CLEP Principles of Macroeconomics Practice Test

Time—90 Minutes 80 Questions	For each question below, choose the best answer from the choices given.

1. Which of the following would not lead to a shift in Canada's production possibilities curve?

(A) The introduction and use in Canada of new and advanced U.S. technology
(B) A substantial emigration of Canadian workers to the U.S.
(C) A prolonged summer drought in Canada's Prairie Provinces that destroys 18% of canada's wheat harvest
(D) A sharp increase in the number of Canadians earning advanced degrees in education, e.g., BA's, BS's, MD's and PhD's
(E) A change in the composition of Canada's output

2. The inflation rate is defined as

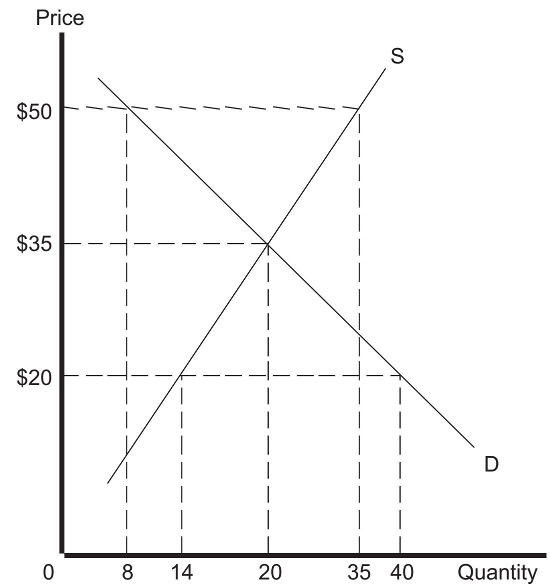
(A) the cost of inflation.
(B) the rate at which money is borrowed.
(C) the percentage change in the price level from the previous period.
(D) the percentage change in real output from the previous period.
(E) the percentage change in the interest rate from the previous period.

3. The basic factors involved in any economic decision are

(A) scarcity and choice.
(B) surpluses and shortages.
(C) market prices and the use of efficient production methods.
(D) the use of markets to produce goods and the use of government to allocate them among potential consumers.
(E) profits and losses.

4.

Exhibit C-13



If the price is $20,

(A) the market is in equilibrium.
(B) a shortage of 27 units will result.
(C) the price is above the equilibrium price.
(D) a surplus of 26 units will result.
(E) a shortage of 26 units will result.

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5.

	Bread	Coffee
Xenia	10	5
Zava	8	2

Suppose Xenia and Zava produce only bread and coffee with the production possibilities schedule shown above. Which statement is true?

(A) Zava has an absolute advantage in the production of both bread and coffee.
(B) Zava has an absolute advantage only in the production of bread.
(C) Xenia has an absolute advantage only in the production of bread.
(D) Xenia has an absolute advantage only in the production of coffee.
(E) Xenia has an absolute advantage in the production of both products.

6. Disposable personal income is

(A) the income that households have left after paying taxes and non-tax payments to the government.
(B) the income that households have left after paying taxes and putting money into savings.
(C) the income that households and businesses have left after paying taxes and non-tax payments to the government.
(D) the income that businesses have left after paying taxes and non-tax payments to the government.
(E) the income that households and noncorporate businesses have left after paying taxes and non-tax payments to the government.

7. Use the table below to choose the correct answer. This table is a schedule of the supply and demand for ground hamburger meat given in thousands of pounds per month.

Price per Pound	Quantity Demanded	Quantity Supplied
$0.50	16	1
$1.00	13	3
$1.50	10	5
$2.00	7	7
$2.50	4	9
$3.00	1	11

The equilibrium market price of ground hamburger meat in this table is

(A) $1 per pound.
(B) $1.50 per pound.
(C) $2 per pound.
(D) $2.50 per pound.
(E) $3 per pound.

8. A cold spell in Florida extensively reduced the orange crop, and, as a result, California oranges commanded a higher price. Which of the following statements best explains the situation?

(A) The supply of Florida oranges fell, causing both the supply and price of California oranges to increase.
(B) The supply of Florida oranges fell, causing the supply of California oranges to decrease and their price to increase.
(C) The supply of Florida oranges fell, causing their price, and the demand for California oranges, to increase.
(D) The demand for Florida oranges was reduced by the cold spell, causing an increase in the price of California oranges and a greater demand for them.
(E) The demand for Florida oranges was reduced by the cold spell, causing a decrease in the price and demand for California oranges.

