-2	TOP: 7.財政政策與貨幣政策
4. ANS: A	REF: 9-1	TOP: 9.國際金融International finance
5. ANS: C	REF: 8-2	TOP: 8.國際貿易International trade
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19. ANS: A	REF: 9-1	TOP: 9.國際金融International finance
20. ANS: C	REF: 1-2	TOP: 1.總體經濟與總體指標
21. ANS: B	REF: 1-2	TOP: 1.總體經濟與總體指標
22. ANS: A	REF: 2-1	TOP: 2.充分就業模型Full-employment model
23. ANS: C	REF: 3-2	TOP: 3.凱因斯模型Keynesian model
24. ANS: B	REF: 5-1	TOP: 5.通貨膨脹Inflation
25. ANS: C	REF: 4-2	TOP: 4.貨幣與銀行Money and banking
26. ANS: B	REF: 3-2	TOP: 3.凱因斯模型Keynesian model
27. ANS: D	REF: 4-1	TOP: 4.貨幣與銀行Money and banking
28. ANS: D	REF: 4-2	TOP: 4.貨幣與銀行Money and banking
29. ANS: C	REF: 6-2	TOP: 6.總合 供需模型Aggregate supply and demand
30. ANS: C	REF: 7-2	TOP: 7.財政政策與貨幣政策
31. ANS: D	REF: 9-1	TOP: 9.國際金融International finance
32. ANS: B	REF: 9-1	TOP: 9.國際金融International finance
33. ANS: D	REF: 6-1	TOP: 6.總合 供需模型Aggregate supply and demand
34. ANS: C	REF: 5-1	TOP: 5.通貨膨脹Inflation
35. ANS: D	REF: 8-1	TOP: 8.國際貿易International trade
36. ANS: D	REF: 3-1	TOP: 3.凱因斯模型Keynesian model
37. ANS: D	REF: 8-1	TOP: 8.國際貿易International trade
38. ANS: C	REF: 7-1	TOP: 7.財政政策與貨幣政策
39. ANS: B	REF: 4-2	TOP: 4.貨幣與銀行Money and banking
40. ANS: B	REF: 9-1	TOP: 9.國際金融International finance
41. ANS: D	REF: 5-1	TOP: 5.通貨膨脹Inflation
42. ANS: B	REF: 9-2	TOP: 9.國際金融International finance
43. ANS: D	REF: 1-1	TOP: 1.總體經濟與總體指標
44. ANS: B	REF: 5-2	TOP: 5.通貨膨脹Inflation

45. ANS: C	REF: 8-1	TOP: 8.國際貿易International trade
46. ANS: D	REF: 9-2	TOP: 9.國際金融International finance
47. ANS: D	REF: 7-2	TOP: 7.財政政策與貨幣政策
48. ANS: B	REF: 1-1	TOP: 1.總體經濟與總體指標
49. ANS: B	REF: 9-1	TOP: 9.國際金融International finance
50. ANS: B	REF: 1-2	TOP: 1.總體經濟與總體指標

Commerce College Joint Economics Exam 102-2**Multiple Choice**

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

- _____ 1. In a certain economy, when income is \$400, consumer spending is \$350. The value of the multiplier for this economy is 3.125. It follows that, when income is \$450, consumer spending is
- \$384. For this economy, an initial impulse of \$50 in consumer spending translates into a \$146.67 increase in aggregate demand.
 - \$384. For this economy, an initial impulse of \$50 in consumer spending translates into a \$156.25 increase in aggregate demand.
 - \$389.38. For this economy, an initial impulse of \$50 in consumer spending translates into a \$146.67 increase in aggregate demand.
 - \$389.38. For this economy, an initial impulse of \$50 in consumer spending translates into a \$156.25 increase in aggregate demand.
- _____ 2. The left-hand graph shows a short-run aggregate-supply (SRAS) curve and two aggregate-demand (AD) curves. On the right-hand diagram, U represents the unemployment rate. Suppose points F and G on the right-hand graph represent two possible outcomes for an imaginary economy in the year 2012, and those two points correspond to points B and C, respectively, on the left-hand graph. Also suppose we know that the price index equaled 120 in 2011. Then the numbers 115 and 130 on the vertical axis of the left-hand graph would have to be replaced by



- 155 and 175, respectively.
- 138 and 156, respectively.
- 137.5 and 154.75, respectively.
- 135 and 150, respectively.

- _____ 3. A government reduces its budget deficit, but at the same time people become concerned that the outlook for future government expenditures and revenues increase the chance it will default. Which of the following is correct.
- The reduced budget deficit will raise interest rates in general. The increased risk of default will raise interest rates on government bonds.
 - The reduced budget deficit will raise interest rates in general. The increased risk of default will reduce interest rates on government bonds.
 - The reduced budget deficit will reduce interest rates in general. The increased risk of default will raise interest rates on government bonds.
 - The reduced budget deficit will reduce interest rates in general. The increased risk of default will reduce interest rates on government bonds.
- _____ 4. The Fed's policy decisions have an important influence on
- inflation in the long run and employment and production in the short run.
 - inflation in the long run and employment and production in the long run.
 - inflation in the short run and employment and production in the short run.
 - inflation in the short run and employment and production in the long run.
- _____ 5. If there are two countries A and B, and two goods X and Y, and if A has a comparative advantage in the production of X, then it necessarily follows that
- A has an absolute advantage in the production of X.
 - B has an absolute advantage in the production of X.
 - B has a comparative advantage in the production of Y.
 - B has an absolute advantage in the production of Y.
- _____ 6. In the context of aggregate demand and aggregate supply, the wealth effect refers to the idea that, when the price level decreases, the real wealth of households
- increases and as a result consumption spending increases. This effect contributes to the downward slope of the aggregate-demand curve.
 - decreases and as a result consumption spending increases. This effect contributes to the upward slope of the aggregate-supply curve.
 - increases and as a result households increase their money holdings; in turn, interest rates increase and investment spending decreases. This effect contributes to the downward slope of the aggregate-demand curve.
 - decreases and as a result households increase their money holdings; in turn, interest rates increase and investment spending decreases. This effect contributes to the upward slope of the aggregate-supply curve.
- _____ 7. An economy starts with \$10,000 in currency. All of this currency is deposited into a single bank, and the bank then makes loans totaling \$9,250. The T-account of the bank is shown below.

Assets		Liabilities	
Reserves	\$750	Deposits	\$10,000
Loans	9,250		

If all banks in the economy have the same reserve ratio as this bank, then the value of the economy's money multiplier is

- 1.33.
- 10.00.
- 10.81.
- 13.33.

- ____ 8. Credit card limits are included in
- M1 but not M2.
 - M2 but not M1.
 - M1 and M2.
 - neither M1 nor M2.
- ____ 9. An increase in disposable income shifts
- both the consumption and savings functions upward.
 - the consumption function upward and leads to a movement along the savings function.
 - both the consumption and savings functions downward.
 - neither the consumption function or the savings function because it leads to a movement along both the consumption and savings function.
- ____ 10. Under flexible exchange rates, a reduction in Taiwan interest rates relative to U.S. interest rates will, other things equal, result in the Taiwan dollar
- appreciating, due to greater demand for Taiwan dollars.
 - depreciating, due to greater demand for Taiwan dollars.
 - appreciating, due to greater supply of Taiwan dollars.
 - depreciating, due to greater supply of Taiwan dollars.
- ____ 11. Menu costs refers to
- resources used by people to maintain lower money holdings when inflation is high.
 - resources used to price shop during times of high inflation.
 - the distortion in incentives created by inflation when taxes do not adjust for inflation.
 - the cost of more frequent price changes induced by higher inflation.
- ____ 12. The term *crowding-out effect* refers to
- the reduction in aggregate supply that results when a monetary expansion causes the interest rate to decrease.
 - the reduction in aggregate demand that results when a monetary expansion causes the interest rate to decrease.
 - the reduction in aggregate demand that results when a fiscal expansion causes the interest rate to increase.
 - the reduction in aggregate demand that results when a decrease in government spending or an increase in taxes causes the interest rate to increase.
- ____ 13. Liquidity refers to
- the ease with which an asset is converted to the medium of exchange.
 - the measurement of the intrinsic value of commodity money.
 - the measurement of the durability of a good.
 - how many time a dollar circulates in a given year.
- ____ 14. An open-market purchase
- increases the number of dollars and the number of bonds in the hands of the public.
 - increases the number of dollars in the hands of the public and decreases the number of bonds in the hands of the public.
 - decreases the number of dollars and the number of bonds in the hands of the public.
 - decreases the number of dollars in the hands of the public and increases the number of bonds in the hands of the public.

- _____ 15. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, while Sandy can make 6 tables or 18 chairs. Given this, we know that
- Mike has a comparative advantage in tables.
 - Sandy has an absolute advantage in chairs.
 - Mike has an absolute advantage in tables.
 - Sandy has a comparative advantage in tables.
- _____ 16. If Shawn can produce more donuts in one day than Sue can produce in one day, then
- Shawn has a comparative advantage in the production of donuts.
 - Sue has a comparative advantage in the production of donuts.
 - Shawn has an absolute advantage in the production of donuts.
 - Shawn should produce donuts and Sue should spend her time on a different activity.
- _____ 17. Initially, the economy is in long-run equilibrium. The aggregate demand curve then shifts \$80 billion to the left. The government wants to change spending to offset this decrease in demand. The MPC is 0.75. Suppose the effect on aggregate demand of a tax change is $\frac{3}{4}$ as strong as the effect of a change in government expenditure. There is no crowding out and no accelerator effect. What should the government do if it wants to offset the decrease in real GDP?
- Raise both taxes and expenditures by \$80 billion dollars.
 - Raise both taxes and expenditures by \$10 billion dollars.
 - Reduce both taxes and expenditures by \$80 billion dollars.
 - Reduce both taxes and expenditures by \$10 billion dollars.
- _____ 18. The market basket used to calculate the CPI in Aquilonia is 4 loaves of bread, 6 gallons of milk, 2 shirts, and 2 pairs of pants. In 2005, bread cost \$1.00 per loaf, milk cost \$1.50 per gallon, shirts cost \$6.00 each, and pants cost \$10.00 per pair. In 2006, bread cost \$1.50 per loaf, milk cost \$2.00 per gallon, shirts cost \$7.00 each, and pants cost \$12.00 per pair. Using 2005 as the base year, what was Aquilonia's inflation rate in 2006?
- 4 percent
 - 11 percent
 - 19.6 percent
 - 24.4 percent
- _____ 19. Suppose that in a closed economy GDP is equal to 11,000, taxes are equal to 2,500 consumption equals 7,500 and government purchases equal 2,000. What are private saving, public saving, and national saving?
- 1,500, 1,000, and 1500, respectively
 - 1,000, 500, and 1,500, respectively
 - 500, 1,500, and 1,500, respectively
 - None of the above is correct.
- _____ 20. When in France you notice that prices are posted in euros, this best illustrates money's function as
- a store of value.
 - a medium of exchange.
 - a unit of account.
 - a method of barter.
- _____ 21. Real GDP equals \$20 billion and aggregate planned expenditure is \$30 billion. There is an unplanned _____ in inventories of _____ and real GDP will _____.
- increase; \$10 billion; increase
 - increase; \$50 billion; decrease
 - decrease; \$10 billion; increase
 - decrease; \$10 billion; decrease

- _____ 22. More generous unemployment insurance would
- raise structural unemployment.
 - raise frictional unemployment.
 - lower structural unemployment.
 - lower frictional unemployment.
- _____ 23. During the recent financial crisis velocity decreased. This means that the rate at which money changed hands
- decreased. Other things the same, a decrease in velocity decreases the price level.
 - decreased. Other things the same, a decrease in velocity increases the price level.
 - increased. Other things the same, an increase in velocity decreases the price level.
 - increased. Other things the same, an increase in velocity increases the price level.
- _____ 24. Suppose the economy is in an equilibrium in which real GDP is less than potential GDP. To increase real GDP, the government can use a fiscal stimulus of
- increasing taxes only.
 - decreasing government expenditure only.
 - decreasing taxes and/or increasing government expenditure.
 - decreasing government expenditure and simultaneously increasing taxes.
- _____ 25. Suppose that more Chinese decide to vacation in the U.S. and the Chinese purchase more U.S. Treasury bonds. Ignoring how payments are made for these purchases,
- the first action by itself raises U.S. net exports, the second action by itself raises U.S. net capital outflow.
 - the first action by itself raises U.S. net exports, the second action by itself lowers U.S. net capital outflow.
 - the first action by itself lowers U.S. net exports, the second action by itself raises U.S. net capital outflow.
 - the first action by itself lowers U.S. net exports, the second action by itself lowers U.S. net capital outflow.
- _____ 26. Last year Panglossia had real GDP of 27.0 billion. This year it had real GDP of 31.5 billion. Which of the following changes in population is consistent with a 5 percent growth rate of real GDP per person over the last year?
- The population decreased from 88 million to 84 million.
 - The population decreased from 75 million to 73 million.
 - The population increased from 45 million to 50 million.
 - The population increased from 60 million to 62 million.
- _____ 27. In 2009, based on concepts similar to those used to estimate U.S. employment figures, the Japanese adult non-institutionalized population was 110.272 million, the labor force was 65.362 million, and the number of people employed was 62.242 million. According to these numbers, the Japanese labor-force participation rate and unemployment rate were about
- 56.4% and 2.8%.
 - 56.4% and 4.8%.
 - 59.3% and 2.8%.
 - 59.3% and 4.8%.

