1. What is the PRIMARY difference between the discount rate and the federal funds rate?
   a. The discount rate applies to loans with maturities of under one year, while the federal funds rate applies to loans with maturities of a year or longer.
   b. The federal funds rate applies to loans with maturities of under one year, while the discount rate applies to loans with maturities of a year or longer.
   c. The federal funds rate is the rate the Federal Reserve charges banks, while the discount rate is the rate banks charge when they lend to other banks.
   d. The discount rate is the rate the Federal Reserve charges banks, while the federal funds rate is the rate banks charge when they lend to other banks.
   e. The federal funds rate is the rate the Federal Reserve charges on M1, while the discount rate is the rate the Federal Reserve charges on M2.

2. Jorge receives money for his birthday but plans to save it for his trip to Europe in three years. This scenario BEST exemplifies money's function as a
   a. store of value
   b. transaction facilitator
   c. unit of account
   d. economic asset
   e. medium of exchange

3. If actual output exceeds potential output, a government could
   a. reduce the money supply to raise interest rates
   b. reduce the money supply to maintain interest rates
   c. increase the money supply to lower interest rates
   d. reduce the money supply to lower interest rates
   e. increase the money supply to raise interest rates

4. Which group is responsible for controlling the money supply in the United States?
   a. the Department of the Treasury
   b. the Federal Reserve
   c. the Internal Revenue Service
   d. the Bureau of Labor Statistics
   e. the Federal Open Market Committee

5. Which of the following actions could the Federal Reserve take to expand the money supply?
   a. raising the reserve ratio
   b. lowering the discount rate
   c. selling government bonds
   d. lowering taxes
   e. raising the federal funds rate

6. Which of the following assets is LEAST liquid?
   a. an antique art collection
   b. shares of Walmart stock
   c. funds in a checking account
   d. cash
   e. funds in a mutual fund

7. Country X's real GDP declined in January and continued to do so until the current month of October. Therefore, Country X is in a(n)
   a. recession
   b. budget surplus
   c. depression
   d. expansion
   e. budget deficit

8. Which organization determines when expansions and recessions in the United States begin and end?
   a. the Federal Open Market Committee
   b. the American Economic Development Council
   c. the National Economic Advisory Association
   d. the Department of the Treasury
   e. the National Bureau of Economic Research

9. Which of the following concepts is an explanation for the downward-sloping aggregate demand curve?
   a. wealth effects
   b. GDP deflation
   c. quality differences
   d. frictional demand
   e. substitution bias

10. Arthur Okun was an economic advisor for
   a. President Nixon
   b. President Eisenhower
   c. President Johnson
   d. President Ford
   e. President Kenney

11. Nominal quantities differ from real quantities in that one
    a. factors in social benefit while the other does not
    b. accounts for inflation while the other does not
    c. is more useful in macroeconomics than the other
    d. measures using monetary units instead of physical units
    e. factors in opportunity costs while the other does not

12. Why might a government use fiscal or monetary policy during a recession?
    a. The market's natural adjustment back to equilibrium may take a long time.
    b. The free market will never return to the previous long-run output.
    c. The free market's natural response could lower the price level and increase unemployment.
    d. Hyperinflation may occur in the absence of government intervention.
    e. It wants to minimize frictional and structural unemployment.

13. How much money can the banking sector create from \$5,000 in reserves, given a reserve ratio of 20%?
    a. \$100,000
    b. \$25,000
    c. \$1,000
    d. \$250
    e. \$1,000,000

14. Which of the following statements does NOT correctly identify a major economic cost of inflation?
    a. Inflation distorts prices, making them less valuable in coordinating economic decisions.
    b. Inflation makes it more difficult for consumers to spend.
    c. Inflation increases costs for firms, who have to frequently adjust their prices.
    d. Inflation makes gauging the future value of goods and services more uncertain.
    e. Inflation effectively taxes those who hold money.

