

Name \_\_\_\_\_

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) In the Solow Model, an increase in the depreciation rate will result in: 1) \_\_\_\_\_  
A) a lower output and a higher level of capital.  
B) a higher level of capital and output.  
C) a lower capital and a higher level of output.  
D) a lower level of capital and output.
- 2) The best measure of economic growth is: 2) \_\_\_\_\_  
A) an increase in real GDP per capita. B) an increase in capital stock per capita.  
C) an increase in real GDP. D) an increase in nominal GDP per capita.

**Recall Application 2, "Economic Equality May Sustain Economic Growth," to answer the following questions:**

- 3) According to the Application, which of the following factors contributed to a more economic growth in a country? 3) \_\_\_\_\_  
A) better political institutions B) more openness to trade  
C) improved income inequality D) All of the above are correct.
- 4) The economy moves from a short-run equilibrium to the long-run equilibrium through: 4) \_\_\_\_\_  
A) improvements in technology. B) adjustments in wages and prices.  
C) demand shocks. D) supply shocks.
- 5) The aggregate demand curve shows a(n) \_\_\_\_\_ relationship between the \_\_\_\_\_. 5) \_\_\_\_\_  
A) negative; price level and real GDP  
B) negative; level of real GDP and investment  
C) positive; price level and real GDP  
D) positive; interest rate and investment

**Recall Application 1, "Measuring Price Stickiness in Consumer Markets," to answer the following questions:**

- 6) According to the application, Bils and Klenow found that between 1995–1997, prices in more than half of the 350 goods that they were studying showed frequent price changes. This finding was contrary to Kashyap's finding because: 6) \_\_\_\_\_  
A) custom auction prices.  
B) the inflation during that period was low.  
C) unemployment rates during that time were rising.  
D) the economy during that time was in a recession.
- 7) In 2011, federal taxes were about \_\_\_\_\_ percent of GDP. 7) \_\_\_\_\_  
A) 23.4 B) 17.5 C) 15.4 D) 16.4
- 8) The temporary tax surcharge enacted during the early years of the Vietnam War failed to decrease consumer spending because consumers based their spending on: 8) \_\_\_\_\_  
A) current income. B) past income, not current income.  
C) permanent income, not current income. D) future income, not current income.

- 9) In the most basic model of the economy, equilibrium output is achieved when: 9) \_\_\_\_\_
- A) there is no change in inventories. B)  $C + I$  equals output.  
C) the  $C + I$  line intersects the 45 degree line. D) all of the above are correct.

$$\begin{array}{c} C = 2000 + 0.5(Y - T) \\ T = 200 \\ G = 400 \\ I = 500 \end{array}$$

**Table 11.6**

- 10) Refer to Table 11.6. In this example, the tax multiplier is: 10) \_\_\_\_\_
- A) -2. B) 0.5. C) 1. D) -1.
- 11) When using the formula  $PV = K/(1+i)^t$  to calculate the present value of a future payment,  $t$  represents: 11) \_\_\_\_\_
- A) the real interest rate.  
B) the number of periods in the future that the future payment is received.  
C) the nominal interest rate.  
D) the present value.
- 12) According to the accelerator theory of investment, a decrease in the expected future growth rate of real GDP will cause: 12) \_\_\_\_\_
- A) current investment spending to increase. B) future investment spending to increase.  
C) future investment spending to decrease. D) current investment spending to decrease.
- 13) A key result in accounting practices is that: 13) \_\_\_\_\_
- A) assets + owners' equity = liabilities. B) assets - liabilities = owner's equity.  
C) assets + liabilities = owners' equity. D) liabilities - owners' equity = assets.
- 14) Traveler's checks are: 14) \_\_\_\_\_
- A) not included in M1. B) not included in M2.  
C) included only in M1. D) included in M2.
- 15) An appreciation of a country's currency is likely to: 15) \_\_\_\_\_
- A) decrease its GDP. B) decrease exports and decrease imports.  
C) decrease exports but not change imports. D) increase its GDP.
- 16) When the Fed conducts open market operations, the Fed buys and sells government securities to: 16) \_\_\_\_\_
- A) state and local government agencies only. B) the U.S. Treasury.  
C) the private sector. D) foreign countries only.