- ____ 28. A reduction in U.S net exports would shift U.S. aggregate demand
- rightward. In an attempt to stabilize the economy, the government could raise taxes.
 - rightward. In an attempt to stabilize the economy, the government could cut taxes.
 - leftward. In an attempt to stabilize the economy, the government could raise taxes.
 - leftward. In an attempt to stabilize the economy, the government could cut taxes.
- ____ 29. If the natural rate of unemployment is 5.2 percent and the actual rate of unemployment is 5.7 percent, then by definition there is
- cyclical unemployment amounting to 0.5 percent of the labor force.
 - frictional unemployment amounting to 0.5 percent of the labor force.
 - structural unemployment amounting to 0.5 percent of the labor force.
 - search unemployment amounting to 0.5 percent of the labor force.
- ____ 30. Which of the following by itself is consistent with the directions that the price level and real GDP changed at the onset of the Great Depression?
- aggregate demand shifted right
 - aggregate demand shifted left
 - aggregate supply shifted right
 - aggregate supply shifted left
- ____ 31. The long-run aggregate supply curve shows that by itself a permanent change in aggregate demand would lead to a long-run change
- in the price level and output.
 - in the price level, but not output.
 - in output, but not the price level.
 - in neither the price level nor output.
- ____ 32. In the Keynesian model in the short run, a decrease in the money supply will cause
- a decrease in output and an increase in the real interest rate.
 - an increase in the real interest rate but no change in output.
 - a decrease in the real interest rate and a decrease in output.
 - no change in either the real interest rate or output.
- ____ 33. Which of the following statement is *not* true of free trade?
- Free trade leads to a maximization of world output.
 - Free trade maximizes world living standards.
 - Free trade always makes each individual better off.
 - Free trade can increase the average income in a country.
- ____ 34. Which of the following is not an explanation for the existence of structural unemployment?
- efficiency wages
 - job search
 - minimum-wage laws
 - unions

- _____ 35. Increased preferences of U.S. consumers for cars manufactured in Japan would
- Shift the supply-of -dollars curve to the left and lead to an appreciation in the value of the yen.
 - Shift the demand-of -dollars curve to the left and lead to a depreciation in the value of the dollar.
 - Shift the demand-of -dollars curve to the right and lead to an appreciation in the value of the yen.
 - Shift the supply-of -dollars curve to the right and lead to a depreciation in the value of the dollar.
- _____ 36. If the federal funds rate were below the level the Federal Reserve had targeted, the Fed could move the rate back towards its target by
- buying bonds. This buying would reduce reserves.
 - buying bonds. This buying would increase reserves.
 - selling bonds. This selling would reduce reserves.
 - selling bonds. This selling would increase reserves.
- _____ 37. Given a nominal interest rate of 8 percent, in which of the following cases would you earn the highest after-tax real interest rate?
- Inflation is 5 percent; the tax rate on interest income is 20 percent.
 - Inflation is 4 percent; the tax rate on interest income is 30 percent.
 - Inflation is 3 percent; the tax rate on interest income is 40 percent.
 - The after-tax real interest rate is the same for all of the above.
- _____ 38. If the stock market crashes, then
- aggregate demand increases, which the Fed could offset by increasing the money supply.
 - aggregate demand increases, which the Fed could offset by decreasing the money supply.
 - aggregate demand decreases, which the Fed could offset by increasing the money supply.
 - aggregate demand decreases, which the Fed could offset by decreasing the money supply.
- _____ 39. A car that is produced in 2004 is not sold until 2005. According to the definition of GDP, in which year's GDP should it be counted?
- 2004.
 - 2004 real GDP; 2005 nominal GDP.
 - both years.
 - 2005.
- _____ 40. In a 100-percent reserve banking system, if people decided to decrease the amount of currency they held by increasing the amount they held in checkable deposits
- M1 would increase.
 - M1 would decrease.
 - M1 would not change.
 - M1 might rise or fall.
- _____ 41. The doctrine of comparative advantage says that there are gains from international trade
- only if both comparative and absolute advantage are present in both countries.
 - If opportunity costs are the same in the countries involved.
 - Only if there are economies of scale available.
 - If countries specialize in the production of goods in which they have a comparative advantage.

- _____ 42. Supply-side economists believe that a reduction in the tax rate
- always decrease government tax revenue.
 - shifts the aggregate supply curve to the right.
 - provides no incentive for people to work more.
 - would decrease consumption.
- _____ 43. To increase the money supply, the Fed can
- buy government bonds or increase the discount rate.
 - buy government bonds or decrease the discount rate.
 - sell government bonds or increase the discount rate.
 - sell government bonds or decrease the discount rate.
- _____ 44. Suppose there are only two firms in an economy: Cowhide, Inc. produces leather and sells it to Couches, Inc., which produces and sells leather furniture. With each \$1,000 of leather that it buys from Cowhide, Inc., Couches, Inc. produces a couch and sells it for \$3,000. Neither firm had any inventory at the beginning of 2009. During that year, Cowhide produced enough leather for 20 couches. Couches, Inc. bought 80% of that leather for \$16,000 and promised to buy the remaining 20% for \$4,000 in 2010. Couches, Inc. produced 16 couches during 2009 and sold each one during that year for \$3,000. What was the economy's GDP for 2009?
- \$48,000
 - \$52,000
 - \$64,000
 - \$68,000
- _____ 45. Which of the following is correct?
- The GDP deflator is better than the CPI at reflecting the goods and services bought by consumers.
 - The CPI is better than the GDP deflator at reflecting the goods and services bought by consumers.
 - The GDP deflator and the CPI are equally good at reflecting the goods and services bought by consumers.
 - The GDP deflator is more commonly used as a gauge of inflation than the CPI.
- _____ 46. If a country has a trade deficit
- it has positive net exports and positive net capital outflow.
 - it has positive net exports and negative net capital outflow.
 - it has negative net exports and positive net capital outflow.
 - it has negative net exports and negative net capital outflow.
- _____ 47. If aggregated demand is less than actual output,
- unplanned inventory accumulation will cause output to rise.
 - unplanned inventory depletion will cause output to fall.
 - unplanned inventory depletion will cause output to rise.
 - unplanned inventory accumulation will cause output to fall.
- _____ 48. Assume that there is no accelerator effect. The $MPC = 3/4$. The government increases both expenditures and taxes by \$600. The effect of taxes on aggregate demand is $3/4$ the size of that created by government expenditures alone. The crowding out effect is $1/5$ as strong as the combined effect of government expenditures and taxes on aggregate demand. How much does aggregate demand shift by?
- \$1480
 - \$480
 - \$160
 - None of the above is correct.

- _____ 49. Discretionary monetary policy is monetary policy that is based on
- a. the judgment of Congress about the current needs of the economy.
 - b. a rule that allows no discretion in how policymakers respond to the state of the economy.
 - c. the ups and downs of the stock market.
 - d. the judgment of the monetary policymakers about the current needs of the economy.
- _____ 50. If the U.S. price level rose from 100 to 140 at the same time as the Swiss Franc price level rose from 100 to 120, purchasing power parity theory would project that the initial Franc value of \$0.50 should become
- a. $\$0.50 \times 140/120$.
 - b. $\$0.50 \times (140-120) / 120$.
 - c. $\$0.50 \times 120 / 140$.
 - d. $\$0.50 \times (140-120) / 140$.

Commerce College Joint Economics Exam 102-2

Answer Section

MULTIPLE CHOICE

1. ANS: B	REF: 6-2	TOP: 6.總合 供需模型
2. ANS: B	REF: 6-2	TOP: 6.總合 供需模型
3. ANS: C	REF: 1-2	TOP: 1.總體經濟與總體指標
4. ANS: A	REF: 4-2	TOP: 4.貨幣與銀行
5. ANS: C	REF: 8-1	TOP: 8.國際貿易
6. ANS: A	REF: 6-1	TOP: 6.總合 供需模型
7. ANS: D	REF: 4-1	TOP: 4.貨幣與銀行
8. ANS: D	REF: 4-1	TOP: 4.貨幣與銀行
9. ANS: D	REF: 3-1	TOP: 3.凱因斯模型
10. ANS: D	REF: 9-1	TOP: 9.國際金融
11. ANS: D	REF: 5-1	TOP: 5.通貨膨脹
12. ANS: C	REF: 7-1	TOP: 7.財政政策與貨幣政策
13. ANS: A	REF: 4-2	TOP: 4.貨幣與銀行
14. ANS: B	REF: 4-2	TOP: 4.貨幣與銀行
15. ANS: D	REF: 8-2	TOP: 8.國際貿易
16. ANS: C	REF: 8-2	TOP: 8.國際貿易
17. ANS: A	REF: 6-2	TOP: 6.總合 供需模型
18. ANS: D	REF: 1-2	TOP: 1.總體經濟與總體指標
19. ANS: B	REF: 1-2	TOP: 1.總體經濟與總體指標
20. ANS: C	REF: 4-2	TOP: 4.貨幣與銀行
21. ANS: C	REF: 3-1	TOP: 3.凱因斯模型
22. ANS: B	REF: 2-1	TOP: 2.充分就業模型
23. ANS: A	REF: 4-1	TOP: 4.貨幣與銀行
24. ANS: C	REF: 7-2	TOP: 7.財政政策與貨幣政策
25. ANS: B	REF: 9-2	TOP: 9.國際金融
26. ANS: C	REF: 1-2	TOP: 1.總體經濟與總體指標
27. ANS: D	REF: 2-1	TOP: 2.充分就業模型
28. ANS: D	REF: 6-2	TOP: 6.總合 供需模型b
29. ANS: A	REF: 2-1	TOP: 2.充分就業模型
30. ANS: B	REF: 6-2	TOP: 6.總合 供需模型
31. ANS: B	REF: 6-1	TOP: 6.總合 供需模型
32. ANS: A	REF: 3-2	TOP: 3.凱因斯模型
33. ANS: C	REF: 8-1	TOP: 8.國際貿易
34. ANS: B	REF: 2-1	TOP: 2.充分就業模型
35. ANS: D	REF: 9-1	TOP: 9.國際金融
36. ANS: C	REF: 4-2	TOP: 4.貨幣與銀行
37. ANS: C	REF: 5-1	TOP: 5.通貨膨脹
38. ANS: C	REF: 7-1	TOP: 7.財政政策與貨幣政策
39. ANS: A	REF: 1-2	TOP: 1.總體經濟與總體指標
40. ANS: C	REF: 4-1	TOP: 4.貨幣與銀行
41. ANS: D	REF: 8-1	TOP: 8.國際貿易
42. ANS: B	REF: 7-1	TOP: 7.財政政策與貨幣政策
43. ANS: B	REF: 4-1	TOP: 4.貨幣與銀行
44. ANS: B	REF: 1-1	TOP: 1.總體經濟與總體指標

45. ANS: B	REF: 1-1	TOP: 1.總體經濟與總體指標
46. ANS: D	REF: 9-2	TOP: 9.國際金融
47. ANS: D	REF: 3-2	TOP: 3.凱因斯模型
48. ANS: B	REF: 6-2	TOP: 6.總合 供需模型
49. ANS: D	REF: 7-2	TOP: 7.財政政策與貨幣政策
50. ANS: A	REF: 9-1	TOP: 9.國際金融