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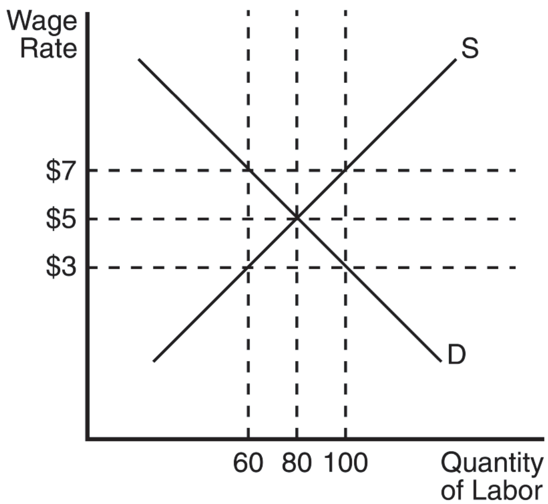

Which of the following is incorrect? If the minimum wage started at $5 and

(A) fell to $3, there would be no affect on the unemployment rate in this market.
(B) fell to $3, there would be 60 workers employed in this market.
(C) remained at $5, there would be a surplus of workers.
(D) rose to $7, there would be a surplus of workers.
(E) rose to $7, unemployment would rise by 20 workers.

10. The Necco candy factory in Cambridge, Massachusetts found that it had produced 100,000 more rolls of Neccos in 1980 than it sold during that year. The value of those 100,000 rolls

(A) would be written off as a loss; hence, would not be included as part of the 1980 GDP.
(B) would be included as part of GDP during the year in which the rolls of Neccos were finally sold.
(C) would be included during 1980 as final goods and services sold.
(D) would be included as part of the1980 GDP in the category of inventory investment.
(E) would not be included in any year or claimed as a loss.

11. Scarcity

(A) is a problem only in the poorer countries of the world.
(B) would disappear if resources were less limited.
(C) can be solved by rapid advances in technology.
(D) is a problem that exists in every economy.
(E) is not a problem for the very rich.

12. The government reports that GDP "increased by 2 percent in the last quarter." This means that

(A) GDP increased by 8 percent for the year.
(B) GDP increased at an annual rate of 8 percent during the last quarter.
(C) GDP increased at an annual rate of 2 percent during the last quarter.
(D) GDP increased at an annual rate of .5 percent during the last quarter.
(E) GDP increased at an annual rate of 4 percent during the last quarter.

13. Cyclical unemployment refers to

(A) the relation between unemployment and a worker's changing level of experience.
(B) year-to-year fluctuations of unemployment around its natural rate.
(C) long-term trends in unemployment.
(D) short-term changes in employment, such as a need for more worker-training.
(E) unemployment due to the inability of workers to relocate.

14. A college student who is not working or looking for a job is considered

(A) unemployed and in the labor force.
(B) unemployed and not in the labor force.
(C) employed and in the labor force.
(D) a discouraged worker.
(E) neither employed nor unemployed nor part of the labor force.

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15. Real GDP

(A) evaluates current production at the prices that prevailed in some specific year in the past.
(B) evaluates current production at current prices.
(C) is not a valid measure of the economy's performance because prices change from year to year.
(D) is not a valid measure of the economy's performance because quantities change from year to year.
(E) is a measure of the value of only goods and hence excludes the value of services.

16. If nominal GDP is $10 trillion and real GDP is $8 trillion, the GDP deflator is

(A) 0.8
(B) 80
(C) 1.35
(D) 135
(E) 125

17. The opportunity cost of any good or service is the

(A) actual dollar cost of the good or service.
(B) highest price that a seller can get for the good or service.
(C) value of the next best alternative.
(D) cost associated with a value judgment.
(E) cost of labor used producing the good or service.

18. The price index in 2001 is 120. In 2002, it is 126. What is the inflation rate?

(A) 5 percent
(B) 6 percent
(C) 20 percent
(D) 26 percent
(E) The inflation rate is impossible to determine without knowing the base year.

19. Because the CPI is based on a fixed basket of goods, the substitution bias causes the index to

(A) overstate the increase in the cost of living from one year to the next.
(B) ignore any increase in the cost of living from one year to the next.
(C) understate the increase in the cost of living from one year to the next.
(D) sometimes understate, and sometimes overstate the increase in the cost of living from one year to the next.
(E) The substitution bias affects output and the GDP deflator but not the CPI.