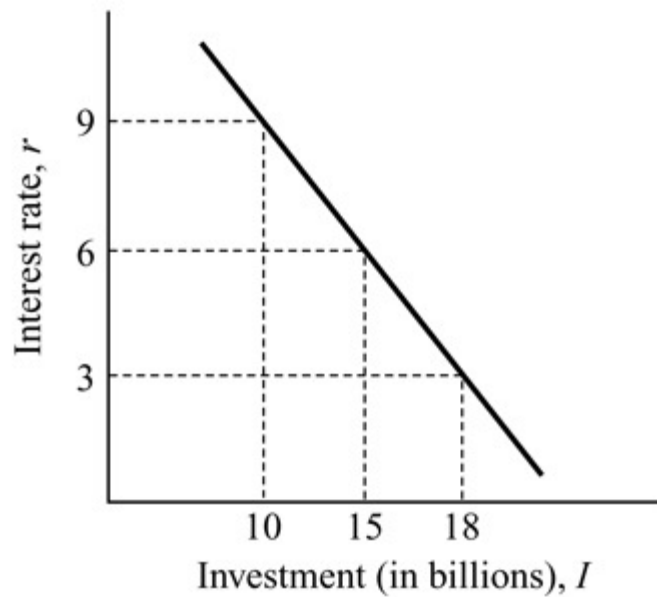


Figure 15.3

- 17) Refer to Figure 15.3. At full employment equilibrium, investment would decrease from \$15 billion to \$10 billion if: 17) \_\_\_\_\_
- A) the government increases net taxes.
  - B) the Fed increases the money supply.
  - C) the government increases government expenditures.
  - D) the government reduces government expenditures.
- 18) Milton Friedman, along with other monetarists, pioneered research on the link between: 18) \_\_\_\_\_
- A) money, nominal income and inflation.
  - B) money and unemployment.
  - C) money and hyperinflation.
  - D) money and real GDP.
- 19) The sum of all past deficits is called: 19) \_\_\_\_\_
- A) the government surplus.
  - B) the government deficit.
  - C) the government expenditures.
  - D) the government debt.

**Recall Application 5, "The Role of Political Factors in Economic Growth," to answer the following questions:**

- 20) According to the application, can technological growth exist in authoritarian institutions like the one experienced in China today? 20) \_\_\_\_\_
- A) Yes, and the growth is expected to be sustained.
  - B) No.
  - C) Yes, but it may not be sustained.
  - D) Yes, but only if authoritarian regimes prevent change.
- 21) When the economy is in a recession, the intersection between the: 21) \_\_\_\_\_
- A) short run  $AS$  and the  $AD$  occurs at an output level lower than potential output.
  - B) long run  $AS$  and the  $AD$  occurs at an output level lower than potential output.
  - C) long run  $AS$  and the  $AD$  occurs at an output level higher than potential output.
  - D) short run  $AS$  and the  $AD$  occurs at an output level higher than potential output.

- 22) At the end of the 1990s, the U.S. budget: 22) \_\_\_\_\_  
A) was in surplus. B) was in deficit.  
C) was balanced. D) none of the above
- 23) If the marginal propensity to save is 0.15, the marginal propensity to consume: 23) \_\_\_\_\_  
A) is 0.85.  
B) is 1.15.  
C) is 0.15.  
D) cannot be determined by the given information
- 24) From 1970–2011, investment as a share of GDP was lowest in \_\_\_\_\_ when it was at \_\_\_\_\_ 24) \_\_\_\_\_  
percent.  
A) 2011; 21 B) 2000; 18 C) 1975; 30 D) 2001; 25
- 25) Best Buy, a retailer of electronics, has 500 different products in inventory. Best Buy reports its 25) \_\_\_\_\_  
inventory is worth \$10 million. This is an example of using money as a:  
A) standard of deferred payment. B) unit of account.  
C) store of value. D) medium of exchange.
- 26) The price of bonds and the interest rate are: 26) \_\_\_\_\_  
A) positively related.  
B) negatively related.  
C) sometimes positively related and other times negatively related, depending on the bond  
payments.  
D) There is no relationship between the interest rate and the price of bonds.