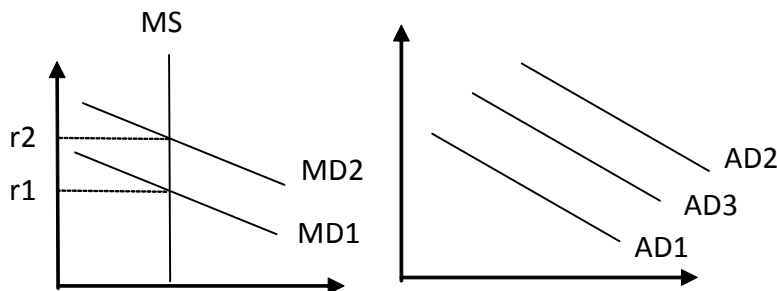
Commerce College Joint Economics Exam 103-2

Multiple Choice

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

1. Under the assumptions of the Fisher effect and monetary neutrality, if the money supply growth rate falls, then
 - A) both the nominal and the real interest rate fall.
 - B) neither the nominal nor the real interest rate fall.
 - C) the nominal interest rate falls, but the real interest rate does not.
 - D) the real interest rate falls, but the nominal interest rate does not.
2. Which of the following statements is correct?
 - A) In the long run, output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for money; the price level adjusts to balance the supply and demand for loanable funds.
 - B) In the long run, output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for loanable funds; the price level adjusts to balance the supply and demand for money.
 - C) In the long run, output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for loanable funds; the price level is stuck.
 - D) In the long run, output responds to the aggregate demand for goods and services; the interest rate adjusts to balance the supply and demand for loanable funds; the price level adjusts to balance the supply and demand for money.
3. Frictional unemployment is present in an economy because:
 - A) workers often need to update their skills.
 - B) workers take time to decide which job is best for them.
 - C) firms often lay off workers due to economic recession.
 - D) there are often changes in the industrial makeup of an economy.
4. A Big Mac in Japan costs 320 yen while it costs \$3.60 in the U.S.. The nominal exchange rate is 80 yen per dollar. Which of the following would both make the real exchange rate move towards purchasing-power parity?
 - A) the price of Big Macs in the U.S. falls, the nominal exchange rate falls
 - B) the price of Big Macs in the U.S. falls, the nominal exchange rate rises
 - C) the price of Big Macs in the U.S. rises, the nominal exchange rate falls
 - D) the price of Big Macs in the U.S. rises, the nominal exchange rate rises
5. A German citizen buys an automobile produced in the United States by a Japanese company. As a result,
 - A) U.S. net exports increase, U.S. GNP and GDP are unaffected, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
 - B) U.S. net exports, GNP, and GDP increase, Japanese GDP increases, German net exports decrease, and German GDP is unaffected.
 - C) U.S. net exports and GDP increase, Japanese GNP increases, German net exports decrease, and German GDP and GNP are unaffected.
 - D) U.S. net exports, GNP, and GDP are unaffected, Japanese GNP increases, German net exports decrease, and German GDP and GNP fall.

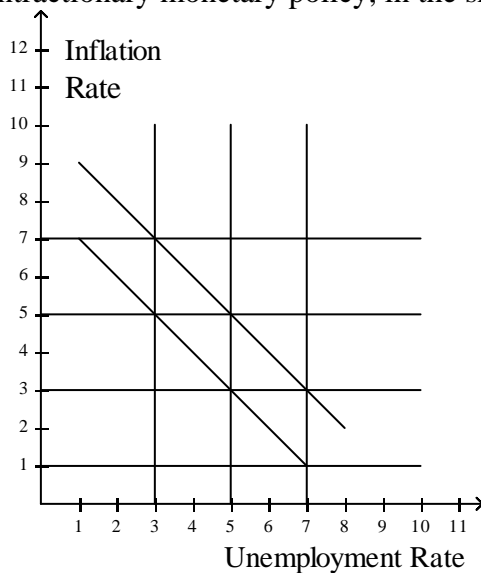
6. The Fed increases the reserve requirement, but it wants to offset the effects on the money supply. Which of the following should it do?
- sell bonds to increase reserves
 - sell bonds to decrease reserves
 - buy bonds to increase reserves
 - buy bonds to decrease reserves
7. In an imaginary economy, consumers buy only hot dogs and hamburgers. The fixed basket consists of 10 hot dogs and 6 hamburgers. A hot dog cost \$3 in 2006 and \$5.40 in 2007. A hamburger cost \$5 in 2006 and \$6 in 2007. Which of the following statements is correct?
- When 2006 is chosen as the base year, the consumer price index is 90 in 2007.
 - When 2006 is chosen as the base year, the inflation rate is 150 percent in 2007.
 - When 2007 is chosen as the base year, the consumer price index is 100 in 2006.
 - When 2006 is chosen as the base year, the inflation rate is 50 percent in 2007.
8. Esmerelda worked part-time for her mother's business without pay. Tabitha was absent from work because she had strep throat. Who is counted as "employed" by the Bureau of Labor Statistics?
- Esmerelda but not Tabitha.
 - Tabitha but not Esmerelda.
 - both Tabitha and Esmerelda.
 - neither Tabitha nor Esmerelda.
9. Figure 1



Refer to Figure 1. Suppose the multiplier is 4 and the government increases its purchases by \$20 billion. Also, suppose the AD curve would shift from AD1 to AD2 if there were no crowding out; the AD curve actually shifts from AD1 to AD3 with crowding out. Finally, assume the horizontal distance between AD1 and AD3 is 25 billion. The extent of crowding out, for any particular level of the price level, is

- the horizontal distance between the curves MD1 and MD2.
 - \$45 billion.
 - \$55 billion.
 - \$65 billion.
10. Which of the following is included in the supply of U.S. dollars in the market for foreign-currency exchange in the open-economy macroeconomic model?
- A retail outlet in Canada wants to buy handbags from a U.S. manufacturer.
 - A U.S. bank loans dollars to Karen, a U.S. resident, who wants to purchase a car in the U.S.
 - A U.S. based law firm wants to build a new office in Japan.
 - All of the above are correct

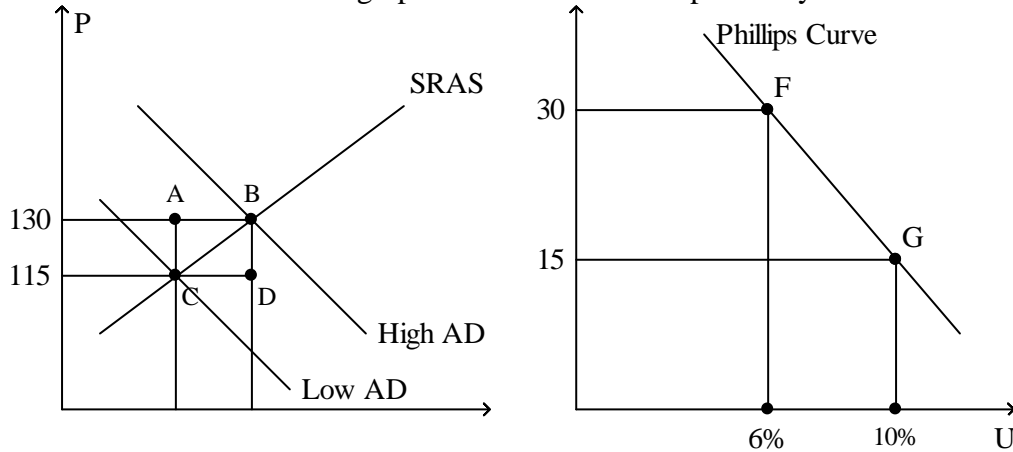
11. Recessions in China and India would cause
- the U.S. price level and real GDP to rise.
 - the U.S. price level and real GDP to fall.
 - the U.S. price level to rise and real GDP to fall.
 - the U.S. price level to fall and real GDP to rise.
12. Assume that Greece has a comparative advantage in fish and Germany has a comparative advantage in cars. Also assume that Germany has an absolute advantage in both fish and cars. If these two countries specialize and trade so as to maximize the benefits of specialization and trade,
- the two countries' combined output of both goods will be higher than it would be in the absence of trade.
 - Greece will produce less fish than it would produce in the absence of trade.
 - Germany will produce fewer cars than it would produce in the absence of trade.
 - Without additional information about opportunity costs, this question cannot be answered.
13. If the economy starts at 5% unemployment and 5% inflation then if the Federal Reserve pursues a contractionary monetary policy, in the short run the economy moves to



- 3% unemployment and 5% inflation. In the long run the economy moves to 5% unemployment and 5% inflation.
- 3% unemployment and 5% inflation. In the long run the economy moves to 5% unemployment and 3% inflation.
- 7% unemployment and 3% inflation. In the long run the economy moves to 5% unemployment and 5% inflation.
- 7% unemployment and 3% inflation. In the long run the economy moves to 5% unemployment and 3% inflation.

14. If the real exchange rate is less than 1, then the
- A) nominal exchange rate \times U.S. price $>$ foreign price. The dollars required to purchase a good in the U.S. would buy more than enough foreign currency to buy the same good overseas.
 - B) nominal exchange rate \times U.S. price $>$ foreign price. The dollars required to purchase a good in the U.S. would not buy enough foreign currency to buy the same good overseas.
 - C) nominal exchange rate \times U.S. price $<$ foreign price. The dollars required to purchase a good in the U.S. would buy more than enough foreign currency to buy the same good overseas.
 - D) nominal exchange rate \times U.S. price $<$ foreign price. The dollars required to purchase a good in the U.S. would not buy enough foreign currency to buy the same good overseas.
15. Without crowding out effect, suppose that MPC is 0.25 and the Congress passed a bill to expand government expenditure by 30 million. Other things being equal, how much does the aggregate demand increase?
- A) the multiplier would be 4, and aggregate demand increase by 90 billion.
 - B) the multiplier would be 4, and aggregate demand increase by 120 billion.
 - C) the multiplier would be $4/3$, and aggregate demand increase by 60 billion.
 - D) the multiplier would be $4/3$, and aggregate demand increase by 40 billion.
16. Recently Greece ran large deficits and people became worried about the ability of its government to make payments on its debt. Which of these events reduces a country's real exchange rate?
- A) an increase in the budget deficit, and increased concerns about the ability of the government to pay back its debt
 - B) an increase in the budget deficit, but not increased concerns about the ability of the government to pay back its debt
 - C) increased concerns about the ability of the government to pay back its debt, but not an increase in the budget deficit
 - D) neither an increase in the budget deficit, nor increased concerns about the ability of the government to pay back its debt
17. Which of the following is an example of U.S. foreign direct investment?
- A) A U.S. based mutual fund buys stock in Eastern European companies.
 - B) A Swiss bank buys a U.S. government bond.
 - C) A German tractor factory opens a plant in Waterloo, Iowa.
 - D) A U.S. citizen builds and operates a coffee shop in the Netherlands.
18. Automatic stabilizers are provisions in the law that imply automatic _____ in government spending or _____ in taxes when real output declines.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; decreases
 - D) decreases; increases

19. The left-hand graph shows a short-run aggregate-supply (SRAS) curve and two aggregate-demand (AD) curves. On the right-hand diagram, U represents the unemployment rate. Suppose points F and G on the right-hand graph represent two possible outcomes for an imaginary economy in the year 2012, and those two points correspond to points B and C, respectively, on the left-hand graph. Also suppose we know that the price index equaled 120 in 2011. Then the numbers 115 and 130 on the vertical axis of the left-hand graph would have to be replaced by

