

Feedback — FINAL EXAM

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Question 1

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

- ☐ It goes down
- ☐ There is no effect
- ☐ Not sure
- ☒ It goes up

Question 2

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

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

Question 3

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

- ☐ Was applauded by the ghost of Milton Friedman

- ☐ Was highly successful
- ☐ Was moderately successful
- ☒ Was a total failure

Question 4

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

- ☐ Not sure
- ☐ Quantity
- ☒ Price
- ☐ Velocity

Question 5

The AS-AD framework:

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

Question 6

Which of these is an injection?

- ☐ Not sure
- ☐ Taxes
- ☐ Imports
- ☒ Exports

Question 7

Suppose people spend 60 cents of every dollar of their disposable income and save 40 cents.

What is the MPC?

- ☒ .60
- ☐ .80
- ☐ .20
- ☐ .40

Question 8

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

- ☐ Government function
- ☐ Not sure
- ☒ Consumption function
- ☐ Investment function

Question 9

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

- ☐ Drive up interest rates and drive down investment
- ☐ Drive down interest rates and investment
- ☒ Drive down interest rates and drive up investment
- ☐ Drive up interest rates and investment

Question 10

Interest is:

- ☐ 1. The payment made for the use of money
- ☐ 2. The “price of money”
- ☐ 3. The rate of return from commodity money
- ☐ All of the above
- ☒ 1 & 2 only

Question 11

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

- ☒ Increases
- ☐ Stays the same
- ☐ Not sure
- ☐ Decreases

Question 12

The money multiplier equals:

- ☒ $1/RR$
- ☐ Not sure
- ☐ $1/MPS$
- ☐ $1/RR - MPC$

Question 13

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

- ☐ 1. An increase in the money supply
- ☐ 2. A fall in interest rates
- ☐ 3. An increase in investment and consumption
- ☐ 4. An increase in exports
- ☒ All of the above
- ☐ 1, 2 & 3 only

Question 14

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

- ☐ 1. Dramatically raised interest rates
- ☐ 2. Induced a recession
- ☐ 3. Cut taxes
- ☐ All of the above
- ☒ 1 & 2 only

Question 15

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

- ☒ 1%
- ☐ 2%
- ☐ 3%
- ☐ Can't be determined
- ☐ Don't know

Question 16

Under adaptive expectations:

- ☐ 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.

Question 17

The Laffer curve is:

- ☐ Forward bending
- ☐ A vertical line
- ☐ Don't know
- ☒ Backward bending

Question 18

Historically, the Federal Reserve has focused on:

- ☒ Lowering short-term interest rates to stimulate investment
- ☐ Lowering long-term interest rates to stimulate investment
- ☐ Lowering both short and long-term interest rates to stimulate investment
- ☐ Don't know

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?

- ☒ Falls
- ☐ Rises
- ☐ Stays the same
- ☐ Don't know

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?

- ☐ Keynesians
- ☐ Monetarists
- ☐ New Classicals
- ☐ All the above
- ☒ 2 and 3 only
- ☐ Don't know

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.

- ☒ Monetarists
- ☐ Keynesians
- ☐ Both
- ☐ Don't know

Question 22

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

- ☒ Some government projects involve external benefits that private firms cannot capture
- ☐ 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

Question 23

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

- ☒ Both wages and the returns to capital rise
- ☐ Wages fall and the returns to capital rise
- ☐ Wages rise and the returns to capital fall
- ☐ Both wages and the returns to capital fall
- ☐ Don't know

Question 24

Classical economists argue that:

- ☐ Budget deficits are a necessary byproduct of an expansionary fiscal policy during recessions.
- ☒ Budget deficits are bad and should be avoided except in wartime.
- ☐ Budget deficits are normal for any developed economy
- ☐ Don't know

Question 25

Budget deficits can cause trade deficits if:

- ☐ 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

Question 26

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

- ☐ 1. Consumers pay higher prices
- ☐ 2. Imports fall
- ☐ 3. Domestic producers see profits fall
- ☐ All of the above
- ☒ 1 & 2 only
- ☐ Don't know

Question 27

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

- ☒ One trading partner gains at the expense of another
- ☐ Don't know
- ☐ Both countries gain
- ☐ Both trading partner loses

Question 28

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

economic event?

- ☐ Don't know
- ☐ The Bank Run of 1907
- ☐ The Great Recession of the late 2000s
- ☒ 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?

- ☒ Depreciate
- ☐ Appreciate
- ☐ No change
- ☐ Don't know

Question 30

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

- ☐ 1. Was a partially fixed or adjustable peg system.
- ☐ 2. Replaced the gold standard with a U.S. dollar standard.
- ☐ 3. Designated the U.S. dollar as the world's key currency.
- ☐ 4. Set fixed exchange rate parities in both gold and dollar terms.
- ☒ All of the above
- ☐ 1, 2, & 3 only
- ☐ Don't Know

Question 31

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

- ☐ 1. Appropriate conservation
- ☐ 2. The use of fertilizers
- ☐ 3. Proper tillage
- ☒ All of the above
- ☐ 1 & 2 only
- ☐ Don't know

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?

- ☐ 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

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?

- ☒ 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

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?

- ☐ 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

Question 35

Which type of exchange rate system is better?

- ☐ Fixed
- ☐ Floating
- ☒ Both fixed and floating have their pros and cons
- ☐ Don't know

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?

- ☐ U.S. bond prices fall and yields fall
- ☐ U.S. bond prices rise and yields rise
- ☐ U.S. bond prices fall and yields rise

- ☒ U.S. bond prices rise and yields fall
- ☐ Don't know

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:

- ☐ Produce both automobiles and printing presses
- ☒ Specialize in automobiles
- ☐ Specialize in printing presses
- ☐ Don't know

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?

- ☒ Spanish solar panel manufacturers
- ☐ Spanish solar panel consumers
- ☐ Spanish solar panel installers
- ☐ All of the above
- ☐ Don't know

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?

- ☐ Absolute advantage
- ☒ Comparative advantage
- ☐ Physical advantage
- ☐ Don't know

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:

- ☐ Product differentiation
- ☒ Non-tariff barrier
- ☐ Tariff barrier
- ☐ Don't know

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:

- ☒ 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

Question 42

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

- ☒ Economic growth and the unemployment rate

- ☐ Economic growth and the inflation rate
- ☐ Economic growth and stagflation
- ☐ Don't know

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?

- ☒ \$0 billion
- ☐ \$40 billion
- ☐ \$48 billion
- ☐ Don't know

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?

- ☐ It falls
- ☐ It continues to rise
- ☒ It eventually stops rising
- ☐ Don't know

Question 45

Which of these are true?

- ☐ A Classical economist will not recommend Keynesian stimulus

- ☐ A Monetarist will not recommend discretionary monetary policy
- ☒ A Keynesian will not support a “monetary rule” for the Central Bank
- ☐ All of the above
- ☐ Don't know

Question 46

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

- ☐ 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
- ☐ All of the above
- ☐ Don't know