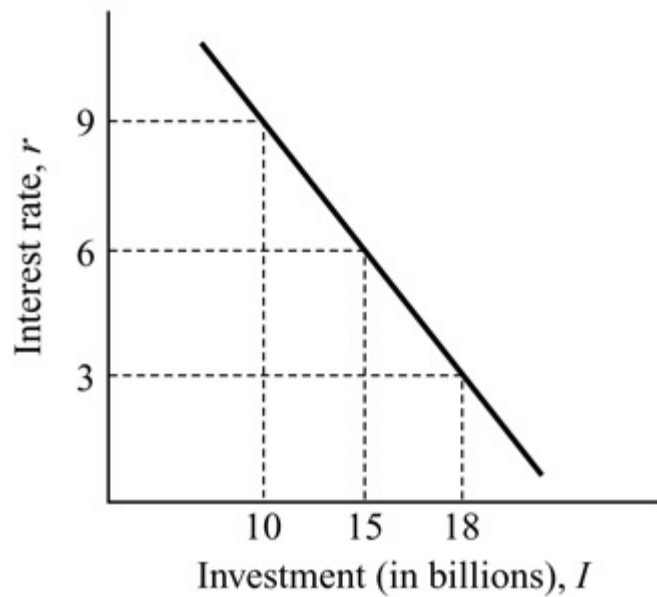


Figure 15.3

- 27) Refer to Figure 15.3. At full employment equilibrium, investment would decrease from \$18 million to \$15 million if: 27) \_\_\_\_\_
- A) firms expect their sales to increase in the future.
  - B) the government reduces government expenditures.
  - C) the government reduces taxes.
  - D) the Fed buys bonds in the open market.
- 28) The Phillips curve was first discovered by \_\_\_\_\_ while the expectations Phillips curve was first observed by \_\_\_\_\_. 28) \_\_\_\_\_
- A) A.W. Phillips, A.W. Phillips.
  - B) Keynes, A. W. Phillips.
  - C) A.W. Phillips, Samuelson and Solow.
  - D) A.W. Phillips, Milton Friedman
- 29) Some argue that deficits can cause a smaller government because: 29) \_\_\_\_\_
- A) deficits make it easier for politicians to print money.
  - B) deficits make it easier for politicians to increase spending.
  - C) deficits make it harder for politician to increase spending.
  - D) deficits make it harder for politicians to print money.
- 30) If a country uses trade deficits to finance consumption, then the country will experience: 30) \_\_\_\_\_
- A) a smaller portion of GDP in the future used for capital deepening.
  - B) a decline in real GDP per capita in the future.
  - C) no capital deepening.
  - D) All of the above are correct.
- 31) When the economy is in a boom, the intersection between the: 31) \_\_\_\_\_
- A) long run  $AS$  and the  $AD$  occurs at an output level lower than potential output.
  - B) short run  $AS$  and the  $AD$  occurs at an output level lower than potential output.
  - C) short run  $AS$  and the  $AD$  occurs at an output level higher than potential output.
  - D) long run  $AS$  and the  $AD$  occurs at an output level higher than potential output.

**Recall Application 1, "Increasing Life Expectancy and Aging Populations Spur Costs of Entitlement Programs," to answer the following questions:**

- 32) According to the application, estimates of the size of spending for Social Security, Medicare and Medicaid is approximately \_\_\_\_\_ percent of GDP by 2075. 32) \_\_\_\_\_  
A) 7 B) 22 C) 9 D) 18
- 33) When we graph the 45 degree line, what are the labels on the x-axis and the y-axis? 33) \_\_\_\_\_  
A) output on the x-axis and income on the y-axis  
B) expenditures on the x-axis and output on the y-axis  
C) income on the x-axis and interest rates on the y-axis  
D) output on the x-axis and expenditures on the y-axis
- 34) Actions by business today that have costs today and provide benefits in the future are: 34) \_\_\_\_\_  
A) revenues. B) investments.  
C) savings. D) none of the above.
- 35) The Bank of Texas has \$1 million in deposits and \$200,000 in reserves. If excess reserves are equal to \$150,000, the required reserve ratio is: 35) \_\_\_\_\_  
A) 5%. B) 10%. C) 15%. D) 8%.

## Answer Key

Testname: MIDTERM2OLD

- 1) D
- 2) A
- 3) D
- 4) B
- 5) A
- 6) B
- 7) C
- 8) C
- 9) D
- 10) D
- 11) B
- 12) D
- 13) B
- 14) D
- 15) A
- 16) C
- 17) C
- 18) A
- 19) D
- 20) C
- 21) A
- 22) A
- 23) A
- 24) B
- 25) B
- 26) B
- 27) C
- 28) C
- 29) C
- 30) D
- 31) C
- 32) B
- 33) D
- 34) B
- 35) A