

## Feedback — FINAL EXAM

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### Question 1

If consumer confidence falls and unemployment rises, what happens to the probability of a recession?

Your Answer	Score	Explanation
<input type="radio"/> It goes down		
<input type="radio"/> It goes up		
<input type="radio"/> Not sure		
<input type="radio"/> There is no effect		
Total	0.00 / 1.00	

#### Question Explanation

It goes up

### Question 2

Who famously said “in the long run, we’re all dead.”

Your Answer	Score	Explanation
<input type="radio"/> John Maynard Keynes		
<input type="radio"/> Franklin Delano Roosevelt		

☐ Jean Baptiste Say

☐ Freddy Krueger

Total

0.00 / 1.00

#### Question Explanation

John Maynard Keynes

## Question 3

Which was the most prosperous decade?

**Your Answer**

**Score**

**Explanation**

☐ The 1990s

☐ The 1980s

☐ The 1970s

☐ The 2000s

Total

0.00 / 1.00

#### Question Explanation

The 1990s

## Question 4

Say's Law says that:

**Your Answer**

**Score**

**Explanation**

☐ Demand creates its own supply

☐ Not sure

☐ Supply creates its own demand

☐ Supply must always exceed demand to curb inflation

Total

0.00 / 1.00

#### Question Explanation

Supply creates its own demand

## Question 5

Which event will shift the aggregate supply curve in?

**Your Answer**

**Score**

**Explanation**

☐ 1. An increase in the excise tax

☐ 2. A decrease in the sales tax

☐ 3. A decrease in the payroll tax

☐ 1 & 2 only

☐ Not sure

Total

0.00 / 1.00

#### Question Explanation

1. An increase in the excise tax

## Question 6

The fixed price assumption is valid in the Intermediate range of the economy because:

**Your Answer**

**Score**

**Explanation**

☐ Prices are fixed

☐ Prices vary a lot with output

☐ Prices vary little with output

☐ Not sure

Total

0.00 / 1.00

#### Question Explanation

Prices vary little with output

## Question 7

Why does the AE curve intersect the vertical axis above zero?

**Your Answer**

**Score**

**Explanation**

☐ Not sure

☐ Autonomous consumption

☐ Induced consumption

☐ Fractional consumption

Total

0.00 / 1.00

#### Question Explanation

Autonomous consumption

## Question 8

What type of expansionary fiscal policies can be used to close a recessionary gap?

**Your Answer**

**Score**

**Explanation**

☐ 1. A tax cut

☐ 2. An increase in government expenditures

☐ 3. A decrease in the money supply

☐ All of the above

☐ 1 & 2 only

Total

0.00 / 1.00

#### Question Explanation

1 & 2 only

## Question 9

Monetary Policy involves changes in the money supply to:

**Your Answer**

**Score**

**Explanation**

☐ 1. Contract the economy

☐ 2. Expand the economy

☐ 3. Diversify the economy

☐ 1 & 2 only

☐ 2 & 3 only

Total

0.00 / 1.00

#### Question Explanation

1 & 2 only

## Question 10

The longer the term of a loan:

**Your Answer**

**Score**

**Explanation**

☐ The higher the interest rate

☐ The lower the interest rate

☐ There is no difference in the interest rate

☐ Not sure

Total

0.00 / 1.00

#### Question Explanation

The higher the interest rate

## Question 11

If you want to adjust for inflation when evaluating an investment, you would rely on the:

**Your Answer**

**Score**

**Explanation**

☐ Not sure

☐ Nominal interest rate

☐ Normalized interest rate

☐ Real interest rate

Total

0.00 / 1.00

#### Question Explanation

Real interest rate

## Question 12

The money multiplier equals:

**Your Answer**

**Score**

**Explanation**

☐ 1/MPS

☐ 1/RR – MPC

☐ Not sure

☐ 1/RR

Total

0.00 / 1.00

#### Question Explanation

1/RR

## Question 13

Stagflation is characterized by:

**Your Answer**

**Score**

**Explanation**

☐ 1. Inflation

☐ 2. Recession

☐ 3. A balanced budget

☐ All of the above

☐ 1 & 2 only

Total

0.00 / 1.00

#### Question Explanation

1 & 2 only

## Question 14

What happens when an economy faces both high unemployment and inflation?