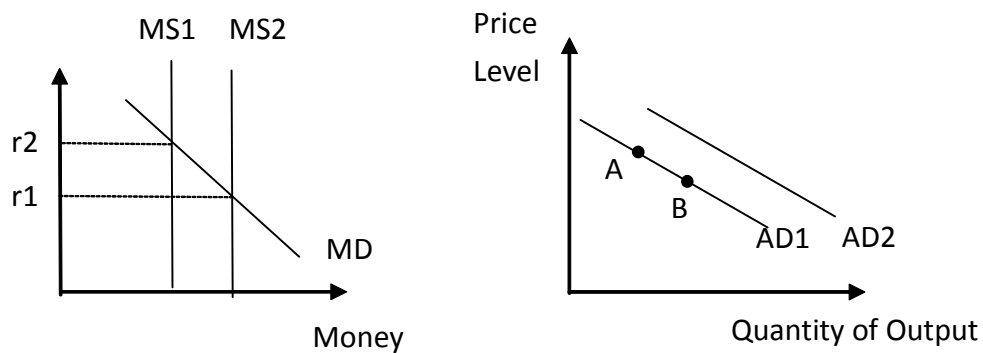


- A) 155 and 175, respectively.
 B) 138 and 156, respectively.
 C) 137.5 and 154.75, respectively.
 D) 135 and 150, respectively.
20. According to liquidity preference theory, if the price level increases, then the equilibrium interest rate
- A) rises and the aggregate quantity of goods demand rises.
 B) rises and the aggregate quantity of goods demanded falls.
 C) falls and the aggregate quantity of goods demanded rises.
 D) falls and the aggregate quantity of goods demanded falls.
21. If the Fed conducts open-market sales, which of the following three increase: interest rates, prices, investment spending?
- A) interest rates, prices, investment spending.
 B) interest rates and prices, not investment spending.
 C) interest rates and investment, not prices.
 D) interest rates, not investment or prices
22. In the U.S. a digital camera costs \$200. The same camera in London sells for 90 pounds. If the exchange rate were .50 pounds per dollar, then which of the following would be correct?
- A) The real exchange rate is greater than 1. A person in London with \$200 could exchange them for pounds and have more than enough to buy the camera there.
 B) The real exchange rate is greater than 1. A person in London with \$200 could exchange them for pounds but then wouldn't have enough to buy the camera there.
 C) The real exchange rate is less than 1. A person in London with \$200 could exchange them for pounds and have more than enough to buy the camera there.
 D) The real exchange rate is less than 1. A person in London with \$200 could exchange them for pounds but then wouldn't have enough to buy the camera.

23. Which of the following leads to a lower level of unemployment in the long run?
 - A) both an increase in the size of the money supply and an increase in the money supply growth rate
 - B) an increase in the size of the money supply but not an increase in the money supply growth rate
 - C) an increase in the money supply growth rate, but not an increase in the size of the money supply
 - D) neither an increase in the size of the money supply nor an increase in the money supply growth rate
24. Which one of the following is not a policy instrument of the Fed?
 - A) open market operations
 - B) changes in tax rates on interest received from savings accounts
 - C) establishing the required reserve ratio
 - D) changing the discount rate
25. In the short run, If Fed raises the discount rate, then
 - A) increase the price level and real GDP
 - B) decrease the price level and real GDP
 - C) increase the price level and decrease real GDP
 - D) decrease the price level and increase real GDP
26. The United States has imposed taxes on some imported goods that have been sold here by foreign countries at below their cost of production. These taxes
 - A) benefit the United States as a whole, because they generate revenue for the government. In addition, because the goods are priced below cost, the taxes do not harm domestic consumers.
 - B) benefit the United States as a whole, because they generate revenue for the government and increase producer surplus.
 - C) harm the United States as a whole, because they reduce consumer surplus by an amount that exceeds the gain in producer surplus and government revenue.
 - D) harm the United States as a whole, because they reduce the sum of consumer and producer surplus by an amount that exceeds the increase in government revenue.
27. Which of the following lists two things that both increase the money supply?
 - A) raise the discount rate, make open market purchases
 - B) raise the discount rate, make open market sales
 - C) lower the discount rate, make open market purchases
 - D) lower the discount rate, make open market sales
28. In the aggregate expenditures model, if real GDP equals \$700 billion and aggregate expenditures equal \$400 billion:
 - A) consumption plus investment equals \$300 billion.
 - B) investment equals – \$300 billion.
 - C) investment plus saving equals \$300 billion.
 - D) unplanned inventory accumulation equals \$300 billion.
29. A possible explanation that a nation might offer for the imposition of a protectionist policy such as a tariff is to:
 - A) protect an infant industry from foreign competitors.
 - B) encourage specialization in the good in which the nation has a comparative advantage.
 - C) slow domestic production.
 - D) increase the level of imports

30. Which of the following is an example of efficiency wage?
- A) a higher wage paid to a more experienced worker.
 - B) a below-equilibrium wage paid by a small business exempt from minimum-wage laws.
 - C) a above-equilibrium wage paid by a firm to reduce turnover costs.
 - D) a wage tied to participation in a government-sponsored job training program
31. Suppose there are only two firms in an economy: Cowhide, Inc. produces leather and sells it to Couches, Inc., which produces and sells leather furniture. With each \$1,000 of leather that it buys from Cowhide, Inc., Couches, Inc. produces a couch and sells it for \$3,000. Neither firm had any inventory at the beginning of 2006. During that year, Cowhide produced enough leather for 20 couches. Couches, Inc. bought 80% of that leather for \$16,000 and promised to buy the remaining 20% for \$4,000 in 2007. Couches, Inc. produced 16 couches during 2006 and sold each one during that year for \$3,000. What was the economy's GDP for the 2006?
- A) \$48,000
 - B) \$52,000
 - C) \$64,000
 - D) \$68,000
32. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, while Sandy can make 6 tables or 18 chairs. Given this, we know that
- A) Mike has a comparative advantage in tables.
 - B) Sandy has an absolute advantage in chairs.
 - C) Mike has an absolute advantage in tables.
 - D) Sandy has a comparative advantage in tables.
33. Critics of free trade sometimes argue that allowing imports from foreign countries causes a reduction in the number of domestic jobs. An economist would argue that
- A) foreign competition may cause unemployment in import-competing industries, but the increase in consumer surplus due to free trade is more valuable than the lost jobs.
 - B) foreign competition may cause unemployment in import-competing industries, but the effect is temporary because other industries, especially exporting industries, will be expanding.
 - C) the critics are correct, so countries must protect their industries with tariffs or quotas.
 - D) foreign competition may cause unemployment in import-competing industries, but the increase in the variety of goods consumers can choose from is more valuable than the lost jobs.
34. All else equal, the AD curve shifts to the right as a result of all but which of the following changes?
- A) increased government expenditures on national defense
 - B) increased exports of personal computers
 - C) increased consumer spending on recreational equipment
 - D) increased public purchases of government saving bonds
35. Suppose a small economy produces only cheese and fish. In 2005, 20 units of cheese are sold at \$5 each, and 8 units of fish are sold at \$50 each. In 2004, the base year, the price of cheese was \$10 per unit, and the price of fish was \$75 per unit. For 2005,
- A) nominal GDP is \$800, real GDP is \$500, and the GDP deflator is 160.
 - B) nominal GDP is \$500, real GDP is \$800, and the GDP deflator is 160.
 - C) nominal GDP is \$500, real GDP is \$800, and the GDP deflator is 62.5.
 - D) nominal GDP is \$800, real GDP is \$500, and the GDP deflator is 62.5.

36. Figure 2



Refer to Figure 2. Suppose that Economy is in equilibrium point A initially, a decrease in real interest rate from r_2 to r_1 is explained as follows:

- A) The Federal Reserve sell government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing an increase in aggregate demand from A to B.
 - B) The Federal Reserve buy government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing an increase in aggregate demand from A to B.
 - C) The Federal Reserve sell government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing aggregate demand curve to shift from AD1 to AD2.
 - D) The Federal Reserve buy government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing aggregate demand curve to shift from AD1 to AD2.
37. In equilibrium a country has a net capital outflow of \$200 billion and domestic investment of \$100 billion. What is the quantity of loanable funds demanded?
- A) \$400 billion
 - B) \$300 billion
 - C) \$200 billion
 - D) \$100 billion
38. Josh is a full-time college student who is not working or looking for a job. The Bureau of Labor Statistics counts Josh as
- A) unemployed and in the labor force.
 - B) unemployed but in the labor force.
 - C) in the labor force but not unemployed.
 - D) neither in the labor force nor unemployed.
39. During the 1970's, U.S. inflation averaged 7% each year and real GDP increased,. Holding velocity constant and using the Quantity Equation, we conclude that
- A) money growth must have been greater than the growth of real income.
 - B) money growth must have been less than the growth of real income.
 - C) prices fell during the 1970's.
 - D) output fell during the 1970's.
40. The CPI was 120 in 2000 and 132 in 2001. Dorgan borrowed money in 2000 and repaid the loan in 2001. If the nominal interest rate on the loan was 12 percent, then the real interest rate was
- A) 2 percent.
 - B) 10 percent.
 - C) 12 percent.
 - D) 22 percent.

41. If the government increases personal income tax revenues by \$5 billion and increase purchases of goods and services by the same amount, the most likely effect is
 - A) a net decrease in national income.
 - B) a net increase in national income.
 - C) to have no effect on national income.
 - D) to increase the value of the balance budget multiplier.
42. A roll of duct tape costs 2 Canadian dollars in Canada and 1.75 U.S. dollars in the U.S. If the nominal exchange rate were 1.10 Canadian dollars per U.S. dollar.
 - A) A profit could be made by buying duct tape in Canada and selling it in the U.S. This would tend to drive up the price of U.S. duct tape.
 - B) A profit could be made by buying duct tape in Canada and selling it in the U.S. This would tend to drive up the price of Canadian duct tape
 - C) A profit could be made by buying duct tape in the U.S. and selling it in Canada. This would tend to drive up the price of U.S. duct tape.
 - D) A profit could be made by buying duct tape in the U.S. and selling it in Canada. This would tend to drive up the price of Canadian duct tape.
43. The investment component of GDP measures spending on
 - A) financial assets such as stocks and bonds. During recessions it declines by a relatively large amount.
 - B) residential construction, business equipment, business structures, and changes in inventory. During recessions it declines by a relatively large amount.
 - C) financial assets such as stocks and bonds. During recessions it declines by a relatively small amount.
 - D) residential construction, business equipment, business structures, and changes in inventory. During recessions it declines by a relatively small amount.
44. The manager of the bank where you work tells you that the bank has \$400 million in deposits and \$320 million dollars in loans. The Fed then raises the reserve requirement from 10 percent to 15 percent. Assuming everything else stays the same, how much is the bank holding in excess reserves after the increase in the reserve requirement?
 - A) \$0
 - B) \$20 million
 - C) \$40 million
 - D) \$60 million
45. From 2001 to 2004, the U.S. government went from a budget surplus to a budget deficit. According to the open-economy macroeconomic model, this should have decreased
 - A) both the supply of loanable funds and the supply of dollars in the market for foreign-currency exchange.
 - B) neither the supply of loanable funds nor the supply of dollars in the market for foreign-currency exchange.
 - C) the supply of loanable funds but not the supply of dollars in the market for foreign-currency exchange.
 - D) the supply of dollars in the market for foreign-currency exchange, but not the supply of loanable funds.

46. The manager of the bank where you work tells you that your bank has \$5 million in excess reserves. She also tells you that the bank has \$300 million in deposits and \$255 million dollars in loans. Given this information you find that the reserve requirement must be
- A) 50/255.
 - B) 40/255.
 - C) 50/300.
 - D) 40/300.
47. If the stock market crashes,
- A) aggregate demand increases, which the Fed could offset by increasing the money supply.
 - B) aggregate demand increases, which the Fed could offset by decreasing the money supply.
 - C) aggregate demand decreases, which the Fed could offset by increasing the money supply.
 - D) aggregate demand decreases, which the Fed could offset by decreasing the money supply.
48. In an open economy, gross domestic product equals \$1,950 billion, government expenditure equals \$280 billion, investment equals \$500, and net capital outflow equals \$280 billion. What is consumption expenditure?
- A) \$280 billion
 - B) \$780 billion
 - C) \$890 billion
 - D) \$1,170 billion
49. Initially, the economy is in long-run equilibrium. Suppose that the Congress decides to reduce budget deficit. Then in order to shift the aggregate demand back the Federal Reserve should
- A) open market purchase
 - B) raise discount rate
 - C) raise required reserve ratio
 - D) keep the nominal exchange rate high.
50. The economy is in long-run equilibrium. Aggregate demand then shifts left \$50 billion. The government wants to change its spending in order to avoid a recession. If the crowding-out effect is always half as strong as the multiplier effect, and if the MPC equals 0.9, by how much does government purchases have to change?
- A) increase \$10 billion.
 - B) increase \$25 billion.
 - C) increase \$50 billion.
 - D) increase \$100 billion.