20. Which of the following is the most accurate statement about the relationship between the nominal interest rate and the real interest rate?

(A) The real interest rate is the nominal interest rate times the rate of inflation.
(B) The real interest rate is the nominal interest rate minus the rate of inflation.
(C) The real interest rate is the nominal interest rate plus the rate of inflation.
(D) The real interest rate divided by the nominal interest rate is the rate of inflation.
(E) The nominal interest rate divided by the real interest rate is the rate of inflation.

21. The amount of goods and services produced during each hour of a worker's time is called

(A) per capita GDP.
(B) per capita GNP.
(C) the standard of production.
(D) productivity.
(E) per capita income.

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22. An unexpected shift to a more expansionary monetary policy will generally

(A) stimulate aggregate demand and real output immediately.
(B) exert its primary impact on aggregate demand and real output 6 to 15 months in the future.
(C) cause inflation in the short run, but expand real output in the long run.
(D) cause inflation in the short run, but leave real output unaffected.
(E) increase real interest rates in the short run.

23. A decrease in the price level

(A) causes real wealth to rise, people to lend more, interest rates to rise, and the dollar to appreciate.
(B) causes real wealth to rise, people to lend more, interest rates to fall, and the dollar to depreciate.
(C) causes real wealth to fall, people to lend less, interest rates to fall, and the dollar to depreciate.
(D) causes real wealth to fall, people to lend less, interest rates to rise, and the dollar to depreciate.
(E) does not affect real wealth.

24. The aggregate supply curve is vertical

(A) in the medium term only.
(B) in neither the short nor long term.
(C) in the short and long term.
(D) in the short term, but not the long term.
(E) in the long term, but not the short term.

25. The long run aggregate supply curve shifts left if

(A) immigration from abroad increases.
(B) Congress raises the minimum wage substantially.
(C) unemployment insurance benefits fall and discourage long job searches.
(D) the price level increases.
(E) the price of oil decreases.

26. Assume the following scenario: (1) the economy is at Y = $900 billion, which is not the equilibrium level of national income; (2) autonomous consumption = $60 billion and MPC = 0.8; and (3) the producers in the economy have decided that of the $900 billion of goods they produced, $100 billion is intended for investment. Consumers save

(A) –$100 billion
(B) nothing
(C) $100 billion
(D) $120 billion
(E) $440 billion

27. An increase in the expected price level

(A) shifts short-run aggregate supply to the right while an increase in the actual price level shifts short-run aggregate supply to the right.
(B) shifts short-run aggregate supply to the right while an increase in the actual price level does not shift short-run aggregate supply.
(C) shifts short-run aggregate supply to the left while an increase in the actual price level shifts short-run aggregate supply to the left.
(D) shifts short-run aggregate supply to the left while an increase in the actual price level does not shift short-run aggregate supply.
(E) does not affect the short-run aggregate supply curve but shifts the long-run aggregate supply curve to the right.

28. Suppose that there has been bad weather, a decrease in the availability of oil or some other temporary increase in firms' costs. As the economy moves from short-run to long-run equilibrium

(A) prices and output rise.
(B) prices and output fall.
(C) prices rise and output falls.
(D) prices fall and output rises.
(E) prices fall but output is unaffected, as the economy is at its potential output.

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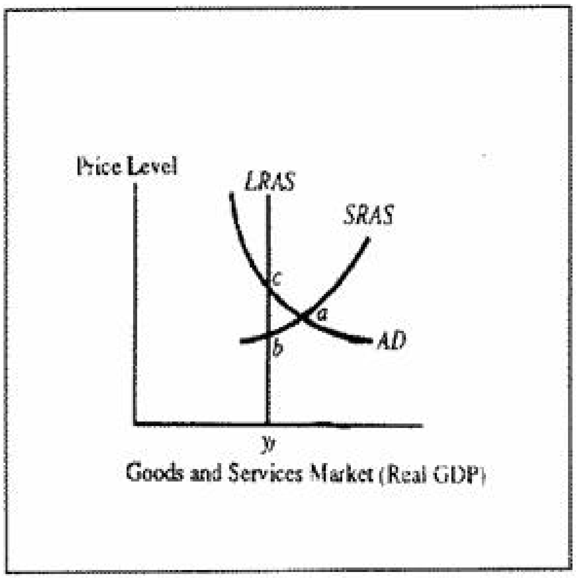
29.