**Your Answer**

**Score**

**Explanation**

☐ It is necessary to use both Keynesian-style monetary and fiscal policy at the same time.

☐ Only monetary policy should be used

☐ Keynesian-style monetary and fiscal policies are counterproductive

☐ I don't know

Total	0.00 /
	1.00

#### Question Explanation

Keynesian-style monetary and fiscal policies are counterproductive

## Question 15

Inflationary expectations are important because:

Your Answer	Score	Explanation
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☐ 1. The expectation of inflation can significantly contribute to actual inflation.

☐ 2. Inflationary expectations strongly influence the behavior of businesses, investors, workers, and consumers!

☐ 3. They help fight both supply-side shocks and demand-pull inflation

☐ 1 & 2 only

☐ Don't know

Total	0.00 /
	1.00

#### Question Explanation

1 & 2 only

## Question 16

Under adaptive expectations:



Your Answer	Score	Explanation
<input type="radio"/> People believe <i>next</i> year's rate of inflation will be the same as <i>last</i> year's.		
<input type="radio"/> People believe this year's inflation rate was the same as last year's.		
<input type="radio"/> Don't know		
<input type="radio"/> People believe that it is important to adapt one's investment strategy to the inflation rate		
Total	0.00 / 1.00	

#### Question Explanation

People believe *next* year's rate of inflation will be the same as *last* year's.

## Question 17

New Classical Economics is based on:

Your Answer	Score	Explanation
<input type="radio"/> Rational expectations		
<input type="radio"/> Adaptive expectations		
<input type="radio"/> Traditional expectations		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

#### Question Explanation

Rational expectations

## Question 18

From 1947 to 2000, real GDP grew annually by 3.5%. However, over the next decade, GDP growth would fall by nearly 2%. How many jobs does the economy of the United States fail to create when GDP growth slows by 1% in a given year?

Your Answer	Score	Explanation
<input type="radio"/> 1 million		
<input type="radio"/> 100,000		
<input type="radio"/> 10 million		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

### Question Explanation

1 million

## Question 19

When export demand is weak in Europe and the United States because of slow growth, what is likely to happen to China's import demand for commodities such as coal and iron ore?

Your Answer	Score	Explanation
<input type="radio"/> Falls		
<input type="radio"/> Rises		
<input type="radio"/> Stays the same		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

### Question Explanation

## Question 20

Which school of macroeconomic thought would most favor a rule that directed the Federal Reserve to expand the money supply at the same rate as the typical growth of the economy's production capacity?

Your Answer	Score	Explanation
<input type="radio"/> Monetarists		
<input type="radio"/> Keynesians		
<input type="radio"/> Both		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

### Question Explanation

Monetarists

## Question 21

Economic growth represents the expansion of the country's potential GDP or national output.

Your Answer	Score	Explanation
<input type="radio"/> True		
<input type="radio"/> False		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

### Question Explanation

True

## Question 22

When new workers are added to a fixed supply of land, the marginal product of each additional worker is likely to:

**Your Answer**

**Score**

**Explanation**

☐ Fall

☐ Rise

☐ Stay constant

☐ Don't know

Total

0.00 / 1.00

### Question Explanation

Fall

## Question 23

In the neoclassical growth model, if economic growth consists only of accumulating capital through replicating factories with existing methods of production, what happens to the standard of living?

**Your Answer**

**Score**

**Explanation**

☐ It eventually stops rising

☐ It falls

☐ It continues to rise

☐ Don't know

Total

0.00 / 1.00

### Question Explanation

It eventually stops rising

## Question 24

Classical economists argue that:

Your Answer	Score	Explanation
<input type="radio"/> Budget deficits are a necessary byproduct of an expansionary fiscal policy during recessions.		
<input type="radio"/> Budget deficits are bad and should be avoided except in wartime.		
<input type="radio"/> Budget deficits are normal for any developed economy		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

### Question Explanation

Budget deficits are bad and should be avoided except in wartime.

