

## 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"/> There is no effect		
<input type="radio"/> Not sure		
<input checked="" type="radio"/> It goes up	✓ 1.00	
Total	1.00 / 1.00	

#### Question Explanation

It goes up

### Question 2

If the government wants to use fiscal policy to stimulate the economy, it will:

Your Answer	Score	Explanation
<input type="radio"/> Cut government spending and cut taxes		
<input checked="" type="radio"/> Increase government spending and cut taxes	✓ 1.00	

- ☐ Cut government spending and raise taxes
- ☐ Increase government spending and increase taxes

Total

1.00 / 1.00

**Question Explanation**

Increase government spending and cut taxes

### Question 3

The application of a massive fiscal and monetary policy after the Great Recession of 2007:

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

☐ Was applauded by the ghost of Milton Friedman

☐ Was highly successful

☐ Was moderately successful

☒ Was a total failure

✗

0.00

Total

0.00 / 1.00

**Question Explanation**

Was moderately successful

### Question 4

If the quantity of money increases in the quantity theory of money equation, what must increase?

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

☐ Not sure

☐ Quantity☒ Price ✓ 1.00☐ Velocity

Total 1.00 / 1.00

**Question Explanation**

Price

## Question 5

The AS-AD framework:

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

☐ Assumes prices are fixed☒ Allows for price adjustments ✓ 1.00☐ Is independent of prices☐ Not sure

Total 1.00 / 1.00

**Question Explanation**

Allows for price adjustments

## Question 6

Which of these is an injection?

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

☐ Not sure

☐ Taxes

☐ Imports

☒ Exports ✓ 1.00

Total 1.00 / 1.00

#### Question Explanation

Exports

## Question 7

Suppose people spend 60 cents of every dollar of their disposable income and save 40 cents.  
What is the MPC?

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

☒ .60 ✓ 1.00

☐ .80

☐ .20

☐ .40

Total 1.00 / 1.00

#### Question Explanation

.60

## Question 8

Which of these components of the aggregate expenditure function is not represented by a horizontal line?

Your Answer	Score	Explanation
<input type="radio"/> Government function		
<input type="radio"/> Not sure		
<input checked="" type="radio"/> Consumption function	✓ 1.00	
<input type="radio"/> Investment function		
Total	1.00 / 1.00	

#### Question Explanation

Consumption function

## Question 9

When the government increases its expenditures to close a recessionary gap and finances those expenditures through increased borrowing, this can:

Your Answer	Score	Explanation
<input type="radio"/> Drive up interest rates and drive down investment		
<input type="radio"/> Drive down interest rates and investment		
<input checked="" type="radio"/> Drive down interest rates and drive up investment	✗ 0.00	
<input type="radio"/> Drive up interest rates and investment		
Total	0.00 / 1.00	

#### Question Explanation

Drive up interest rates and drive down investment

## Question 10

Interest is:

Your Answer	Score	Explanation
<input type="radio"/> 1. The payment made for the use of money		
<input type="radio"/> 2. The "price of money"		
<input type="radio"/> 3. The rate of return from commodity money		
<input type="radio"/> All of the above		
<input checked="" type="radio"/> 1 & 2 only	✓ 1.00	
Total	1.00 / 1.00	

### Question Explanation

1 & 2 only

## Question 11

If interest rates rise, what happens to the asset demand for money?

Your Answer	Score	Explanation
<input checked="" type="radio"/> Increases	✗ 0.00	
<input type="radio"/> Stays the same		
<input type="radio"/> Not sure		
<input type="radio"/> Decreases		
Total	0.00 / 1.00	

### Question Explanation

Decreases

## Question 12

The money multiplier equals:

Your Answer	Score	Explanation
<input checked="" type="radio"/> 1/RR	✓ 1.00	
<input type="radio"/> Not sure		
<input type="radio"/> 1/MPS		
<input type="radio"/> 1/RR – MPC		
Total	1.00 / 1.00	

### Question Explanation

1/RR

## Question 13

The monetary transmission mechanism involves which of the following to close a recessionary gap?

Your Answer	Score	Explanation
<input type="radio"/> 1. An increase in the money supply		
<input type="radio"/> 2. A fall in interest rates		
<input type="radio"/> 3. An increase in investment and consumption		
<input type="radio"/> 4. An increase in exports		

☒ All of the above

✓ 1.00

☐ 1, 2 & 3 only

Total

1.00 / 1.00

**Question Explanation**

All of the above

## Question 14

To fight the stagflation of the late 1970s, Federal Reserve Chairman Paul Volcker:

**Your Answer****Score****Explanation**☐ 1. Dramatically raised interest rates☐ 2. Induced a recession☐ 3. Cut taxes☐ All of the above☒ 1 & 2 only

✓ 1.00

Total

1.00 / 1.00

**Question Explanation**

1 &amp; 2 only

## Question 15

Suppose GDP falls by 2%. By Okun's law, how much will inflation rise?