If an economy operates in the short run at point a, restrictive fiscal policy will

(A) increase AD and move the economy toward point *c*.
(B) decrease AD and move the economy toward point *b*.
(C) increase SRAS and move the economy toward point *b*.
(D) decrease SRAS and move the economy toward point *c*.
(E) increase LRAS and move the economy toward point *a*.

30. When saving leaks out of the circular flow of income and spending,

(A) total income necessarily falls.
(B) it leaks out of the financial system.
(C) it flows to borrowers.
(D) it increases the size of the spending flow.
(E) it decreases the size of the spending flow.

31. In 1963, government economists assumed that the MPC for the United States was approximately 0.90. If taxes were cut by $9 billion, consumer expenditures would be expected to

(A) stay the same.
(B) decrease by $9 billion.
(C) decrease by $8.1 billion.
(D) increase by $9 billion.
(E) increase by $8.1 billion.

32. Fiscal policy consists of

(A) taxes and interest rates.
(B) government purchases and defense spending.
(C) the money supply and taxes.
(D) taxes and government spending.
(E) defense spending and interest rates.

33. If businesses spend an additional $150 billion for investment projects in 2001, what will be the impact on national income (Y) if the multiplier is 2?

(A) Y will increase by $50 billion.
(B) Y will increase by $150 billion.
(C) Y will increase by $200 billion
(D) Y will increase by $250 billion.
(E) Y will increase by $300 billion.

34. Keynesian analysis stresses that a tax cut that increases the government's budget deficit (or reduces its budget surplus)

(A) is appropriate during a period of inflation.
(B) will decrease the money supply and thereby promote employment.
(C) will stimulate aggregate supply and thereby promote employment.
(D) will stimulate aggregate demand and thereby promote employment.
(E) will increase the money supply and thereby promote employment.

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35. The crowding-out effect suggests that

(A) restrictive fiscal policy is an effective weapon against inflation.
(B) expansionary fiscal policy is a highly effective weapon for fighting a recessionary downturn.
(C) a budget surplus will cause the demand for loanable funds to decline, interest rates to rise, and aggregate demand to decrease.
(D) budget deficits that lead to higher interest rates reduce private investment spending.
(E) contractionary fiscal policy will effectively slow down an overheated economy.

36. Kelly sells life insurance and is considering buying a $50,000 Mercedes for business purposes (the expense will reduce her taxable income). If Kelly is in the 40 percent marginal tax bracket, how much after-tax income will she have to forgo in order to enjoy the Mercedes?

(A) $20,000
(B) $30,000
(C) $40,000
(D) $50,000
(E) $60,000

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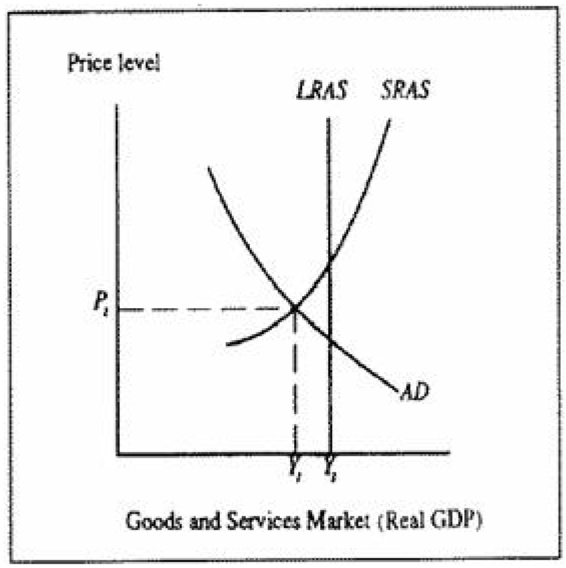

If the output of the economy is Y_1, which of the following would a Keynesian economist be most likely to favor?

(A) A reduction in government expenditures
(B) An increase in government expenditures
(C) An increase in taxes
(D) Allowing the economy to self-correct
(E) A continuation of the current tax and expenditure policies

38. Money demand

(A) varies inversely with prices and output.
(B) varies inversely with prices and directly with output.
(C) varies directly with prices and inversely with output.
(D) varies directly with prices and output.
(E) does not vary with either prices or output.

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39. Human capital is

(A) the stock of equipment and structures used to produce goods and services.
(B) the knowledge and skills that workers acquire through education, training, and experience.
(C) land, rivers, and mineral deposits.
(D) technological knowledge.
(E) the worker's output in producing goods and services.