## Question 25

To avoid crowding out, the Federal Reserve “accommodates” the Treasury’s expansionary fiscal policy by:

Your Answer	Score	Explanation
<input type="radio"/> Buying Treasury securities		
<input type="radio"/> Contracting the money supply		
<input type="radio"/> Don't know		
<input type="radio"/> Selling Treasury securities		

Total

0.00 / 1.00

### Question Explanation

Buying Treasury securities

## Question 26

A quota may be defined as:

**Your Answer**

**Score**

**Explanation**

☐ Don't know

☐ Both

☐ A specific numerical restriction on imports

☐ A tax levied on imports.

Total

0.00 / 1.00

### Question Explanation

A specific numerical restriction on imports

## Question 27

The "deadweight loss" from a tariff equals:

**Your Answer**

**Score**

**Explanation**

☐ Loss in producer surplus minus loss in consumer surplus

☐ Loss in producer surplus plus loss in consumer surplus

☐ Gain in producer surplus minus loss in consumer surplus

☐ Don't know

Total

0.00 / 1.00

**Question Explanation**

Loss in producer surplus plus loss in consumer surplus

## Question 28

When countries attempt to affect their exchange rates by buying and selling foreign currencies, this is called:

Your Answer	Score	Explanation
<input type="radio"/> Don't know		
<input type="radio"/> Retribution		
<input type="radio"/> Compounding		
<input type="radio"/> Intervention		
Total	0.00 / 1.00	

**Question Explanation**

Intervention

## Question 29

When a country devalues its currency to boost exports and reduce imports, this is called:

Your Answer	Score	Explanation
<input type="radio"/> 1. A "competitive devaluation"		
<input type="radio"/> 2. A "beggar thy neighbor" policy		
<input type="radio"/> 3. A fixed exchange rate system		
<input type="radio"/> All of the above		
<input type="radio"/> 1 & 2 only		

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

1 & 2 only

## Question 30

When the United States runs a budget deficit, that tends to:

**Your Answer**

**Score**

**Explanation**

☐ Increase its trade deficit

☐ Have no impact on its trade deficit

☐ Decrease its trade deficit

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

Increase its trade deficit

## Question 31

For developing countries:

**Your Answer**

**Score**

**Explanation**

☐ The emphasis on manufacturing versus farming will depend on the endowment of a country's natural resources

☐ Don't know

☐ It is always better to emphasis farming over manufacturing



☐ It is always better to emphasis manufacturing over farming

Total

0.00 /

1.00

#### Question Explanation

The emphasis on manufacturing versus farming will depend on the endowment of a country's natural resources

## Question 32

In a surprise move, the European Central Bank cuts interest rates to stimulate the European economy. How will such stimulus work to increase the rate of GDP growth?

**Your Answer**

**Score**

**Explanation**

☐ 1. Lower interest rates will stimulate domestic investment

☐ 2. Lower interest rates will cause the euro currency to fall and stimulate exports

☐ Both 1 and 2

☐ Don't know

Total

0.00 /

1.00

#### Question Explanation

Both 1 and 2

## Question 33

The Bank of Japan and Japan's Prime Minister decide to increase the monetary base to prevent deflation. Holding other things constant, what is likely to happen to New Zealand's dollar, the demand for its export, and its rate of GDP growth?

**Your Answer**

**Score**

**Explanation**

☐ New Zealand's dollar and export demand as well as its GDP will fall

☐ New Zealand's dollar and export demand as well as its GDP will rise

☐ New Zealand's dollar will rise and its export demand and GDP will fall

☐ Don't know

Total	0.00 / 1.00
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#### Question Explanation

New Zealand's dollar will rise and its export demand and GDP will fall

## Question 34

Suppose the GDP of Europe falls because of a sovereign debt crisis and subsequent recession. What is likely to happen to China's exports to Europe and its demand for commodities like iron ore and oil?

Your Answer	Score	Explanation
-------------	-------	-------------

☐ China's exports to Europe rise and its demand for commodities fall

☐ China's exports to Europe fall and its demand for commodities rise

☐ China's exports to Europe fall and its demand for commodities fall

☐ Don't know

Total	0.00 / 1.00
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#### Question Explanation

## Question 35

Which type of exchange rate system is better?

Your Answer	Score	Explanation
<input type="radio"/> Fixed		
<input type="radio"/> Floating		
<input type="radio"/> Both fixed and floating have their pros and cons		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

### Question Explanation

Both fixed and floating have their pros and cons

## Question 36

Europe announces a sovereign debt crisis threatening the stability of the euro so money pours out of Europe into the United States. What happens to U.S. bond prices and bond yields?