Commerce College Joint Economics Exam 103-2

Answer Section

MULTIPLE CHOICE

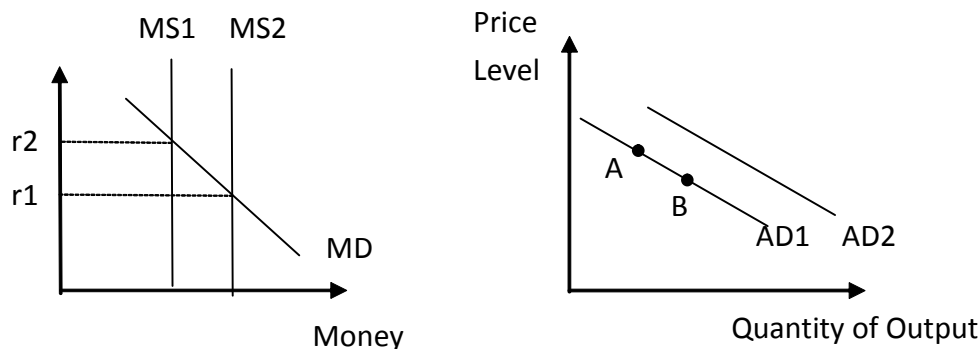
1. ANS: C	TOP: 5-1	
2. ANS: B	OBJ: 3.凱因斯模型	TOP: 3-2
3. ANS: B	OBJ: 2.充分就業模型	TOP: 2-1
4. ANS: D	TOP: 9-1	
5. ANS: C	OBJ: 1.總體經濟與總體指標	TOP: 1-1
6. ANS: C	TOP: 4-2	
7. ANS: D	OBJ: 1.總體經濟與總體指標	TOP: 1-2
8. ANS: C	OBJ: 2.充分就業模型	TOP: 2-2
9. ANS: C	TOP: 7-1	
10. ANS: C	TOP: 9-1	
11. ANS: B	TOP: 6-1	
12. ANS: A	TOP: 8-1	
13. ANS: D	OBJ: 2.充分就業模型	TOP: 2-1
14. ANS: D	TOP: 9-1	
15. ANS: D	TOP: 7-1	
16. ANS: C	TOP: 9-2	
17. ANS: D	TOP: 9-2	
18. ANS: B	OBJ: 3.凱因斯模型	TOP: 3-2
19. ANS: B	OBJ: 2.充分就業模型	TOP: 2-1
20. ANS: B	OBJ: 3.凱因斯模型	TOP: 3-2
21. ANS: D	OBJ: 3.凱因斯模型	TOP: 3-2
22. ANS: A	TOP: 9-1	
23. ANS: D	OBJ: 2.充分就業模型	TOP: 2-1
24. ANS: B	TOP: 7-2	
25. ANS: B	TOP: 7-1	
26. ANS: C	TOP: 8-1	
27. ANS: C	TOP: 4-1	
28. ANS: D	OBJ: 3.凱因斯模型	TOP: 3-1
29. ANS: A	TOP: 8-2	
30. ANS: C	OBJ: 2.充分就業模型	TOP: 2-2
31. ANS: B	OBJ: 1.總體經濟與總體指標	TOP: 1-2
32. ANS: D	TOP: 8-1	
33. ANS: B	TOP: 8-1	
34. ANS: D	TOP: 6-2	
35. ANS: C	OBJ: 1.總體經濟與總體指標	TOP: 1-1
36. ANS: D	TOP: 7-1	
37. ANS: B	TOP: 9-2	
38. ANS: D	OBJ: 2.充分就業模型	TOP: 2-2
39. ANS: A	TOP: 5-1	
40. ANS: A	OBJ: 1.總體經濟與總體指標	TOP: 1-2
41. ANS: B	TOP: 7-2	
42. ANS: C	TOP: 9-1	
43. ANS: B	TOP: 5-2	
44. ANS: B	TOP: 4-2	

- | | | |
|------------|--------------|----------|
| 45. ANS: A | TOP: 9-2 | |
| 46. ANS: D | TOP: 4-1 | |
| 47. ANS: C | TOP: 3-2 | |
| 48. ANS: C | TOP: 9-1 | |
| 49. ANS: A | TOP: 7-1 | |
| 50. ANS: A | OBJ: 3.凱因斯模型 | TOP: 3-2 |

Commerce College Joint Economics Exam 104-2**Multiple Choice**

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

- _____ 1. If the stock market crashes, then
- aggregate demand increases, which the Fed could offset by increasing the money supply.
 - aggregate demand increases, which the Fed could offset by decreasing the money supply.
 - aggregate demand decreases, which the Fed could offset by increasing the money supply.
 - aggregate demand decreases, which the Fed could offset by decreasing the money supply.
- _____ 2. Figure 2



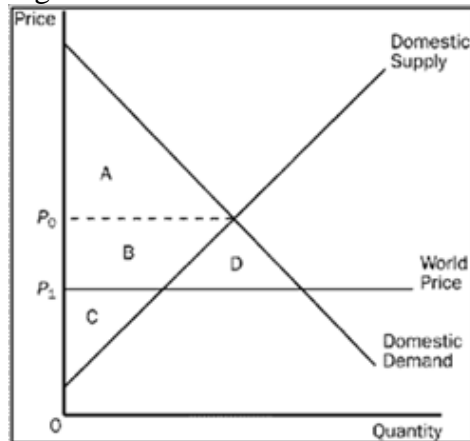
Refer to Figure 2. Suppose that Economy is in equilibrium point A initially, a decrease in real interest rate from r_2 to r_1 is explained as follows:

- The Federal Reserve sell government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing an increase in aggregate demand from A to B.
 - The Federal Reserve buy government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing an increase in aggregate demand from A to B.
 - The Federal Reserve sell government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing aggregate demand curve to shift from AD1 to AD2.
 - The Federal Reserve buy government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing aggregate demand curve to shift from AD1 to AD2.
- _____ 3. Other things the same, a decrease in the price level causes the interest rate to
- increase, the dollar to appreciate, and net exports to increase.
 - increase, the dollar to depreciate, and net exports to decrease.
 - decrease, the dollar to depreciate, and net exports to increase.
 - decrease, the dollar to appreciate, and net exports to decrease.

- _____ 4. A Big Mac in Japan costs 320 yen while it costs \$3.60 in the U.S.. The nominal exchange rate is 80 yen per dollar. Which of the following would both make the real exchange rate move towards purchasing-power parity?
- the price of Big Macs in the U.S. falls, the nominal exchange rate falls
 - the price of Big Macs in the U.S. falls, the nominal exchange rate rises
 - the price of Big Macs in the U.S. rises, the nominal exchange rate falls
 - the price of Big Macs in the U.S. rises, the nominal exchange rate rises
- _____ 5. The Fed's policy decisions have an important influence on
- inflation in the long run and employment and production in the short run.
 - inflation in the long run and employment and production in the long run.
 - inflation in the short run and employment and production in the short run.
 - inflation in the short run and employment and production in the long run.
- _____ 6. Since a collapse of banking system may have catastrophic effects on real economy, government often needs to rescue the banks in a financial crisis. Such situation is often criticized as “_____.” However, since it may lead to _____ by banks, in which banks engage in risky lending, it is important for the government to monitor then banks.
- too big to fail, adverse selection
 - Too big to fail, moral hazard
 - natural monopoly, price discrimination
 - natural monopoly, tragedy of commons
- _____ 7. The government of Libertina considers two policies. Policy A would shift AD right by 200 units while policy B would shift AD right by 100 units. According to the short-run Phillips curve policy A will lead
- to a lower unemployment rate and a lower inflation rate than policy B.
 - to a lower unemployment rate and a higher inflation rate than policy B.
 - to a higher unemployment rate and lower inflation rate than policy B.
 - to a higher unemployment rate and higher inflation rate than policy B.
- _____ 8. An increase in the price of a resource such as oil
- shifts the aggregate demand curve leftward.
 - shifts the long-run aggregate supply curve rightward.
 - shifts the short-run aggregate supply curve leftward.
 - increases the price level and decreases real GDP in the short run.
- I only is correct.
 - Both I and II are correct.
 - III only is correct.
 - Both III and IV are correct.
- _____ 9. Many economists believe that short-run economic fluctuations may be caused by
- progress in production technology
 - an increase in labor force
 - changing expectation of price level or business conditions
 - changing behavior of saving and investment
- _____ 10. Suppose that the money supply increases. In the short run this decreases unemployment according to
- the short-run Phillips curve, but not the aggregate demand and supply model.
 - the aggregate demand and aggregate supply model, but not the short-run Phillips curve.
 - both the short-run Phillips curve and the aggregate demand and aggregate supply model.
 - neither the short-run Phillips curve nor the aggregate demand and aggregate supply model.
- _____ 11. In order to reduce money supply, a central bank needs to conduct
- An open-market purchase of government bonds
 - An open-market sales of government bonds
 - A decrease in the interest rate paid on reserves
 - A decrease in the discount rate on its lending

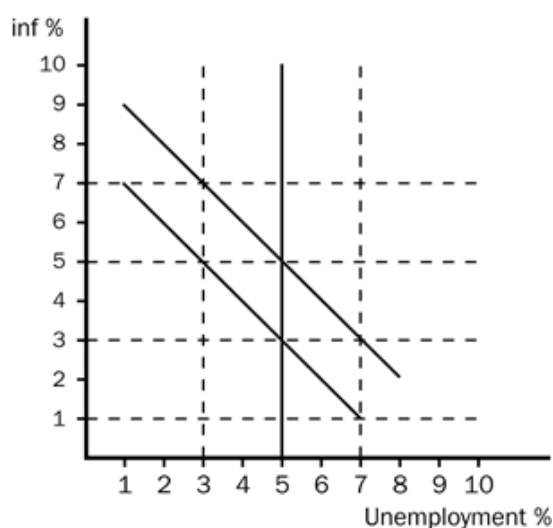
- _____ 12. A bank has capital of \$300 and a leverage ratio of 10. If the value of the bank's assets decline by 5 percent, then its capital will be reduced to
- \$285
 - \$255
 - \$150
 - \$100

Figure B



- _____ 13. Refer to Figure B. Producer surplus plus consumer surplus in this market after trade is
- A + B.
 - A + B + C.
 - B + C + D.
 - A + B + C + D.
- _____ 14. Refer to Figure B. Consumer surplus in this market before trade is
- A.
 - B + C.
 - A + B + D.
 - C.
- _____ 15. If a county follows a contractionary monetary policy, with everything else remaining unchanged, then it leads to:
- an increase in interest rates and a depreciation in currency.
 - a decrease in interest rates and an appreciation in currency.
 - a decrease in interest rates and a depreciation in currency.
 - an increase in interest rates and an appreciation in currency.
- _____ 16. The most important reason for the slope of the aggregate demand curve is that as the price level
- increases, interest rates increase, and investment decreases.
 - increases, interest rates decrease, and investment increases.
 - decreases, interest rates increase, and investment increases.
 - decreases, interest rates decrease, and investment decreases.
- _____ 17. An increase in the budget deficit
- reduces net capital outflow and domestic investment.
 - reduces net capital outflow and raises domestic investment.
 - raises net capital outflow and domestic investment
 - raises net capital outflow and reduces domestic investment.

- _____ 18. Suppose an economy produces only eggs and ham. In 2009, 100 dozen eggs are sold at \$3 per dozen and 50 pounds of ham sold at \$4 per pound. In 2010, the base year, eggs sold at \$1.50 per dozen and ham sold at \$5 per pound. For 2009,
- nominal GDP is \$400, real GDP is \$500, and the GDP deflator is 80.
 - nominal GDP is \$400, real GDP is \$500, and the GDP deflator is 125.
 - nominal GDP is \$500, real GDP is \$400, and the GDP deflator is 80.
 - nominal GDP is \$500, real GDP is \$400, and the GDP deflator is 125.
- _____ 19. One bag of flour is sold for \$1.00 to a bakery, which uses the flour to bake bread that is sold for \$3.00 to consumers. A second bag of flour is sold for \$1 to a grocery store who sells it to a consumer for \$2.00. Taking these four transactions into account, what is the effect on GDP?
- GDP increases by \$3.00.
 - GDP increases by \$5.00.
 - GDP increases by \$6.00.
 - GDP increases by \$7.00.
- _____ 20. Figure A



Refer to figure A. Suppose the economy starts at 5% unemployment and 3% inflation and expected inflation remains at 3%. Which one of the following points could the economy move to in the short run if the Federal Reserve pursues a more expansionary monetary policy?