15. The unemployment rate in Canada is equal to its natural rate. Therefore, short-run aggregate supply is equal to
    a. aggregate demand
    b. its minimum
    c. long-run potential output
    d. its output gap
    e. its maximum

16. According to the interest rate effects, increasing the supply of savings can also increase
    a. government spending and consumption
    b. consumption and net exports
    c. net exports and government spending
    d. consumption and investment
    e. investment and net exports

17. What controls the value of money in the long run?
    a. the financial sector
    b. the Department of the Treasury
    c. supply and demand
    d. the Federal Reserve
    e. real GDP growth

18. According to the long-run neutrality of money, the Federal Reserve's lowering of the discount rate will
    a. decrease the money supply
    b. increase real quantities in the economy
    c. decrease real quantities in the economy
    d. increase the long-run value of money
    e. not affect real quantities in the economy

19. Fiat money is different from commodity money in that it
    a. is primarily digital
    b. has a higher liquidity
    c. has no intrinsic value
    d. is a unit of account
    e. is issued by the government

20. Which of the following people is always part of the Federal Open Market Committee?
    a. the president of the New York Federal Reserve
    b. the president of the Chicago Federal Reserve
    c. the president of the Atlanta Federal Reserve
    d. the president of the Washington D.C. Federal Reserve
    e. the president of the St. Louis Federal Reserve

21. What combination of fiscal and monetary policy might a government take to combat a recession?
    a. cutting taxes and reducing the reserve requirement
    b. raising the discount rate and lowering taxes
    c. reducing the reserve requirement and buying bonds
    d. increasing government spending and lowering taxes
    e. reducing the reserve requirement and raising taxes

22. Which of the following statements about bank runs is FALSE?
    a. They occur when many people want to hold their assets in currency.
    b. They can happen to solvent banks.
    c. The Federal Reserve is largely responsible for fixing them.
    d. They occur somewhat frequently today.
    e. They occur in part due to fractional reserve banking.

23. Which of the following types of unemployment exist in an economy with an output gap of 0?
    a. cyclical and structural
    b. frictional and seasonal
    c. frictional and structural
    d. cyclical and structural
    e. structural and seasonal

24. All of the following assets are part of M2 EXCEPT
    a. retail money funds
    b. currency
    c. credit cards
    d. demand deposits
    e. savings deposits

25. Keynesian theory holds that short-run economic variations arise from
    a. aggregate demand and short-run aggregate supply
    b. short-run productivity and changes in GDP growth rates
    c. an economy's budget and trade deficits or surpluses
    d. fluctuating price levels and their impact on equilibrium quantity
    e. aggregate demand and long-run aggregate supply

26. If $500 billion of assets are added to the M1 money supply, M2 will
    a. remain the same
    b. increase by $500 billion
    c. increase by $1 trillion
    d. decrease by $1 trillion
    e. decrease by $500 billion

27. From 1960 to 2008, CPI increased by a factor of around
    a. 3
    b. 7
    c. 11
    d. 8
    e. 6

28. In economics, the "short run" typically lasts from
    a. six months to one year
    b. five to ten years
    c. one to three years
    d. six months to two years
    e. three to five years

29. Over time, a country's output will likely
    a. increase due to political improvements
    b. increase due to increased human capital
    c. increase due to technological developments
    d. decrease due to aggregate supply shocks
    e. decrease due to fluctuating price levels

30. Lisa goes to the local grocery store and buys $10 worth of vegetables. Lisa's purchase exemplifies money's role as a(n)
    a. medium of exchange
    b. economic asset
    c. transaction facilitator
    d. unit of account
    e. store of value

31. In the AD-AS model, the short-run aggregate supply curve
    a. is vertical
    b. slopes upward
    c. is horizontal
    d. slopes downward
    e. is kinked

32. Which of the following statements BEST summarizes foreign exchange effects?
    a. The higher a country's price level, the more expensive domestically produced goods are, leading to an increase in net exports
    b. The higher a country's price level, the cheaper domestically produced goods are, leading to an increase in net exports
    c. The higher a country's price level, the cheaper domestically produced goods are, leading to a decrease in net exports
    d. The higher a country's price level, the more expensive domestically produced goods are, leading to a decrease in net exports
    e. The lower a country's price level, the cheaper domestically produced goods are, leading to an increase in net exports.

33. If the federal government buys bonds, the value of money will
    a. increase, and the supply of money will increase
    b. decrease, and the supply of money will increase
    c. increase, and the supply of money will decrease
    d. remain the same, and the supply of money will increase
    e. decrease, and the supply of money will decrease

34. Which of the following factors causes MOST short-run fluctuations in an economy?
    a. the output gap
    b. the inflation rate
    c. aggregate supply
    d. aggregate demand
    e. real GDP

35. Consumer spending drastically falls, shifting the aggregate demand curve to the left and reducing output to below its potential level. Absent government intervention, why will the economy return to its potential output?
    a. The aggregate demand curve will shift down until it intersects aggregate demand where output equals potential.
    b. The long-run aggregate supply curve will shift down until it intersects aggregate demand where output equals potential.
    c. The aggregate demand curve will shift up until it intersects aggregate demand where output equals potential.
    d. The short-run aggregate supply curve will shift down until it intersects aggregate demand where output equals potential.
    e. The short-run aggregate supply curve will shift up until it intersects aggregate demand where output equals potential.