40. If C = \$4,000 + 0.8(Y) and the expected equilibrium level of national income is \$40,000, the intended investment will be

(A) 1,000
(B) 36,000
(C) –1,000
(D) 44,000
(E) 4,000

41. Assume the following scenario: (1) the economy is at Y = \$900 billion, which is not the equilibrium level of national income; (2) autonomous consumption = \$60 billion and MPC = 0.8; and (3) the producers in the economy have decided that of the \$900 billion of goods they produced, \$100 billion is intended for investment. Consumption spending is

(A) \$100 billion
(B) \$160 billion
(C) \$740 billion
(D) \$780 billion
(E) \$800 billion

42. The aggregate demand curve slopes

(A) upward because higher prices cause people to increase their production.
(B) upward because higher prices cause real wealth to increase and interest rates to decrease.
(C) downward because higher prices cause people to substitute toward less expensive domestic goods.
(D) downward because higher prices cause real wealth to decrease and interest rates to increase.
(E) downward because higher prices cause real wealth to increase and interest rates to fall.

43. A decrease in the money supply

(A) lowers the interest rate, causing a decrease in investment and a decrease in GDP.
(B) lowers the interest rate, causing a decrease in investment and an increase in GDP.
(C) raises the interest rate, causing an increase in investment and a decrease in GDP.
(D) raises the interest rate, causing an increase in investment and an increase in GDP.
(E) raises the interest rate, causing a decrease in investment and a decrease in GDP.

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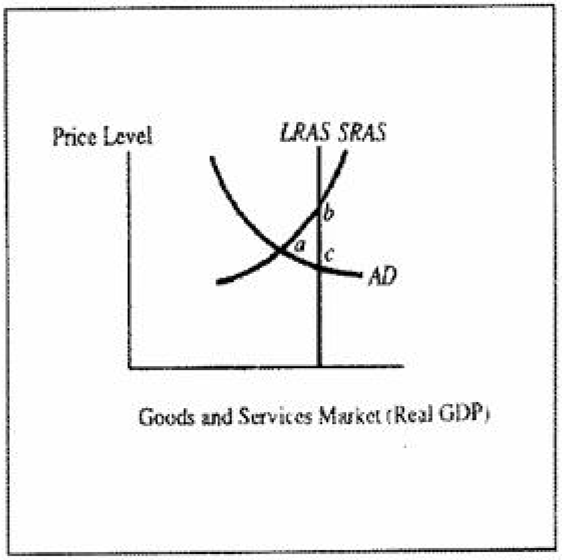


Which of the following will most likely be favored by a new classical economist if the economy is operating at point *a*?

(A) A tax increase to balance the budget
(B) A restrictive fiscal policy
(C) An expansionary fiscal policy
(D) A tax decrease to put more funds in the hands of tax payers
(E) A continuation of the current tax and expenditure policies (dependence on the economy's self-correcting mechanism to restore full employment)

45. Because of a recession in Japan, net exports from the United States decrease by $10 billion. If the MPC is 0.75, how much less spending will occur in the U.S. economy in the second "round" of spending?

(A) $17.5 billion
(B) $10 billion
(C) $7.5 billion
(D) $5.0 billion
(E) $1 billion

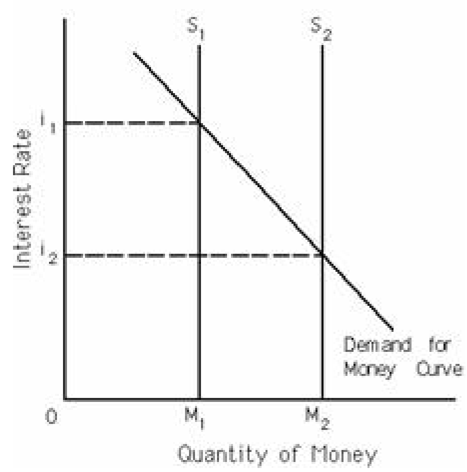
46. If everything else is constant, a decrease in nominal GDP will generally

(A) increase the demand for money.
(B) decrease the demand for money.
(C) increase the nominal interest rate.
(D) decrease the money supply.
(E) increase the money supply.

47. Which one of the following factors would reduce the quantity of money balances that households would want to hold?

(A) higher prices
(B) a rise in inflation
(C) higher nominal interest rates
(D) an expansion in nominal income (nominal GDP)
(E) an increase in the money supply

48.



