

# Economics

**1. Fiscal policy refers to the government's decisions about:**

- A. taxation only.
- B. taxation and spending only.
- C. taxation, spending, and the quantity of money in the economy.

**2. Under which of the following market structures is product differentiation most important?**

- A. Monopoly
- B. Perfect competition
- C. Monopolistic competition

**3. Which of the following economic policies is most likely directed toward influencing the quantity of credit in an economy?**

- A. Fiscal policy only
- B. Monetary policy only
- C. Both fiscal policy and monetary policy

**4. An analyst gathers the following information:**

- USD/AUD spot rate                   **0.8027**
- AUD 1-year interest rate             **3.30%**
- USD 1-year interest rate             **2.42%**

**USD/AUD is the amount of USD per 1 AUD.**

**The USD/AUD 1-year forward rate is closest to:**

- A. 0.7959.
- B. 0.8096.
- C. 0.8292.

**5. With respect to fiscal policy, transfer payments are best described as:**

- A. welfare payments.
- B. infrastructure spending.
- C. spending on recurring goods and services.

**6. Which of the following economic conditions for a country best supports a well-functioning currency board exchange rate system?**

- A. Flexible domestic prices and wages
- B. Rapid growth in supply of the global reserve asset
- C. Large non-traded sectors of the domestic economy

**7. Which of the following indexes is most likely considered a leading economic indicator?**

- A. Consumer price index
- B. Broad stock market index
- C. Industrial production index

**8. Independence, credibility, and transparency are most likely.**

- A. key objectives of fiscal policy.
- B. properties of the monetary transmission mechanism.
- C. qualities that determine the success of an inflation-targeting central bank.

**9. With respect to geopolitics, setting standards for the size and shape of containers used for shipping is most likely an example of:**

- A. regulatory cooperation.
- B. process standardization.
- C. operational synchronization.

**10. A nation that cooperates with a neighboring country is most likely characterized as:**

- A. autarkic.
- B. bilateral.
- C. hegemonic.

**11. The inflation target of an effective central bank is most likely the risk of deflation.**

- A. equal to zero to avoid
- B. sufficiently below zero to maintain high credibility. a significant degree of price stability.
- C. low enough to ensure

**12. Under which of the following conditions is monetary policy most effective? When the:**

- A. demand for money is infinitely elastic.
- B. central bank targets an exchange rate.
- C. risk of inflation is greater than deflation.

**13. Cyber threats most likely fall into the category of**

- A. event risk.
- B. thematic risk.
- C. exogenous risk.

**14. Flat money:**

- A. is not currently used in any major economy.
- B. can be exchanged for a precious metal at the country's central bank.
- C. derives its value via government decree and because people accept it for payment.

**15. An objective of fiscal policy is to:**

- A. supervise the banking system.
- B. influence the quantity of credit in an economy.
- C. distribute income among different segments of the population.

**16. A decrease in taxes and an increase in interest rates most likely reflect:**

- A. easy fiscal policy and tight monetary policy.
- B. tight fiscal policy and easy monetary policy.
- C. tight fiscal policy and tight monetary policy.

**17. With respect to conventional monetary policy, combating inflation is most likely.**

- A. less difficult than combating deflation.
- B. equally difficult as combating deflation.
- C. more difficult than combating deflation.

**18. With respect to the foreign exchange market, an arbitrage relationship involving countries' relative interest rates**

**serves as the basis for:**

- A. real exchange rates.
- B. forward exchange rates.
- C. nominal exchange rates.

**19. Which of the following would most likely lead to an increase in globalization? A decrease in:**

- A. soft power.
- B. nationalism.
- C. standardization.

**20. Which of the following organizations was founded with the goal of assisting in the reconstruction of the international payment system?**

- A. The World Trade Organization
- B. The International Monetary Fund
- C. The International Bank for Reconstruction and Development

**21. Under which of the following market structures do firms have the least control over price?**

- A. Oligopoly
- B. Monopoly
- C. Monopolistic competition

**22. Assuming wages and prices are rigid, which of the following policy combinations most likely leads to the private sector increasing its share of GDP?**

- A. Easy fiscal policy and tight monetary policy
- B. Tight monetary policy and tight fiscal policy
- C. Tight fiscal policy and easy monetary policy

**23. Q. Which of the following changes most likely reflects a discretionary fiscal policy action?**

- A. A decrease in corporate tax revenues due to lower corporate profitability
- B. An increase in government expenditures due to new infrastructure projects
- C. An increase in payments of unemployment benefits due to increasing unemployment

**24. Each oligopoly firm faces an individual demand curve under:**

- A. colluding market conditions only.
- B. non-colluding market conditions only.
- C. both colluding and non-colluding market conditions.

**25. A decline in tax revenues due to a recession is best described as an example of a(n):**

- A. automatic stabilizer.
- B. expansionary fiscal policy.
- C. contractionary fiscal policy.

**26. According to the Cournot assumption, in an oligopoly market each firm determines its profit-maximizing production level by assuming that other firms will:**

- A. decrease output.
- B. not change output.
- C. increase output.

