

NANYANG TECHNOLOGICAL UNIVERSITY

HE2002 MACROECONOMICS II

SEMESTER 2 AY 2022/2023

QUIZ 1 - Version 04

Student's Name Matriculation Number
(Family Name) (Given Name)

Tutor's Name Tutorial Group & Time

INSTRUCTIONS TO STUDENTS

- This Quiz paper consists of **Five (5) pages** including the cover page.
 - Quiz duration is 60 minutes.
 - This paper consists of 25 multiple-choice questions.
 - Each correct answer is worth 1 mark.
 - Give only ONE answer per question.
 - Choosing more than one answer will invalidate all answers to the question.
 - The quiz paper must be submitted intact.
 - Paper with missing pages will not be marked and will be deemed as zero.
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Questions 12, 13, 22, and 24 are related to materials in Chapter 9 "From the Short to the Medium Run: The IS-LM-PC Model". This chapter is not covered in the first half of the semester in AY2023/2024. You can skip these four questions when you prepare for Quiz 1 in AY2023/2024.

- 1) When risk premium x decreases
 - A) LM curve shifts downward.
 - B) IS curve shifts to the left.
 - C) LM curve shifts upward.
 - D) IS curve shifts to the right.
- 2) We would expect which of the following to occur when the central bank pursues expansionary monetary policy (not in liquidity trap)?
 - A) an increase in bond prices and an increase in the interest rate (i)
 - B) a reduction in bond prices and an increase in i
 - C) an increase in bond prices and a reduction in i
 - D) a reduction in bond prices and a reduction in i
 - E) none of these
- 3) An increase in the reserve deposit ratio, θ , will most likely have which of the following effects?
 - A) a rightward shift in the IS curve
 - B) a leftward shift in the IS curve
 - C) an upward shift in the LM curve
 - D) a downward shift in the LM curve
- 4) As fiscal consolidation takes place, to avoid recession, the central bank should
 - A) decrease money supply.
 - B) increase inflation rate.
 - C) increase the policy rate.
 - D) decrease the policy rate.
- 5) Which of the following will *not* cause an *increase* in the natural rate of unemployment?
 - A) an increase in z
 - B) an increase in the expected inflation rate
 - C) an increase in m
 - D) none of these
- 6) Which of the following will tend to occur as a result of a reduction in the proportion of a country's workers who have indexed wages?
 - A) the inflation rate will be relatively low.
 - B) the unemployment rate will be relatively low.
 - C) a given change in the unemployment rate will cause a relatively smaller change in the inflation rate.
 - D) the unemployment rate will be relatively high.
 - E) none of these

- 7) Suppose there is a simultaneous central bank sale of bonds and tax increase. We know with certainty that this combination of policies must cause
- A) no change in the interest rate (i).
 - B) a reduction in i .
 - C) an increase in output (Y).
 - D) a reduction in Y .
- 8) If $C = 2000 + .9Y_D$, what increase in government spending must occur for equilibrium output to increase by 1000?
- A) 500
 - B) 1000
 - C) 250
 - D) 200
 - E) 100
- 9) An increase in the minimum wage will tend to cause which of the following?
- A) an upward shift in the WS curve
 - B) a downward shift in the WS curve
 - C) an upward shift in the PS curve
 - D) a downward shift in the PS curve
 - E) none of these
- 10) Assume that investment does *not* depend on the interest rate. A reduction in the money supply will cause which of the following for this economy?
- A) a reduction in investment
 - B) an increase in investment
 - C) no change in the interest rate
 - D) no change in output
- 11) Suppose a one-year discount bond offers to pay \$1000 in one year and currently has a 15% interest rate. Given this information, we know that the bond's price must be
- A) \$1150.
 - B) \$850.
 - C) \$869.56.
 - D) \$950.
 - E) none of these
- ~~12) Okun's law shows that when the unemployment rate is above the natural rate,~~
- ~~A) inflation is lower than expected.~~
 - ~~B) output is below potential.~~
 - ~~C) inflation is higher than expected.~~
 - ~~D) output is above potential.~~
- ~~13) For this question, assume that the economy is initially operating at the natural level of output. A reduction in consumer confidence will cause~~
- ~~A) no change in the real wage in the medium run.~~
 - ~~B) ambiguous effects on the real wage in the medium run.~~
 - ~~C) an increase in the real wage in the medium run.~~
 - ~~D) a reduction in the real wage in the medium run.~~