A(n)__________ in the money supply from S_1 to S_2 would have a tendency to __________ the amount of investment, assuming investment is sensitive to changes in the interest rate.

(A) decrease, raise
(B) decrease, lower
(C) increase, raise
(D) increase, lower
(E) increase, barely lower

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49. Fiat money

(A) performs all the functions of money except providing a medium of exchange.
(B) is worthless.
(C) has no intrinsic value.
(D) may not be used as legal tender.
(E) Cannot be used in the repayment of debt.

50. The agency responsible for regulating the money supply in the United States is

(A) the Comptroller of the Currency.
(B) the U.S. Treasury.
(C) the Federal Reserve.
(D) the U.S. Bank.
(E) Congress.

51. Which list contains only actions that increase the money supply?

(A) Raise the discount rate, raise the reserve requirement ratio
(B) Raise the discount rate, make open market purchases
(C) Lower the discount rate, make open market sales
(D) Raise the discount rate, lower the reserve requirement ratio
(E) Lower the discount rate, lower the reserve requirement ratio

52. To increase the money supply, the Federal Reserve could

(A) sell government bonds.
(B) decrease the discount rate.
(C) increase the reserve requirement.
(D) increase margin requirements.
(E) use moral suasion.

53. The interest rate the Federal Reserve charges on loans it makes to banks is called

(A) the prime rate.
(B) the federal funds rate.
(C) the reserve ratio.
(D) the discount rate.
(E) the money market rate.

54. If the reserve ratio is 20 percent, $1,000 of excess reserves can create

(A) $1,250 of new money.
(B) $5,000 of new money.
(C) $10,000 of new money.
(D) $12,500 of new money.
(E) $50,000 of new money.

55. Last Bank of Hope

Assets	**Liabilities**	
Reserves	$2,500	Deposits $10,000
Loans	$7,500	

If the reserve requirement is 10 percent, this bank

(A) is holding excess reserves of $1,000.
(B) is in a position to make a new loan of $1,500.
(C) has total reserves of $10,000.
(D) has fewer reserves than required.
(E) has too many loans.

56. The Federal Reserve System

(A) was created by and is owned by the government.
(B) pursues independent fiscal policy at the behest of Congress.
(C) monitors prices but does not have the authority to act to curb inflation.
(D) pursues an independent monetary policy that can conflict with the government's economic policy.
(E) only acts to lower taxes and increase spending when there are recessionary tendencies in the economy.

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57. Suppose government expenditures = $1,400, taxes are a flat 18 percent of GDP, GDP = $6,200, and full-employment GDP = $7,000. What is the cyclical deficit?

(A) $1,260
(B) $284
(C) $144
(D) $140
(E) $116

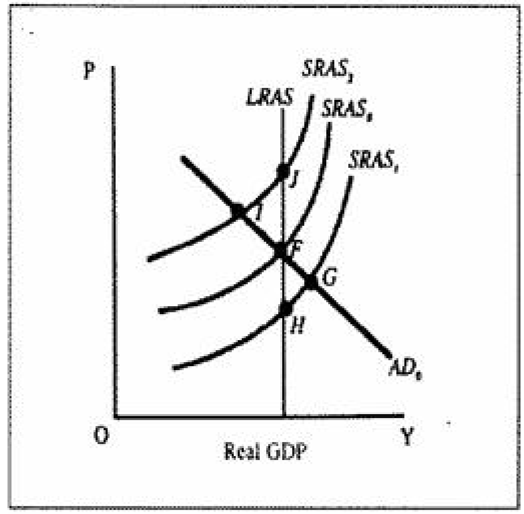
58. Economists observed the following growth rates in the fourth quarter of 1995: real GDP = 2.8 percent; M1 = 7.8 percent; GDP Deflator = 2.2 percent. Given this data, the growth of velocity was

(A) –7.8 percent
(B) –5.0 percent.
(C) –2.8 percent.
(D) –2.2 percent.
(E) –2.0 percent.

59. A budget surplus exists when

(A) tax receipts < government expenditures + transfers.
(B) tax receipts > government expenditures + transfers.
(C) government expenditures – transfers > tax receipts.
(D) government expenditures > transfers + tax receipts.
(E) government expenditures < transfers + tax receipts.

60.