36. In the span of two years, a country's unemployment rate rises from 3% to 10%. During those two years, the country's
    a. inflation rate likely sped up
    b. investment likely remained the same
    c. real GDP likely increased
    d. net exports likely increased
    e. inflation rate likely slowed down

37. Which of the following terms describes an economy's production when it uses its resources at normal rates?
    a. potential production
    b. potential output
    c. maximum efficiency
    d. potential efficiency
    e. maximum production

38. How many regional banks are in the Federal Reserve system?
    a. 10
    b. 7
    c. 14
    d. 12
    e. 5

39. Which of the following results could arise if the Federal Reserve buys bonds?
    a. Short-run aggregate supply remains the same.
    b. Short-run aggregate supply increases.
    c. Short-run aggregate supply decreases.
    d. Long-run aggregate supply decreases.
    e. Long-run aggregate supply increases.

40. According to the AD-AS model, an increase in net exports will shift the
    a. short-run aggregate demand curve left and increase the price level
    b. short-run aggregate demand curve right and decrease the price level
    c. aggregate demand curve left and increase the price level
    d. long-run aggregate demand curve right and decrease the price level
    e. aggregate demand curve right and increase the price level

41. Which economist introduced the idea that government intervention could help eliminate output gaps?
    a. Arthur Okun
    b. Joseph Schumpeter
    c. John Maynard Keynes
    d. Abram Bergson
    e. Milton Friedman

42. Which of the following reasons helps explain why economists may hesitate to support fiscal or monetary policy?

    a. The free market's response is always more time efficient.
    b. Short-run market fluctuations are natural and signal a healthy national economy.
    c. Control over fiscal and monetary policy is not explicitly included in the Constitution.
    d. It may take too long before an economy feels the policy's intended results.
    e. Politicians do not have the economic expertise that economists do.

43. Which of the following events is a possible consequence of the Federal Reserve's reducing the reserve requirement?

    a. decreased real GDP and increased interest rates
    b. decreased consumer spending and increased inflation
    c. decreased inflation and net exports
    d. decreased government spending and investment
    e. increased consumer and investment spending

44. What is the primary factor influencing demand for money?

    a. the financial investments businesses want to make
    b. the interest rate charged by banks on loans
    c. the transactions consumers in which participate
    d. the economy's overall inflation rate
    e. the proportion of income households decide to save

45. Korea's natural rate of unemployment is 4%. According to Okun's law, if unemployment is at 10%, Korea will have an output gap of

    a. 6%
    b. 8%
    c. 12%
    d. 10%
    e. 20%

46. According to the equation for the velocity of money, a possible consequence of the Federal Reserve buying bonds is a(n)

    a. increase in the velocity of money
    b. decrease in real GDP
    c. increase in the price level
    d. decrease in nominal GDP
    e. decrease in the price level

47. If the Federal Reserve wants to reduce the money supply in the United States economy using open market operations, it could

    a. increase the federal funds rate
    b. buy bonds
    c. sell bonds
    d. raise the reserve requirement
    e. lower the reserve requirement

48. Which of the following statements correctly defines monetary base?

    a. Monetary base is equal to M1.
    b. Monetary base is equal to M2.
    c. Monetary base is the difference between M1 and M2.
    d. Monetary base is equal to the amount of currency plus reserves.
    e. Monetary base is equal to the money supply.

49. The federal government implements a 10% income tax cut. In the short run, economists would expect the

    a. short-run aggregate supply curve to shift left
    b. short-run aggregate demand curve to shift right
    c. aggregate demand curve to shift left
    d. aggregate demand curve to shift right
    e. long-run aggregate demand curve to shift right

50. What happens when a supply shock causes a recession?

    a. Long-run aggregate supply shifts right until output equals potential
    b. Short-run aggregate supply shifts left until output equals potential
    c. Short-run aggregate supply shifts right until output equals potential.
    d. Long-run aggregate supply shifts right until output equals potential
    e. Aggregate demand shifts left until output equals potential