**27. The main objective of most central banks is to maintain:**

- A. price stability.
- B. gold reserves.
- C. an employment target.

**28. An analyst gathers the following information about a company:**

● Average variable cost per unit	\$12.50
● Selling price per unit	\$37.50
● Total fixed costs	\$900,000

**The minimum production level needed to continue operations over the long run is most likely.**

- A. 24,000 units.
- B. 36,000 units
- C. 72,000 units.

**29. The implementation of an export subsidy for a normal good produced in a small country will most likely increase the:**

- A. domestic consumption of the good.
- B. price of the good in the domestic market.
- C. national welfare of the country providing the subsidy.

**30. Under monopolistic competition, a firm's supply curve is represented by:**

- A. average cost.
- B. marginal cost.
- C. neither average cost nor marginal cost.

**31. During the slowdown phase of the business cycle:**

- A. inflation decelerates.
- B. business halts new orders.
- C. business slows its rate of hiring.

**32. The interest rate spread between 10-year treasury yields and overnight borrowing rates most likely.**

- A. is a lagging economic indicator.
- B. decreases when the market expects an economic downturn.
- C. increases as the market expects future short-term interest rates to decrease.

**33. Which of the following monetary policy actions is most likely considered expansionary? The central bank:**

- A. acts as the lender in a repurchase agreement
- B. sells government bonds to commercial banks.
- C. raises reserve requirements of commercial banks.

**34. Dollarization is best described as an exchange rate regime whereby a country:**

- A. uses the currency of another nation as its medium of exchange.
- B. participates in a monetary union whose members share the same legal tender.
- C. makes a commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate.

**35. Which of the following fiscal policy actions is most likely contractionary?**

- A. Increasing taxes and decreasing spending
- B. Decreasing taxes and increasing spending
- C. Decreasing taxes and decreasing spending

**36. A fiscal policy tool that can immediately influence spending is most likely.**

- A. indirect taxes.
- B. exchange rate targeting.
- C. capital expenditure plans.

**37. Which of the following is most likely a lagging economic indicator?**

- A. Inventory-sales ratio
- B. S&P 500 Stock Index
- C. Manufacturers' new orders for consumer goods and materials

**38. As an economy moves from the gold standard to a system of fiat currency, the role of the central bank most likely.**

- A. becomes less crucial.
- B. remains unchanged.
- C. becomes more crucial.

**39. Which of the following is most likely a coincident indicator of economic activity?**

- A. Average duration of unemployment
- B. Average weekly hours, manufacturing
- C. Employees on non-agricultural payrolls

**40. An analyst gathers the following foreign exchange rate information:**

	CAD/USD	JPY/USD
● Beginning of period	1.3216	105.42
● End of period	1.2944	104.74

CAD/USD is the amount of CAD per 1 USD.

JPY/USD is the amount of JPY per 1 USD.

The percentage change in the JPY/CAD cross-rate for the period is closest to:

- A. -2.7%.
- B. 1.4%.
- C. 2.8%

**41. An analyst gathers the following information about spot rates:**

● USD/GBP	1.2604
● USD/EUR	1.1786

USD/GBP is the amount of USD per 1 GBP.

USD/EUR is the amount of USD per 1 EUR.

The spot EUR/GBP cross rate is closest to:

- A. 0.9351.
- B. 1.0694.
- C. 1.4855.

**42. A perfectly competitive market structure:**

- A. is not possible in reality.
- B. causes all industries to ultimately fail due to lack of profits.
- C. drives company profits to the investors' required rate of return.

**43. In contrast to real exchange rates, nominal foreign exchange rates:**

- A. tend to deviate from purchasing power parity.
- B. represent the relative price levels in the domestic and foreign countries.
- C. are indexes useful for understanding international trade and capital flows.

**44. An argument against free trade is that:**

- A. it has the potential to lead to greater income inequality.
- B. it increases average production costs in goods and services.
- C. it discourages foreign research and development in an economy.

**45. An analyst gathers the following information:**

● Foreign inflation rate	2%
● Domestic inflation rate	3%
● Nominal appreciation of domestic currency against foreign currency	6%

**The real appreciation of the domestic currency against the foreign currency is closest to:**

- A. 4%.
- B. 5%.
- C. 7%.

**46. Price levels increase by 2% in the US and by 6% in the Eurozone. If the nominal spot exchange rate of the USD/EUR (amount of US dollars per 1 euro) decreases by 4%, the absolute change in the real exchange rate is closest to:**

- A. 0%.
- B. 4%.
- C. 8%.

**47. Which of the following market structures has high barriers to entry?**

- A. An oligopoly
- B. Perfect competition
- C. Monopolistic competition

**48. With respect to trading blocs, a common market most likely incorporates all aspects of a(n):**

- A. customs union.
- B. monetary union.
- C. economic union.

**49. All else being equal, in an efficient market a forward exchange rate will decrease as a result of an increase in the:**

- A. spot exchange rate.
- B. foreign risk-free interest rate.
- C. domestic risk-free interest rate.