- 7% unemployment and 1% inflation
 - 7% unemployment and 3% inflation
 - 3% unemployment and 5% inflation
 - 3% unemployment and 7% inflation
- _____ 21. Other things the same, if workers and firms expected prices to rise by 2 percent but instead they rise by 3 percent, then
- employment and production rise.
 - employment rises and production falls.
 - employment falls and production rises.
 - employment and production fall.

- _____ 22. The analysis of Friedman and Phelps can be summarized in the following equation where a is positive number:
- Unemployment Rate = Natural Rate of Unemployment - $a(\text{Actual Inflation} - \text{Expected Inflation})$.
 - Unemployment Rate = Natural Rate of Unemployment - $a(\text{Expected Inflation} - \text{Actual Inflation})$.
 - Unemployment Rate = Expected Rate of Inflation - $a(\text{Actual Inflation} - \text{Expected Inflation})$.
 - Unemployment Rate = Actual Rate of Inflation - $a(\text{Actual Unemployment} - \text{Expected Unemployment})$.
- _____ 23. Initially, the economy is in long-run equilibrium. Aggregate demand then shifts leftward by \$50 billion. The government wants to increase its spending in order to avoid a recession. If the crowding-out effect is always one- third as strong as the multiplier effect, and if the MPC equals 0.6, then by how much do government purchases have to increase in order to offset the \$50 billion leftward shift?
- by \$90 billion
 - by \$60 billion
 - by \$20 billion
 - by \$30 billion
- _____ 24. A decrease in the price of domestically produced industrial robots will be reflected in
- both the GDP deflator and the consumer price index.
 - neither the GDP deflator nor the consumer price index.
 - the GDP deflator but not in the consumer price index.
 - the consumer price index but not in the GDP deflator.
- _____ 25. Recently Greece ran large deficits and people became worried about the ability of its government to make payments on its debt. Which of these events reduces a country's real exchange rate?
- an increase in the budget deficit, and increased concerns about the ability of the government to pay back its debt
 - an increase in the budget deficit, but not increased concerns about the ability of the government to pay back its debt
 - increased concerns about the ability of the government to pay back its debt, but not an increase in the budget deficit
 - neither an increase in the budget deficit, nor increased concerns about the ability of the government to pay back its debt
- _____ 26. Suppose the Fed decreased the growth rate of the money supply. Which of the following would be lower in the long run?
- both the natural rate of unemployment and the inflation rate
 - the natural rate of unemployment, but not the inflation rate
 - the inflation rate, but not the natural rate of unemployment
 - neither the natural unemployment rate nor the inflation rate
- _____ 27. If the Fed conducts open-market sales, which of the following three increase: interest rates, prices, investment spending?
- interest rates, prices, investment spending.
 - interest rates and prices, not investment spending.
 - interest rates and investment, not prices.
 - interest rates, not investment or prices
- _____ 28. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, while Sandy can make 6 tables or 18 chairs. Given this, we know that
- Mike has a comparative advantage in tables.
 - Sandy has an absolute advantage in chairs.
 - Mike has an absolute advantage in tables.
 - Sandy has a comparative advantage in tables.

- ____ 29. Trade enhances the economic well-being of a nation in the sense that
- both domestic producers and domestic consumers of a good become better off with trade, regardless of whether the nation imports or exports the good in question.
 - the gains of domestic producers of a good exceed the losses of domestic consumers of a good, regardless of whether the nation imports or exports the good in question.
 - trade results in an increase in total surplus.
 - trade puts downward pressure on the prices of all goods.
- ____ 30. Automatic stabilizers are provisions in the law that imply automatic _____ in government spending or _____ in taxes when real output declines.
- increases; increases
 - increases; decreases
 - decreases; decreases
 - decreases; increases
- ____ 31. In 2009 President Obama and Congress increased government spending. Some economists thought this increase would have little effect on output. Which of the following would make the effect of an increase in government expenditures on aggregate demand smaller?
- the MPC is small and changes in the interest rate have a small effect on investment
 - the MPC is small and changes in the interest rate have a large effect on investment
 - the MPC is large and changes in the interest rate have a small effect on investment
 - the MPC is large and changes in the interest rate have a large effect on investment
- ____ 32. Under the assumptions of the Fisher effect and monetary neutrality, if the money supply growth rate falls, then
- both the nominal and the real interest rate fall.
 - neither the nominal nor the real interest rate fall.
 - the nominal interest rate falls, but the real interest rate does not.
 - the real interest rate falls, but the nominal interest rate does not.
- ____ 33. Suppose a certain country imposes a tariff on a good. Which of the following results of the tariff is possible?
- Consumer surplus decreases by \$100; producer surplus increases by \$100; and government revenue from the tariff amounts to \$50.
 - Consumer surplus decreases by \$200; producer surplus increases by \$100; and government revenue from the tariff amounts to \$50.
 - Consumer surplus increases by \$100; producer surplus decreases by \$200; and government revenue from the tariff amounts to \$50.
 - Consumer surplus decreases by \$50; producer surplus increases by \$200; and government revenue from the tariff amounts to \$150.
- ____ 34. The table below reports nominal and real GDP for the U.S. from 1929 to 1932.

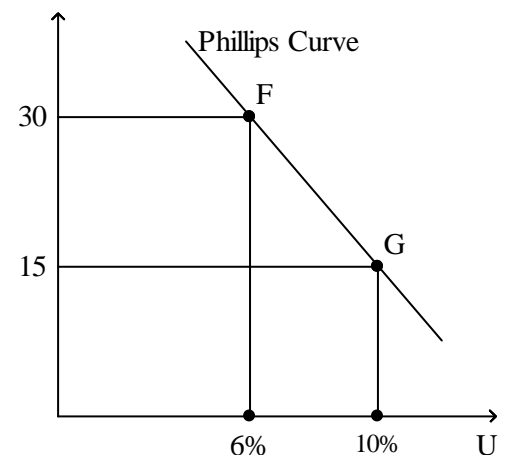
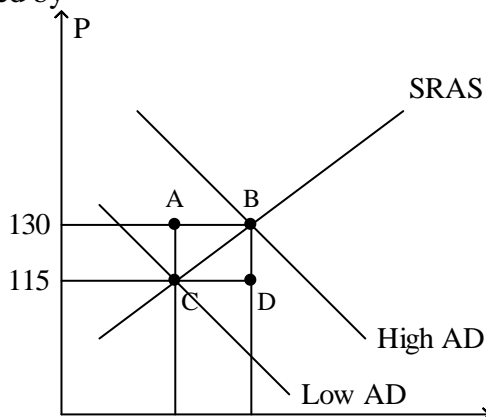
Year	Nominal GDP	Real GDP
1929	103.6	977
1930	91.2	892.8
1931	76.5	834.9
1932	58.7	725.8

Refer to Table What is the GDP deflator and the inflation rate for 1932?

- 8.09, -11.7
- 8.09, -13.3
- 1236.46, 11.7
- 1236.46, 13.3

- _____ 35. If there is an excess supply of money, households and firms will attempt to
- sell bonds and add to their holdings of money, thereby causing the interest rate to fall.
 - purchase bonds and reduce their holdings of money, thereby causing the interest rate rise.
 - purchase bonds and reduce their holdings of money, thereby causing the interest rate to fall and bond prices to rise.
 - purchase bonds and reduce their holdings of money, thereby causing the price of bonds to fall.
- _____ 36. The inflation tax
- is an alternative to income taxes and government borrowing.
 - taxes most those who hold the most money.
 - is the revenue created when the government prints money.
 - All of the above are correct.
- _____ 37. If output is above its natural rate, then according to sticky-wage theory
- workers and firms will strike bargains for higher wages. This increase in wages shifts the short-run aggregate supply curve right.
 - workers and firms will strike bargains for higher wages. This increase in wages shifts the short-run aggregate supply curve left.
 - workers and firms will strike bargains for lower wages. This decrease in wages shifts the short-run aggregate supply curve right.
 - workers and firms will strike bargains for lower wages. This decrease in wages shifts the short-run aggregate supply curve left.
- _____ 38. The difference between a fixed exchange rate regime and a floating exchange rate regime, is that:
- under a fixed exchange rate regime the central bank retains its ability to pursue independent monetary policy, whereas under a floating exchange rate regime it does not.
 - under a floating exchange rate regime the central bank retains its ability to pursue independent monetary policy, whereas under a fixed exchange rate regime it does not.
 - under a fixed exchange rate regime the government can pursue independent fiscal policy, whereas under a floating exchange rate regime it does not.
 - under a floating exchange rate regime the government can pursue independent fiscal policy, whereas under a fixed exchange rate regime it does not.
- _____ 39. When expected price level increases,
- the aggregate-demand curve shifts to the right
 - the short-run aggregate-supply curve shifts to the right
 - the long-run aggregate-supply curve shifts to the left
 - the short-run aggregate-supply curve shifts to the left
- _____ 40. The classical dichotomy and monetary neutrality are represented graphically by
- an upward-sloping aggregate-supply curve
 - a vertical aggregate-supply curve
 - a downward-sloping aggregate-demand curve
 - a vertical aggregate-demand curve
- _____ 41. Suppose that a small economy that depends mostly on agriculture experiences a year with exceptionally good conditions for growing crops. The good weather would
- shift both the short-run aggregate supply and the short-run Phillips curve right.
 - shift both the short-run aggregate supply and the short-run Phillips curve left.
 - shift the short-run aggregate supply curve to the right, and the short-run Phillips curve to the left.
 - shift the short-run aggregate supply curve to the left, and the short-run Phillips curve to the right.

- _____ 42. In the U.S. a digital camera costs \$200. The same camera in London sells for 90 pounds. If the exchange rate were .50 pounds per dollar, then which of the following would be correct?
- The real exchange rate is greater than 1. A person in London with \$200 could exchange them for pounds and have more than enough to buy the camera there.
 - The real exchange rate is greater than 1. A person in London with \$200 could exchange them for pounds but then wouldn't have enough to buy the camera there.
 - The real exchange rate is less than 1. A person in London with \$200 could exchange them for pounds and have more than enough to buy the camera there.
 - The real exchange rate is less than 1. A person in London with \$200 could exchange them for pounds but then wouldn't have enough to buy the camera.
- _____ 43. If the Federal Open Market Committee decides to decrease the money supply, it will
- sell government bonds.
 - purchase corporate bonds.
 - purchase government bonds.
 - reduce interest rates.
- _____ 44. If people had been expecting prices to rise but in fact prices fell, then who among the following would benefit?
- lenders but not people holding a lot of currency
 - lenders and people holding a lot of currency
 - people holding a lot of currency but not lenders
 - neither lenders nor people holding a lot of currency
- _____ 45. The left-hand graph shows a short-run aggregate-supply (SRAS) curve and two aggregate-demand (AD) curves. On the right-hand diagram, U represents the unemployment rate. Suppose points F and G on the right-hand graph represent two possible outcomes for an imaginary economy in the year 2012, and those two points correspond to points B and C, respectively, on the left-hand graph. Also suppose we know that the price index equaled 120 in 2011. Then the numbers 115 and 130 on the vertical axis of the left-hand graph would have to be replaced by



- 155 and 175, respectively.
- 138 and 156, respectively.
- 137.5 and 154.75, respectively.
- 135 and 150, respectively.