Starting from long-run equilibrium at point F, at which of the following points would short-run equilibrium occur following an unexpected oil price increase?

(A) I
(B) F
(C) G
(D) H
(E) J

61. The hands-off view of the classical school rests on which of the following two simple propositions about markets?

(A) Demand creates its own supply and markets are basically competitive.
(B) Industrial policy is inevitable and all prices are flexible.
(C) Market failure occurs and prices are rigid.
(D) Wages are sticky downward and market failure is inevitable.
(E) Markets are basically competitive and prices are flexible.

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62. Keynesian economics

(A) affirms the classical economists' basic premise concerning competitive markets.
(B) believes that monopolies and unions tend to be permanent fixtures in our economy and the prices they create tend to be flexible, at least downward.
(C) emphasizes that an economy can never be in equilibrium at less than full employment.
(D) prefers to emphasize aggregate supply over aggregate demand.
(E) believes that unemployment results when aggregate demand is insufficient to reach a full employment level of real GDP.

63. Within the AD/AS model, if consumers suddenly increase their savings and cut back on spending, the

(A) natural rate of unemployment will increase.
(B) real interest rate will decrease and thereby cushion the reduction in consumption spending.
(C) real interest rate will increase because of the higher rate of saving.
(D) long run aggregate supply will decrease to restore equilibrium.
(E) aggregate demand will increase as consumers save more.

64. For an oil-importing country such as the United States, the immediate effect of a supply shock caused by an increase in the price of imported oil would tend to be a(n)

(A) increase in real output and a decrease in the general level of prices.
(B) decrease in real output and an increase in the general level of prices.
(C) decrease in both the general level of prices and real output.
(D) increase in both the general level of prices and real output.
(E) increase in real output and unemployment and an increase in the general level of prices.

65. If the long-run equilibrium of an economy is disrupted by an unanticipated increase in aggregate demand (such as might result from unexpectedly strong demand for exports due to the rapid growth of incomes abroad),

(A) the price of resources will decrease.
(B) the natural rate of unemployment will decrease.
(C) actual unemployment will temporarily fall below the natural rate.
(D) prices will decrease.
(E) the level of potential output will increase.

66. A major tax revision occurred in the 1980s. Between 1981 and 1986, the top marginal tax rate for the federal personal income tax

(A) decreased from 70 percent to 20 percent.
(B) increased from 50 percent to 75 percent.
(C) decreased from 70 percent to 31 percent.
(D) increased from 31 percent to 50 percent.
(E) decreased from 50 percent to 15 percent.

67. If both real GDP and velocity increase at a rate of 2 percent per year, then monetary rule advocates who wish to maintain a stable price level would set the money supply growth rate at

(A) –2 percent.
(B) 0 percent.
(C) 2 percent.
(D) 4 percent.
(E) 6 percent.

68. In the long run, fiscal policy primarily affects

(A) saving, investment, and growth. In the short run it affects primarily aggregate demand.
(B) aggregate demand. In the short run it affects primarily aggregate supply.
(C) aggregate supply. In the short run it affects primarily saving, investment and growth.
(D) saving, investment, and real growth. In the short run it affects primarily aggregate supply.
(E) prices and wages. In the short run it affects primarily aggregate supply.

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69. All else equal, if fiscal policy is expansionary which of the following is the correct monetary policy to follow?

(A) No change from the current policy
(B) Reduce the growth of the money supply
(C) Constant growth of the money supply
(D) Increase the growth of the money supply
(E) Decrease interest rates

70. During recessions, automatic stabilizers tend to make the government's budget

(A) move toward deficit.
(B) move toward surplus.
(C) move toward balance.
(D) move toward a deficit in the short run but a surplus in the long run.
(E) move toward a deficit in the long run but a surplus in the short run.

71. Classical economists or modern day monetarists would suggest that the Federal Reserve should

(A) always lower the discount rate in order to combat recessions.
(B) increase the reserve requirement to reduce the threat of inflation.
(C) set the rate of increase in the money supply to be approximately equal to the economy's long run full-employment rate of growth.
(D) set the rate of increase in the money supply to be approximately equal to the discount rate.
(E) use its tools, such as raising the discount rate, increasing the reserve requirement, and selling securities, to bring inflation down to 0 percent.