**50. Which of the following indicators suggest(s) a monopoly market?**

- A. A concentration ratio of 100% only
- B. A Herfindahl-Hirschman index of zero only
- C. Both a concentration ratio of 100% and a Herfindahl-Hirschman index of zero

**51. When a country that is a price taker imposes a tariff on an imported good:**

- A. national welfare increases.
- B. consumers gain consumer surplus.
- C. local producers gain producer surplus.

**52. An ideal international currency regime would most likely have:**

- A. currencies that are fully convertible.
- B. floating exchange rates between currencies.
- C. a common monetary policy across different countries.

**53. In the short run, a firm most likely shuts down production when:**

- A. economic profit is zero.
- B. sunk costs are greater than total revenue.
- C. total revenue is less than total variable cost.

**54. If the spot USD/EUR exchange rate (the amount of USD per one EUR) is 1.1605 and the one-year forward rate is 1.17240, the forward points are:**

- A. +101.5.
- B. +102.5.
- C. +119.0.

**55. Under which of the following market structures are pricing strategies most likely influenced by the expected reaction of other firms?**

- A. Oligopoly
- B. Perfect competition
- C. Monopolistic competition

**56. The neutral policy rate is equal to:**

- A. long-run expected inflation.
- B. the real trend rate of growth of the underlying economy.
- C. long-run expected inflation plus the real trend rate of growth of the underlying economy.

**57. In long-run equilibrium, the perfectly competitive firm's supply curve is best represented by the firm's long-run:**

- A. marginal cost schedule.
- B. average revenue schedule.
- C. marginal revenue schedule.

**58. Which of the following is most likely an objective of fiscal policy?**

- A. Maintaining price stability
- B. Affecting aggregate demand
- C. Achieving an exchange rate target

**59. Which of the following is most likely to limit the effectiveness of monetary policy?**

- A. A liquidity trap
- B. The crowding out effect
- C. A time lag to implement government spending

**60. Which of the following is a limitation of monetary policy?**

- A. The presence of automatic stabilizers in the economy
- B. The ineffectiveness of interest rate adjustments in deflationary environments
- C. The uneven distribution of income and wealth among different segments of the population

**61. The main objective of the World Bank Group is to:**

- A. support exchange rate stability and an open system of international payments.
- B. provide the legal and institutional foundation of the multinational trading system.
- C. help developing countries fight poverty and enhance environmentally sound economic growth.

**62. Which of the following is an expansionary fiscal policy?**

- A. An increase in sales taxes
- B. A decrease in interest rates
- C. in public spending on infrastructure

**63. If the spot rate for AUD/USD (amount of AUD per 1 USD) is 1.4780 and the 1-month forward points are -16.0, the 1-month forward rate for AUD/USD is closest to:**

- A. 1.3180.
- B. 1.4764.
- C. 1.4796.

**64. When a central bank sells government bonds to commercial banks, broad money growth:**

- A. decreases.
- B. remains the same.
- C. increases.

**65. When a country has a fiscal surplus and an excess of private saving over investment, its exports are:**

- A. less than its imports.
- B. equal to its imports.
- C. greater than its imports.

**66. Which of the following behavioral archetypes best describes a country that is high on the globalization spectrum but low on the cooperation spectrum?**

- A. Autarky
- B. Hegemony
- C. Bilateralism

**67. An analyst gathers the following data about an economy:**

- Real trend growth rate 0.5%
- Central bank's policy rate 1.5%

If monetary policy is contractionary, the central bank's inflation target is:

- A. less than 1.0%.
- B. equal to 1.0%.
- C. greater than 1.0%.

**68. An analyst gathers the following information (in \$ millions) about a firm operating in a perfectly competitive market:**

- Total variable costs 700
- Total fixed costs 400

If the firm's total revenue is \$1,000 million, the firm should:

- A. stay in the market in both the short run and long run.
- B. stay in the market in the short run and exit the market in the long run.
- C. shut down production in the short run and exit the market in the long run.

**69. To be effective in targeting inflation a central bank is least likely to need:**

- A. government oversight.
- B. transparency of decisions.
- C. credibility with market participants.

**70. To increase liquidity, a central bank most likely implements an interest rate policy that is:**

- A. contractionary.
- B. neutral.
- C. expansionary.

**71. The conversion of nominal exchange rates into real exchange rates requires the:**

- A. GDP of both countries.
- B. price levels in both countries.
- C. interest rates in both countries.

**72. Which of the following is most likely a benefit of globalization?**

- A. Increased profits
- B. More equal income distribution
- C. Stronger environmental, social, and governance standards

**73. Natural disasters are an example of:**

- A. event risk.
- B. thematic risk.
- C. exogenous risk.

**74. Which of the following changes are investors most likely to make in response to a black swan risk?**

- A. Tactical
- B. Sector specific
- C. Asset allocation

**75. During the recovery phase of the business cycle, inflation most likely.**

- A. remains moderate.
- B. further accelerates.
- C. decelerates but with a lag.

**76. The Herfindahl-Hirschman index is calculated based on:**

- A. market shares of the companies.
- B. elasticity of demand in the market.
- C. probability of new entry into the market.