- _____ 46. Suppose that a bank's leverage ratio is 30. Then the fluctuation in the asset price with the magnitude of _____ percent could wipe out the bank's capital. Therefore, this bank is _____ since such fluctuation in the asset price is _____
- 0.3, very vulnerable, very common
 - 3.3, very vulnerable, very common
 - 10, vulnerable, common
 - 30, healthy, rare
- _____ 47. After the financial crisis of 2008, the Federal Reserve has substantially expanded its monetary base. As a result,
- inflation rises because money supply has substantially increases.
 - banks reduce its reserves to increase lending to corporations.
 - money multiplier declines since the increase of money supply is not as big as that of monetary base.
 - many banks went bankrupt because they have a shortage of liquidity
- _____ 48. Which of the following statements is correct?
- Both liquidity preference theory and classical theory assume the interest rate adjusts to bring the money market into equilibrium.
 - Both liquidity preference theory and classical theory assume the price level adjusts to bring the money market into equilibrium.
 - Liquidity preference theory assumes the price level adjusts to bring the money market into equilibrium; classical theory assumes the interest rate adjusts to bring the money market into equilibrium.
 - Liquidity preference theory assumes the interest rate adjusts to bring the money market into equilibrium; classical theory assumes the price level adjusts to bring the money market into equilibrium.
- _____ 49. The claim that increases in the growth rate of the money supply increases nominal interest rates but not the real interest rate is known as the
- Friedman Effect
 - Hume Effect
 - Fisher Effect
 - the inflation tax.
- _____ 50. Alice says that the present value of \$700 to be received one year from today if the interest rate is 6 percent is less than the present value of \$700 to be received two years from today if the interest rate is 3 percent. Beth says that \$700 saved for one year at 6 percent interest has a smaller future value than \$700 saved for two years at 3 percent interest.
- Both Alice and Beth are correct.
 - Both Alice and Beth are incorrect.
 - Only Alice is correct.
 - Only Beth is correct.

Commerce College Joint Economics Exam 104-2

Answer Section

MULTIPLE CHOICE

1. ANS: C	REF: 7-1	TOP: 7.財政政策與貨幣政策
2. ANS: D	TOP: 7-1	
3. ANS: C	OBJ: 6.總合 供需模型	
4. ANS: D	TOP: 9-1	
5. ANS: A	REF: 4-2	TOP: 4.貨幣與銀行
6. ANS: B	OBJ: 4.貨幣與銀行	
7. ANS: B	OBJ: 2.充分就業模型	
8. ANS: D	REF: 方中柔	TOP: 5.通貨膨脹
9. ANS: C	OBJ: 3.凱因斯模型	
10. ANS: C	REF: 5-2	TOP: 5.通貨膨脹Inflation
11. ANS: B	OBJ: 4.貨幣與銀行	
12. ANS: C	OBJ: 4.貨幣與銀行	
13. ANS: D	OBJ: 8.國際貿易	
14. ANS: A	OBJ: 8.國際貿易	
15. ANS: D	OBJ: 9.國際金融	
16. ANS: A	REF: 林信助	TOP: 6.總合 供需模型
17. ANS: A	REF: 9-1	TOP: 9.國際金融International finance
18. ANS: D	OBJ: 1.總體經濟與總體指標	
19. ANS: B	OBJ: 1.總體經濟與總體指標	
20. ANS: C	OBJ: 2.充分就業模型	
21. ANS: A	OBJ: 6.總合 供需模型	
22. ANS: A	OBJ: 2.充分就業模型	
23. ANS: D	OBJ: 7.財政政策與貨幣政策	
24. ANS: C	OBJ: 1.總體經濟與總體指標	
25. ANS: C	REF: 9-1	TOP: 9.國際金融International finance
26. ANS: C	OBJ: 2.充分就業模型	
27. ANS: D	OBJ: 3.凱因斯模型	TOP: 3-2
28. ANS: D	REF: 8-2	TOP: 8.國際貿易
29. ANS: C	OBJ: 8.國際貿易	
30. ANS: B	OBJ: 3.凱因斯模型	TOP: 3-2
31. ANS: B	OBJ: 7.財政政策與貨幣政策	
32. ANS: C	TOP: 5-1	
33. ANS: B	REF: 8-1	TOP: 8.國際貿易International trade
34. ANS: A	OBJ: 1.總體經濟與總體指標	
35. ANS: C	OBJ: 4.貨幣與銀行	
36. ANS: D	OBJ: 5.通貨膨脹	
37. ANS: B	OBJ: 6.總合 供需模型	
38. ANS: B	OBJ: 9.國際金融	
39. ANS: D	OBJ: 3.凱因斯模型	
40. ANS: B	OBJ: 3.凱因斯模型	
41. ANS: C	OBJ: 2.充分就業模型	
42. ANS: A	TOP: 9-1	
43. ANS: A	OBJ: 7.財政政策與貨幣政策	
44. ANS: B	REF: 5-2	TOP: 5.通貨膨脹Inflation

- | | | |
|------------|------------------|-------------------------------|
| 45. ANS: B | REF: 6-2 | TOP: 6.總合 供需模型 |
| 46. ANS: B | OBJ: 4.貨幣與銀行 | |
| 47. ANS: C | OBJ: 4.貨幣與銀行 | |
| 48. ANS: D | REF: 7-2 | TOP: 7.財政政策與貨幣政策 |
| 49. ANS: C | OBJ: 7.財政政策與貨幣政策 | |
| 50. ANS: D | REF: 4-1 | TOP: 4.貨幣與銀行Money and banking |

Commerce College Joint Economics Exam 105-2**Multiple Choice**

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

- _____ 1. Which of the following statements is correct?
- In the long run, output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for money; the price level adjusts to balance the supply and demand for loanable funds.
 - In the long run, output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for loanable funds; the price level adjusts to balance the supply and demand for money.
 - In the long run, output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for loanable funds; the price level is stuck.
 - In the long run, output responds to the aggregate demand for goods and services; the interest rate adjusts to balance the supply and demand for loanable funds; the price level adjusts to balance the supply and demand for money.
- _____ 2. The long-run aggregate supply curve shows that by itself a permanent change in aggregate demand would lead to a long-run change
- in the price level and output.
 - in the price level, but not output.
 - in output, but not the price level.
 - in neither the price level nor output.
- _____ 3. Mary Sue is the newly appointed CEO of a company that manufactures CD drives on an assembly line. Her staff has told her that the output the firm produces, given the number of workers employed, indicates that some workers may be shirking. According to efficiency wage theory, what should she do?
- pay all workers more than the equilibrium wage rate
 - pay all workers below the equilibrium wage rate to make up for the loss from shirking
 - make sure that workers are getting paid exactly the equilibrium wage rate
 - None of the above is correct according to efficiency wage theory.
- _____ 4. Savings deposits are included in
- M1 but not M2.
 - M2 but not M1.
 - both M1 and M2.
 - neither M1 nor M2.
- _____ 5. Which of the following is not an explanation for the existence of structural unemployment?
- efficiency wages
 - job search
 - minimum-wage laws
 - unions

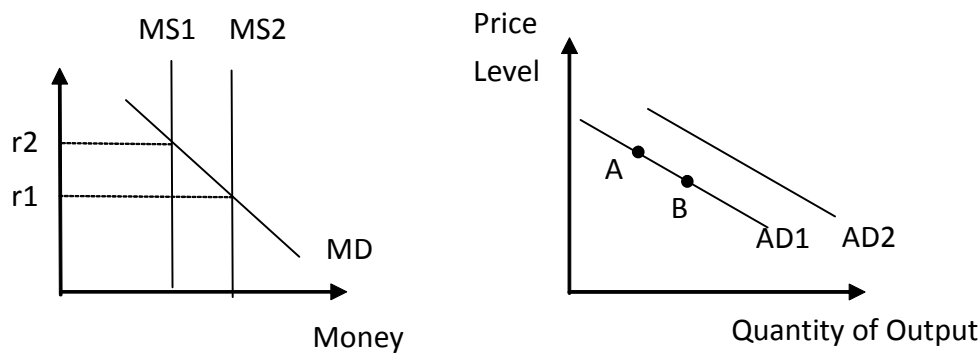
- _____ 6. If there is an excess supply of money, households and firms will attempt to
- sell bonds and add to their holdings of money, thereby causing the interest rate to fall.
 - purchase bonds and reduce their holdings of money, thereby causing the interest rate rise.
 - purchase bonds and reduce their holdings of money, thereby causing the interest rate to fall and bond prices to rise.
 - purchase bonds and reduce their holdings of money, thereby causing the price of bonds to fall.
- _____ 7. Initially, the economy is in long-run equilibrium. Aggregate demand then shifts leftward by \$50 billion. The government wants to increase its spending in order to avoid a recession. If the crowding-out effect is always one- third as strong as the multiplier effect, and if the MPC equals 0.6, then by how much do government purchases have to increase in order to offset the \$50 billion leftward shift?
- by \$90 billion
 - by \$60 billion
 - by \$20 billion
 - by \$30 billion
- _____ 8. A steel company sells some steel to a bicycle company for \$100. The bicycle Company uses the steel to produce a bicycle, which it sells for \$200. Taken together, these two transactions contribute
- \$100 to GDP.
 - \$200 to GDP.
 - between \$200 and \$300 to GDP, depending on the profit earned by the bicycle company when it sold the bicycle.
 - \$300 to GDP.
- _____ 9. The most important reason for the slope of the aggregate demand curve is that as the price level
- increases, interest rates increase, and investment decreases.
 - increases, interest rates decrease, and investment increases.
 - decreases, interest rates increase, and investment increases.
 - decreases, interest rates decrease, and investment decreases.
- _____ 10. Which of the following will reduce the price level and real output in the short run?
- an increase in the money supply.
 - an increase in oil price.
 - a decrease in the money supply.
 - technical progress.
- _____ 11. Automatic stabilizers are provisions in the law that imply automatic _____ in government spending or _____ in taxes when real output declines.
- increases; increases
 - increases; decreases
 - decreases; decreases
 - decreases; increases
- _____ 12. Real GDP equals \$20 billion and aggregate planned expenditure is \$30 billion. There is an unplanned _____ in inventories of _____ and real GDP will _____.
- increase; \$10 billion; increase
 - increase; \$50 billion; decrease
 - decrease; \$10 billion; increase
 - decrease; \$10 billion; decrease

- _____ 13. Which of the following by itself is consistent with the directions that the price level and real GDP changed at the onset of the Great Depression?
- a. aggregate demand shifted right
 - b. aggregate demand shifted left
 - c. aggregate supply shifted right
 - d. aggregate supply shifted left
- _____ 14. Which of the following shifts aggregate demand to the left?
- a. an increase in the price level
 - b. a decrease in the money supply
 - c. an increase in net exports
 - d. Congress passes a new investment tax credit
- _____ 15. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, while Sandy can make 6 tables or 18 chairs. Given this, we know that
- a. Mike has a comparative advantage in tables.
 - b. Sandy has an absolute advantage in chairs.
 - c. Mike has an absolute advantage in tables.
 - d. Sandy has a comparative advantage in tables.
- _____ 16. Suppose the tax rate on interest income is 50 percent, the real interest rate is 3 percent, and the inflation rate is 4 percent. In this case, the real after-tax interest rate is
- a. 3.0 percent.
 - b. 4.0 percent.
 - c. -0.5 percent.
 - d. 3.5 percent.
- _____ 17. A Big Mac in Japan costs 320 yen while it costs \$3.60 in the U.S.. The nominal exchange rate is 80 yen per dollar. Which of the following would both make the real exchange rate move towards purchasing-power parity?
- a. the price of Big Macs in the U.S. falls, the nominal exchange rate falls
 - b. the price of Big Macs in the U.S. falls, the nominal exchange rate rises
 - c. the price of Big Macs in the U.S. rises, the nominal exchange rate falls
 - d. the price of Big Macs in the U.S. rises, the nominal exchange rate rises
- _____ 18. Which of the following is correct?
- a. The GDP deflator is better than the CPI at reflecting the goods and services bought by consumers.
 - b. The CPI is better than the GDP deflator at reflecting the goods and services bought by consumers.
 - c. The GDP deflator and the CPI are equally good at reflecting the goods and services bought by consumers.
 - d. The GDP deflator is more commonly used as a gauge of inflation than the CPI.
- _____ 19. A possible explanation that a nation might offer for the imposition of a protectionist policy such as a tariff is to:
- a. protect an infant industry from foreign competitors.
 - b. encourage specialization in the good in which the nation has a comparative advantage.
 - c. slow domestic production.
 - d. increase the level of imports

- ____ 20. If people had been expecting prices to rise but in fact prices fell, then who among the following would benefit?
- lenders but not people holding a lot of currency
 - lenders and people holding a lot of currency
 - people holding a lot of currency but not lenders
 - neither lenders nor people holding a lot of currency
- ____ 21. The government of Libertina considers two policies. Policy A would shift AD right by 200 units while policy B would shift AD right by 100 units. According to the short-run Phillips curve policy A will lead
- to a lower unemployment rate and a lower inflation rate than policy B.
 - to a lower unemployment rate and a higher inflation rate than policy B.
 - to a higher unemployment rate and lower inflation rate than policy B.
 - to a higher unemployment rate and higher inflation rate than policy B.
- ____ 22. Government spending and taxation rules that cause fiscal policy to be expansionary when the economy contracts and contractionary when the economy expands are known as:
- discretionary fiscal policy.
 - automatic stabilizers.
 - autonomous spending policies.
 - destabilizing fiscal policies.
- ____ 23. Which of the following is not a tool of monetary policy?
- open market operations
 - reserve requirements
 - changing the discount rate
 - increasing the government budget deficit
- ____ 24. In the aggregate expenditures model, if real GDP equals \$700 billion and aggregate expenditures equal \$400 billion:
- consumption plus investment equals \$300 billion.
 - investment equals – \$300 billion.
 - investment plus saving equals \$300 billion.
 - unplanned inventory accumulation equals \$300 billion.
- ____ 25. Suppose the U.S. imposes an import quota on steel. U.S. exports
- increase, the real exchange rate of the U.S. dollar appreciates, and U.S. net capital outflow increases.
 - increase, the real exchange rate of the U.S. dollar depreciates, and U.S. net capital outflow is unchanged.
 - decrease, the real exchange rate of the U.S. dollar appreciates, and U.S. net capital outflow is unchanged.
 - decrease, the real exchange rate of the U.S. dollar depreciates, and U.S. net capital outflow decreases.