**Your Answer****Score****Explanation**



☒ 1%

0.00

☐ 2%☐ 3%☐ Can't be determined☐ Don't know

Total


0.00 / 1.00

**Question Explanation**

Can't be determined

## Question 16

Under adaptive expectations:

**Your Answer****Score****Explanation**☐ Don't know☐ People believe this year's inflation rate was the same as last year's.☐ People believe that it is important to adapt one's investment strategy to the inflation rate☒ People believe *next* year's rate of inflation will be the same as *last* year's.  1.00

Total

1.00 /  
1.00**Question Explanation**People believe *next* year's rate of inflation will be the same as *last* year's.

## Question 17

The Laffer curve is:

Your Answer	Score	Explanation
<input type="radio"/> Forward bending		
<input type="radio"/> A vertical line		
<input type="radio"/> Don't know		
<input checked="" type="radio"/> Backward bending	✓ 1.00	
Total	1.00 / 1.00	

### Question Explanation

Backward bending

## Question 18

Historically, the Federal Reserve has focused on:

Your Answer	Score	Explanation
<input checked="" type="radio"/> Lowering short-term interest rates to stimulate investment	✓ 1.00	
<input type="radio"/> Lowering long-term interest rates to stimulate investment		
<input type="radio"/> Lowering both short and long-term interest rates to stimulate investment		
<input type="radio"/> Don't know		
Total	1.00 / 1.00	

### Question Explanation

Lowering short-term interest rates to stimulate investment

## 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 checked="" type="radio"/> Falls	1.00	
<input type="radio"/> Rises		
<input type="radio"/> Stays the same		
<input type="radio"/> Don't know		
Total	1.00 / 1.00	

### Question Explanation

Falls

## Question 20

Which school or schools of macroeconomics thought believe that the government should adhere to rules that prohibit it from causing instability in the economy?

Your Answer	Score	Explanation
<input type="radio"/> Keynesians		
<input type="radio"/> Monetarists		
<input type="radio"/> New Classicals		
<input type="radio"/> All the above		

☒ 2 and 3 only  1.00

☐ Don't know

Total 1.00 / 1.00

**Question Explanation**

2 and 3 only

## Question 21

Which school of macroeconomic thought believes the following: Fiscal policy should not be used because increases in government spending are likely to be offset by declines in investment.

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

☒ Monetarists  1.00

☐ Keynesians

☐ Both

☐ Don't know

Total 1.00 / 1.00

**Question Explanation**

Monetarists

## Question 22

Why is it necessary for the government to invest in certain types of projects to fuel growth?

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

☒ Some government projects involve external benefits that private firms cannot capture ✓ 1.00

☐ Some government projects involve internal benefits that private firms cannot capture

☐ The government has more expertise than private firms as a rule

☐ Don't know

Total 1.00 / 1.00

**Question Explanation**

Some government projects involve external benefits that private firms cannot capture

## Question 23

In the neoclassical growth model, what happens to wages and returns to capital with technological change?

Your Answer	Score	Explanation
<input checked="" type="radio"/> Both wages and the returns to capital rise	✓ 1.00	
<input type="radio"/> Wages fall and the returns to capital rise		
<input type="radio"/> Wages rise and the returns to capital fall		
<input type="radio"/> Both wages and the returns to capital fall		
<input type="radio"/> Don't know		
Total	1.00 / 1.00	

### Question Explanation

Both wages and the returns to capital rise

## 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 checked="" type="radio"/> Budget deficits are bad and should be avoided except in wartime.	✓ 1.00	
<input type="radio"/> Budget deficits are normal for any developed economy		
<input type="radio"/> Don't know		

Total	1.00 /
	1.00

**Question Explanation**

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

## Question 25

Budget deficits can cause trade deficits if:

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

☐ Don't know

☐ Deficit financing lowers interest rates and raises the value of the dollar

☐ Deficit financing raises interest rates and lowers the value of the dollar

☒ Deficit financing raises interest rates and raises the value of the dollar ✓ 1.00

Total	1.00 /
	1.00

**Question Explanation**

Deficit financing raises interest rates and raises the value of the dollar

## Question 26

If a tariff is imposed on imports, which of these statements will be true:

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

☐ 1. Consumers pay higher prices

☐ 2. Imports fall

☐ 3. Domestic producers see profits fall

☐ All of the above

☒ 1 & 2 only



1.00

☐ Don't know

Total

1.00 / 1.00

#### Question Explanation

1 & 2 only

## Question 27

In the context of free trade, a zero sum game may be defined as a game in which:

**Your Answer**

**Score**

**Explanation**

☒ One trading partner gains at the expense of another



1.00

☐ Don't know

☐ Both countries gain

☐ Both trading partner loses

Total

1.00 / 1.00

#### Question Explanation

One trading partner gains at the expense of another

## Question 28



U.S. Congressmen Smoot and Hawley are most infamous for helping to trigger what major economic event?