- 14) When the unemployment rate is low, we would expect that
- A) the probability an unemployed individual will find another job is low.
 - B) the separation rate will increase.
 - C) the probability of losing a job is low.
 - D) the probability of losing a job is high.
- 15) Let: (1) P_t be the price of one unit of a market basket of goods (i.e., a composite commodity) in year t ; (2) P_t^e be the expected price of one unit of a market basket of goods in year $t + 1$; (3) π_t^e be the expected rate of inflation between period t and $t + 1$; and (4) i_t be the one-year nominal interest rate. Suppose an individual borrows the equivalent of one unit of a composite commodity today. Given this information, which of the following expressions represents (i.e., is equal to) the real interest rate (r_t)?
- A) $\{(1 + \pi_t^e)/(1 + i_t)\} - 1$
 - B) $(1 + \pi_t^e)/(1 + i_t)$
 - C) $(1 + i_t)(P_t^e/P_t)$
 - D) $\{(1 + i_t)(P_t/P_t^e)\} - 1$
 - E) none of these
- 16) Based on our understanding of the model presented in Lecture 1, we know with certainty that an equal and simultaneous reduction in G and T will cause
- A) an increase in output.
 - B) a reduction in output.
 - C) an increase in investment.
 - D) no change in output.
- 17) For this question, assume that $Y = N$. Based on our understanding of the labor market model presented in Chapter 7, we know that an increase in the minimum wage will cause
- A) a reduction in the natural level of output.
 - B) an increase in the natural level of employment.
 - C) an increase in the natural level of output.
 - D) no change in the natural level of output.
- 18) Suppose policy makers decide to reduce taxes. This fiscal policy action will cause which of the following to occur?
- A) The LM curve shifts and the economy moves along the IS curve.
 - B) The IS curve shifts and the economy moves along the LM curve.
 - C) Both the IS and LM curves shift.
 - D) Neither the IS nor the LM curve shifts.
 - E) Output will change causing a change in money demand and a shift of the LM curve.
- 19) Suppose that the nominal interest rate and expected inflation both decrease by 2%. Given this information, we would expect which of the following to occur?
- A) an increase in the real interest rate
 - B) an increase in money demand
 - C) a reduction in investment
 - D) a reduction in the real interest rate
 - E) an increase in the real interest rate and a reduction in investment

- 20) Which of the following occurs as the economy moves rightward along a given IS curve?
- A) An increase in government spending causes a reduction in demand for goods.
 - B) A reduction in the interest rate causes investment spending to decrease.
 - C) A reduction in taxes causes a reduction in demand for goods.
 - D) A reduction in the interest rate causes a reduction in the money supply.
 - E) A reduction in the interest rate causes money demand to increase.
- 21) An open market purchase of bonds by the central bank will cause which of the following when a liquidity trap situation exists?
- A) The interest rate will not change.
 - B) The interest rate will decrease.
 - C) Output will increase.
 - D) The money supply, M , will not change.
 - E) none of these
- ~~22) What is the major reason for oil price to go up in the 1970s?~~
- A) new energy
 - B) formation of the OPEC
 - C) higher demand from the US
 - D) fast of growth of emerging economies
- 23) Which of the following statements is *false*?
- A) A bank's assets are its uses of funds.
 - B) Bank capital is recorded as an asset on the bank balance sheet.
 - C) The bank's assets provide the bank with income.
 - D) A bank issues liabilities to acquire funds.
- ~~24) For this question, assume that the economy is initially operating at the natural level of output. An increase in unemployment benefits will cause~~
- A) a reduction in the real wage in the medium run.
 - B) an increase in the real wage in the medium run.
 - C) ambiguous effects on the real wage in the medium run.
 - D) no change in the real wage in the medium run.
- 25) The borrowing rate is
- A) a risk premium.
 - B) a nominal interest rate.
 - C) only determined by monetary policy.
 - D) the rate at which consumers and firms can borrow.

Answer Key
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- 1) D
- 2) C
- 3) C
- 4) D
- 5) B
- 6) C
- 7) D
- 8) E
- 9) A
- 10) D
- 11) C
- ~~12) B~~
- ~~13) A~~
- 14) C
- 15) D
- 16) B
- 17) A
- 18) B
- 19) B
- 20) E
- 21) A
- ~~22) B~~
- 23) B
- ~~24) D~~
- 25) D