- _____ 26. The United States has imposed taxes on some imported goods that have been sold here by foreign countries at below their cost of production. These taxes
- benefit the United States as a whole, because they generate revenue for the government. In addition, because the goods are priced below cost, the taxes do not harm domestic consumers.
 - benefit the United States as a whole, because they generate revenue for the government and increase producer surplus.
 - harm the United States as a whole, because they reduce consumer surplus by an amount that exceeds the gain in producer surplus and government revenue.
 - harm the United States as a whole, because they reduce producer surplus by an amount that exceeds the gain in consumer surplus and government revenue.
- _____ 27. Josh is a full-time college student who is not working or looking for a job. The Bureau of Labor Statistics counts Josh as
- unemployed and in the labor force.
 - unemployed but in the labor force.
 - in the labor force but not unemployed.
 - neither in the labor force nor unemployed.
- _____ 28. According to monetary neutrality and the Fisher effect, an increase in the money supply growth rate eventually increases
- inflation, nominal interest rates, and real interest rates.
 - inflation and nominal interest rates, but does not change real interest rates.
 - inflation and real interest rates, but does not change nominal interest rates.
 - neither inflation, nominal interest rates, or real interest rates.
- _____ 29. Under a fixed exchange rate system, the central bank of a country that experiences a temporary current account deficit will most likely
- devalue the currency
 - permit depreciation of the currency
 - sell foreign currency to keep the exchange rate from depreciating
 - buy foreign currency to influence exchange rates
- _____ 30. The money supply in Tazland is \$100 billion. Nominal GDP is \$800 billion and real GDP is \$200 billion. What are the price level and velocity in Tazland?
- the price level and velocity are both 8
 - the price level is 8 and velocity is 4
 - the price level and velocity are both 4
 - the price level is 4 and velocity is 8

____ 31. Figure 2



Refer to Figure 2. Suppose that Economy is in equilibrium point A initially, a decrease in real interest rate from r_2 to r_1 is explained as follows:

- The Federal Reserve sell government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing an increase in aggregate demand from A to B.
- The Federal Reserve buy government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing an increase in aggregate demand from A to B.
- The Federal Reserve sell government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing aggregate demand curve to shift from AD1 to AD2.
- The Federal Reserve buy government bond, causing the money-supply curve to shift from MS1 to MS2 ; causing aggregate demand curve to shift from AD1 to AD2.

- ____ 32. The Laffer curve shows that increasing _____ increases _____ when _____ low.

 - tax rates; tax revenue; tax rates are
 - potential GDP; tax revenue; tax revenue is
 - tax revenue; potential GDP; tax revenue is
 - None of the above answers is correct.
- ____ 33. In a certain economy in 2005, the value of imports amounted to 80 percent of the value of exports. Consumption, investment, and government purchases added up to \$5,000. The market value of all final goods and services produced within the economy was \$5,500. It follows that the economy exported

 - \$500 worth of goods and services.
 - \$1,000 worth of goods and services.
 - \$1,500 worth of goods and services.
 - \$2,500 worth of goods and services.
- ____ 34. A decreased government deficit created by a lump-sum tax increase will increase national saving if

 - the government runs a primary surplus as a result.
 - it causes consumption to fall.
 - the value of government bonds outstanding grows slower than the public's wealth.
 - the real interest rate is less than the growth rate of real GNP.
- ____ 35. The residents of country A earn \$500 million of income from abroad. Residents of other countries earn \$200 million in country A. These earnings are accounted for in country A's

 - GNP which is larger than GDP in country A.
 - GNP which is smaller than GDP in country A.
 - GDP which is larger than GNP in country A.
 - GDP which is smaller than GNP in country A.

- _____ 36. The GNP, as measured, understates the total production of goods and services for all but which of the following reasons?
- a. No allowances are included for the services of owner-occupied homes.
 - b. Illegal activities are ruled out of the GNP estimate.
 - c. Legal production in the “underground economy” is not reported for income tax purposes.
 - d. Nonmarketed services of housewives or househusbands are not included.
- _____ 37. If a county follows a contractionary monetary policy, with everything else remaining unchanged, then it leads to:
- a. an increase in interest rates and a depreciation in currency.
 - b. a decrease in interest rates and an appreciation in currency.
 - c. a decrease in interest rates and a depreciation in currency.
 - d. an increase in interest rates and an appreciation in currency.
- _____ 38. Which of the following is NOT a method of eliminating a current account deficit?
- a. levying tariffs
 - b. implementing expenditure-switching policies
 - c. implementing expenditure-reducing policies
 - d. subsidizing imports
- _____ 39. Other things the same, an increase in the price level causes the interest rate to
- a. increase, the dollar to depreciate, and net exports to increase.
 - b. increase, the dollar to appreciate, and net exports to decrease.
 - c. decrease, the dollar to depreciate, and net exports to increase.
 - d. decrease, the dollar to appreciate, and net exports to decrease.
- _____ 40. Suppose there are only two firms in an economy: Cowhide, Inc. produces leather and sells it to Couches, Inc., which produces and sells leather furniture. With each \$1,000 of leather that it buys from Cowhide, Inc., Couches, Inc. produces a couch and sells it for \$3,000. Neither firm had any inventory at the beginning of 2009. During that year, Cowhide produced enough leather for 20 couches. Couches, Inc. bought 80% of that leather for \$16,000 and promised to buy the remaining 20% for \$4,000 in 2010. Couches, Inc. produced 16 couches during 2009 and sold each one during that year for \$3,000. What was the economy's GDP for 2009?
- a. \$48,000
 - b. \$52,000
 - c. \$64,000
 - d. \$68,000

Use the (hypothetical) information in the following table to answer the following questions.

Table 1

Country	Currency	Currency per U.S. Dollar	U.S. Price Index	Country Price Index
Bolivia	boloviano	8.00	200	1600
Japan	yen	125.00	200	50,000
Morocco	dinar	10.00	200	2,000
Norwegian	kroner	6.5	200	1,500
Thailand	baht	40.00	200	7,000

- _____ 41. Refer to Table 1. Which currency(ies) is(are) less valuable than predicted by the doctrine of purchasing-power parity?
- boloviano and dinar
 - yen and kroner
 - baht and kroner
 - baht
- _____ 42. In December 1999 people feared that there might be computer problems at banks as the century changed. Consequently, people wanted to hold relatively more in currency and relatively less in deposits. In anticipation banks raised their reserve ratios to have enough cash on hand to meet depositors' demands. These actions by the public
- would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
 - would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.
 - would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
 - would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.
- _____ 43. In an imaginary economy, consumers buy only sandwiches and magazines. The fixed basket consists of 20 sandwiches and 30 magazines. In 2006, a sandwich cost \$4 and a magazine cost \$2. In 2007, a sandwich cost \$5. The base year is 2006. If the consumer price index in 2007 was 125, then how much did a magazine cost in 2007?
- \$2.50
 - \$2.80
 - \$3.20
 - \$3.45
- _____ 44. Increased preferences of U.S. consumers for cars manufactured in Japan would
- Shift the supply-of -dollars curve to the left and lead to an appreciation in the value of the yen.
 - Shift the demand-of -dollars curve to the left and lead to a depreciation in the value of the dollar.
 - Shift the demand-of -dollars curve to the right and lead to an appreciation in the value of the yen.
 - Shift the supply-of -dollars curve to the right and lead to a depreciation in the value of the dollar.

- _____ 45. An advance in technology that increases productivity and an increase in the working-age population results in a
- rightward shift of the labor supply curve.
 - rightward shift of the labor demand curve.
 - rightward shift of the labor supply curve and of the labor demand curve.
 - movement along the production function.
- _____ 46. During recessions, banks typically choose to hold more excess reserves relative to their deposits. This action
- increases the money multiplier and increase the money supply.
 - decreases the money multiplier and decreases the money supply.
 - does not change the money multiplier, but increase the money supply.
 - does not change the money multiplier, but decrease the money supply.
- _____ 47. If the Fed conducts open-market sales, which of the following three increase: interest rates, prices, investment spending?
- interest rates, prices, investment spending.
 - interest rates and prices, not investment spending.
 - interest rates and investment, not prices.
 - interest rates, not investment or prices
- _____ 48. Which one of the following is not a function of the Federal Reserve system?
- providing banking services for the federal government
 - acting as a lender of last resort to the banks
 - controlling the supply of money and credit
 - lending to business firms
- _____ 49. Suppose the United States exports cars to Canada and imports bananas from Mexico. This situation suggests
- the United States has a comparative advantage relative to Canada in producing cars, and Mexico has a comparative advantage relative to the United States in producing bananas.
 - the United States has a comparative advantage relative to Canada in producing bananas, and Mexico has a comparative advantage relative to the United States in producing cars.
 - the United States has an absolute advantage relative to Canada in producing cars, and Mexico has an absolute advantage relative to the United States in producing bananas
 - the United States has an absolute advantage relative to Mexico in producing bananas, and Canada has an absolute advantage relative to the United States in producing cars.
- _____ 50. The country of Veridian has a tax system identical to that of the United States. Suppose someone in Veridian bought a parcel of land for 10,000 deera (the local currency) in 1964 when the price index equaled 100. In 2005, the person sold the land for 100,000 deera, and the price index equaled 500. The tax rate on nominal capital gains was 20 percent. Compute the taxes the person paid on the nominal gain and the change in the real value of the land in terms of 2005 prices to find the after-tax real rate of capital gain.
- 20 percent
 - 20 percent
 - 42 percent
 - 64 percent

Commerce College Joint Economics Exam 105-2
Answer Section

MULTIPLE CHOICE

1. ANS: B
2. ANS: B
3. ANS: A
4. ANS: B
5. ANS: B
6. ANS: C
7. ANS: D
8. ANS: B
9. ANS: A
10. ANS: C
11. ANS: B
12. ANS: C
13. ANS: B
14. ANS: B
15. ANS: D
16. ANS: C
17. ANS: D
18. ANS: B
19. ANS: A
20. ANS: B
21. ANS: B
22. ANS: B
23. ANS: D
24. ANS: D
25. ANS: C
26. ANS: C
27. ANS: D
28. ANS: B
29. ANS: C
30. ANS: D
31. ANS: D
32. ANS: A
33. ANS: D
34. ANS: B
35. ANS: A
36. ANS: A
37. ANS: D
38. ANS: D
39. ANS: B
40. ANS: B
41. ANS: D
42. ANS: D
43. ANS: A
44. ANS: D

- 45. ANS: C
- 46. ANS: B
- 47. ANS: D
- 48. ANS: D
- 49. ANS: A
- 50. ANS: D