Your Answer	Score	Explanation
<input type="radio"/> Don't know		
<input type="radio"/> The Bank Run of 1907		
<input type="radio"/> The Great Recession of the late 2000s		
<input checked="" type="radio"/> The Great Depression of the 1930s	✓ 1.00	
Total	1.00 / 1.00	

**Question Explanation**

The Great Depression of the 1930s

## Question 29

Suppose the U.S. Federal Reserve raises interest rates while the Bank of England takes no such action. In this case, will the British pound appreciate or depreciate relative to the U.S. dollar?

Your Answer	Score	Explanation
<input checked="" type="radio"/> Depreciate	✓ 1.00	
<input type="radio"/> Appreciate		
<input type="radio"/> No change		
<input type="radio"/> Don't know		
Total	1.00 / 1.00	

**Question Explanation**

Depreciate

## Question 30

The Dollar Standard established at Bretton Woods, New Hampshire, USA was:

Your Answer	Score	Explanation
<input type="radio"/> 1. Was a partially fixed or adjustable peg system.		
<input type="radio"/> 2. Replaced the gold standard with a U.S. dollar standard.		
<input type="radio"/> 3. Designated the U.S. dollar as the world's key currency.		
<input type="radio"/> 4. Set fixed exchange rate parities in both gold and dollar terms.		
<input checked="" type="radio"/> All of the above	✓ 1.00	
<input type="radio"/> 1, 2, & 3 only		
<input type="radio"/> Don't Know		
Total	1.00 / 1.00	

### Question Explanation

All of the above

## Question 31

Methods to increase productivity in a developing country's agriculture sector include:

Your Answer	Score	Explanation
<input type="radio"/> 1. Appropriate conservation		
<input type="radio"/> 2. The use of fertilizers		

☐ 3. Proper tillage☒ All of the above

1.00

☐ 1 & 2 only☐ Don't know

Total

1.00 / 1.00

**Question Explanation**

All of the above

## 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

1.00

☐ Don't know

Total

1.00 /  
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
<input checked="" type="radio"/> New Zealand's dollar and export demand as well as its GDP will fall	✗ 0.00	
<input type="radio"/> New Zealand's dollar and export demand as well as its GDP will rise		
<input type="radio"/> New Zealand's dollar will rise and its export demand and GDP will fall		
<input type="radio"/> Don't know		
Total	0.00 / 1.00	

### 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
<input type="radio"/> 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

✓ 1.00

☐ Don't know

Total

1.00 /

1.00

### Question Explanation

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

## Question 35

Which type of exchange rate system is better?

**Your Answer**

**Score**

**Explanation**

☐ Fixed

☐ Floating

☒ Both fixed and floating have their pros and cons

✓ 1.00

☐ Don't know

Total

1.00 / 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 checked="" type="radio"/> U.S. bond prices rise and yields fall	✓ 1.00	
<input type="radio"/> Don't know		
Total	1.00 / 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 checked="" type="radio"/> Specialize in automobiles	✓ 1.00	
<input type="radio"/> Specialize in printing presses		
<input type="radio"/> Don't know		
Total	1.00 / 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 checked="" type="radio"/> Spanish solar panel manufacturers	✓ 1.00	
<input type="radio"/> Spanish solar panel consumers		
<input type="radio"/> Spanish solar panel installers		
<input type="radio"/> All of the above		
<input type="radio"/> Don't know		
Total	1.00 / 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
<input type="radio"/> Absolute advantage		
<input checked="" type="radio"/> Comparative advantage	✓ 1.00	

☐ Physical advantage

☐ Don't know

Total

1.00 / 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



1.00

☐ Tariff barrier

☐ Don't know

Total

1.00 / 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 ✖ 0.00

☐ 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
<input checked="" type="radio"/> Economic growth and the unemployment rate	✓ 1.00	
<input type="radio"/> Economic growth and the inflation rate		
<input type="radio"/> Economic growth and stagflation		
<input type="radio"/> Don't know		
Total	1.00 / 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
<input checked="" type="radio"/> \$0 billion	✓ 1.00	
<input type="radio"/> \$40 billion		
<input type="radio"/> \$48 billion		
<input type="radio"/> Don't know		
Total	1.00 / 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 checked="" type="radio"/> It eventually stops rising	✓ 1.00	
<input type="radio"/> Don't know		
Total	1.00 / 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 checked="" type="radio"/> A Keynesian will not support a "monetary rule" for the Central Bank	✗ 0.00	
<input type="radio"/> All of the above		

☐ 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**

☐ Businesses will immediately lower prices

☐ Workers will agree to lower wages

☒ The attempted expansionary monetary stimulus will be completely offset by inflation's contractionary effects ✓ 1.00

☐ All of the above

☐ Don't know

Total

1.00 /  
1.00

#### Question Explanation

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