72. Countercyclical policy was relatively uncomplicated for Keynesian economists. It simply required that

(A) during a recession, the government runs budget surpluses and the Federal Reserve expands the money supply. During prosperity, the government runs budget deficits and the Federal Reserve contracts the money supply.
(B) during a recession, the government runs budget surpluses and the Federal Reserve contracts the money supply. During prosperity, the government runs budget deficits and the Federal Reserve expands the money supply.
(C) during a recession, the government runs budget deficits and the Federal Reserve expands the money supply. During prosperity, the government runs budget surpluses and the Federal Reserve contracts the money supply.
(D) during recession, the government runs budget deficits and the Federal Reserve contracts the money supply. During prosperity, government runs budget surpluses and the Federal Reserve expands the money supply.
(E) during a recession, the government runs budget deficits and during prosperity, the government runs budget surpluses. The Federal Reserve should not get involved with expanding or contracting the money supply according to Keynesians.

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73. According to rational expectations,

(A) every day is a new day and yesterday's occurrences have no bearing on today's decisions.
(B) when making decisions, a person will consider only information based on past experience.
(C) even though a person considers information related to future events as potentially important for decision making, he realizes that such information is unreliable and worthless.
(D) past experience is a good guide for decision making, but so is information related to possible future outcomes.
(E) in the long run, we are all dead.

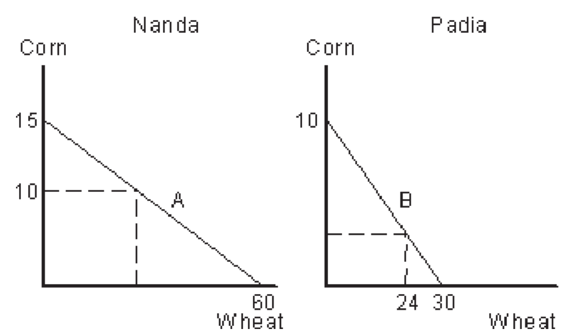
74. The effect of a tariff or a quota is to

(A) raise the price of a commodity in the exporting country above the price in an importing country.
(B) raise the price of a commodity in an importing country above the price in the exporting country.
(C) lower the price of the commodity in all countries.
(D) raise the price of the commodity in all countries.
(E) raise the amount of a good coming into the importing country.

75. In winter, Europeans and Americans flock to Switzerland to ski. We would expect to see the Swiss franc

(A) depreciate because there is an increase in the demand for Swiss goods and services, which means an increase in the demand for Swiss francs.
(B) appreciate because there is an increase in the demand for Swiss goods and services, which means a decrease in the demand for Swiss francs.
(C) remain fixed because the demand for Swiss goods and services is counterbalanced by the supply of Swiss goods and services.
(D) appreciate because there is an increase in the demand for Swiss goods and services, which would create an increase in the demand for Swiss francs.
(E) restored to equilibrium because the summer months see Swiss tourists in Europe and the U.S.

76.



These graphs depict the production possibilities curves of wheat and corn for Nanda and Padia. In Nanda, the opportunity cost of producing a unit of wheat is

(A) 4 units of corn.
(B) 4 units of wheat.
(C) 1/4 unit of corn.
(D) 15 units of corn.
(E) 60 units of corn.

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77. The main problem with accepting the national security argument as a valid reason to restrict international trade is that

(A) other countries could have produced the goods more efficiently.
(B) almost all industries could be described as being vital to national security.
(C) technology secrets are difficult to keep from other countries in this age of computer information.
(D) it will become too expensive to produce national security goods within the country.
(E) in reality, tariffs are impossible to enforce effectively because of the black market.

78. Having a comparative advantage in the production of a good implies that a country

(A) should specialize in the production of that good.
(B) is able to produce the good with fewer resources than another country.
(C) should not specialize in the production of that good.
(D) also has the absolute advantage in the production of that good.
(E) cannot have an absolute advantage in the production of that good.

79. Imagine a $2,000 investment that raises the economy's capital stock from $20,000 to $22,000. It changes the capital-labor ratio from $200 to $220. Economists refer to such increases in the capital-labor ratio as

(A) capital deepening.
(B) capital accretion.
(C) capital productivity.
(D) capital-labor output shocks.
(E) capital stockpiling.

80. Which of the following changes in the exchange rate represents an appreciation of the dollar?

(A) 100 yen = $1 to 90 yen = $1
(B) 1 yen = $.10 to 1 yen = $.08
(C) 1 lira = $3 to 1 lira = $4
(D) $1 = 25 marks to $1 = 20 marks
(E) 200 francs = $10 to 190 francs = $10

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