Your Answer	Score	Explanation
<input type="radio"/> U.S. bond prices fall and yields fall		
<input type="radio"/> U.S. bond prices rise and yields rise		
<input type="radio"/> U.S. bond prices fall and yields rise		
<input type="radio"/> U.S. bond prices rise and yields fall		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

**Question Explanation**

U.S. bond prices rise and yields fall

## Question 37

Germany has an absolute advantage over the rest of the world in the production of both automobiles and printing presses and a comparative advantage in the production of automobiles. According to the theory of comparative advantage, in trading with the rest of the world, Germany should:

Your Answer	Score	Explanation
<input type="radio"/> Produce both automobiles and printing presses		
<input type="radio"/> Specialize in automobiles		
<input type="radio"/> Specialize in printing presses		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

**Question Explanation**

Specialize in automobiles

## Question 38

Which special interest group is most likely to favor tariffs on the importation of cheap, government-subsidized solar energy panels from China into the Spanish market?

Your Answer	Score	Explanation
<input type="radio"/> Spanish solar panel manufacturers		
<input type="radio"/> Spanish solar panel consumers		
<input type="radio"/> Spanish solar panel installers		

☐ All of the above

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

Spanish solar panel manufacturers

## Question 39

The physicist Albert Einstein could type 120 words a minute but hired a secretary to type his works. What economic theory might account for that?

**Your Answer**

**Score**

**Explanation**

☐ Absolute advantage

☐ Comparative advantage

☐ Physical advantage

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

Comparative advantage

## Question 40

To make it more difficult for foreigners to import wine into France, French ports decide to delay the ships coming into its ports carrying wine. This is an example of a:

**Your Answer**

**Score**

**Explanation**

☐ Product differentiation

☐ Non-tariff barrier

☐ Tariff barrier

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

Non-tariff barrier

## Question 41

A new government report comes out indicating that the U.S. budget deficit is likely to rise significantly over the next five years. An economic forecaster will likely predict:

**Your Answer**

**Score**

**Explanation**

☐ Lower interest rates and more domestic capital investment

☐ Higher interest rates and less domestic capital investment

☐ No impact on interest rates or capital investment.

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

Higher interest rates and less domestic capital investment

## Question 42

Okun's Law provides insight into the important relationship between:

**Your Answer**

**Score**

**Explanation**

☐ Economic growth and the unemployment rate

☐ Economic growth and the inflation rate

☐ Economic growth and stagflation

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

Economic growth and the unemployment rate

## Question 43

Suppose the GDP = \$20 trillion, the budget deficit = \$240 billion, the unemployment rate = 7%, the natural rate of unemployment = 5%, and the marginal tax rate = 30%. Which portion of the deficit is structural?

**Your Answer**

**Score**

**Explanation**

☐ \$0 billion

☐ \$40 billion

☐ \$48 billion

☐ Don't know

Total

0.00 / 1.00

#### Question Explanation

\$0 billion

## Question 44

In the Land of Oz, economic growth consists only of accumulating capital through replicating factories with existing methods of production. What happens to the standard of living according to the neo-classical growth model?

Your Answer	Score	Explanation
<input type="radio"/> It falls		
<input type="radio"/> It continues to rise		
<input type="radio"/> It eventually stops rising		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

#### Question Explanation

It eventually stops rising

## Question 45

Which of these are true?

Your Answer	Score	Explanation
<input type="radio"/> A Classical economist will not recommend Keynesian stimulus		
<input type="radio"/> A Monetarist will not recommend discretionary monetary policy		
<input type="radio"/> A Keynesian will not support a "monetary rule" for the Central Bank		
<input type="radio"/> All of the above		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

#### Question Explanation

All of the above

## Question 46



Under the theory of rational expectations, if the Federal Reserve expands the money supply to close a recessionary gap:

Your Answer	Score	Explanation
<input type="radio"/> Businesses will immediately lower prices		
<input type="radio"/> Workers will agree to lower wages		
<input type="radio"/> The attempted expansionary monetary stimulus will be completely offset by inflation's contractionary effects		
<input type="radio"/> All of the above		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

#### Question Explanation

The attempted expansionary monetary stimulus will be completely offset by inflation's contractionary effects