

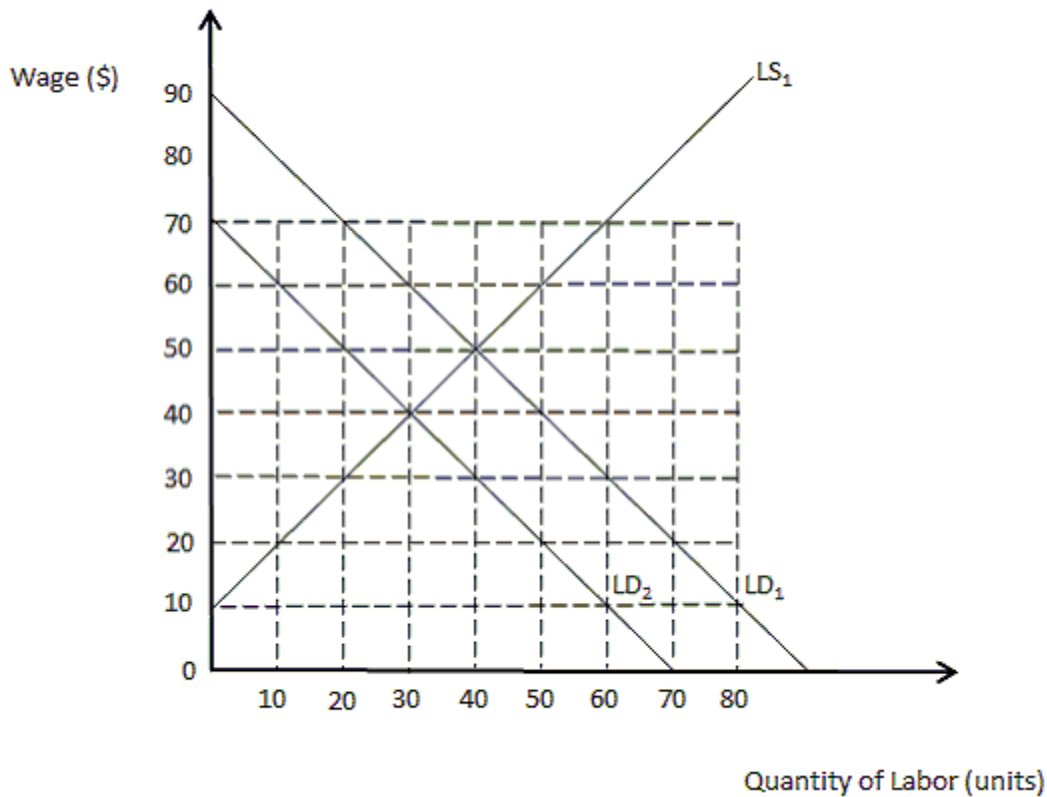
This Sample Exam is not a study guide. It is just a sample of the type of questions you will find on the exam. Just knowing the answers to these questions is not enough preparation for the test. To truly prepare for the exam you should: read textbook chapters 11 through 15, review your lecture notes, and review the homework assignments 8–11 and problems solved in class. Any problem solved in class or asked in a homework assignment is a fair question on the exam.

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

- 1) Which of the following statements is true? 1) \_\_\_\_\_
  - A) One of the limitations of using money is that it does not allow for the transfer of purchasing power into the future.
  - B) When money is used as a yardstick to describe the price of various goods and services, it serves as a store of value.
  - C) The necessary condition required for money to function as a medium of exchange is that it also needs to be a store of value.
  - D) The hours of labor that go into producing a product are a better unit of account than paper money.
- 2) If the growth rate of nominal GDP and the rate of inflation in an economy are 4% and 1% respectively, the growth rate of real GDP in the economy must be: 2) \_\_\_\_\_
  - A) 4%.
  - B) 1%.
  - C) 5%.
  - D) 3%.
- 3) The quantity theory of money implies that: 3) \_\_\_\_\_
  - A) inflation is equal to the gap between the growth rate of money supply and the current real interest rates.
  - B) inflation is equal to the gap between the growth rate of money supply and the current nominal interest rates.
  - C) inflation is equal to the gap between the growth rate of money supply and the growth rate of real GDP.
  - D) inflation is equal to the gap between the growth rate of money supply and the growth rate of nominal GDP.
- 4) Assuming all else equal, inflation can: 4) \_\_\_\_\_
  - A) reduce the real interest rate, and increase the real wage rate.
  - B) increase both the real interest rate and the real wage rate.
  - C) reduce both the real interest rate and the real wage rate.
  - D) increase the real interest rate, and reduce the real wage rate.
- 5) Which of the following is likely to happen when the Fed lowers the federal funds rate? 5) \_\_\_\_\_
  - A) The long-run interest rate will increase.
  - B) The volume of economic activity will decrease.
  - C) The labor demand curve shifts to the left.
  - D) The labor demand curve shifts to the right.
- 6) Assuming all else equal, if there is a contraction in the quantity of bank account balances, it will cause: 6) \_\_\_\_\_
  - A) a downward movement along the demand curve for reserves.
  - B) a rightward shift in the demand curve for reserves.
  - C) a leftward shift in the demand curve for reserves.
  - D) an upward movement along the demand curve for reserves.

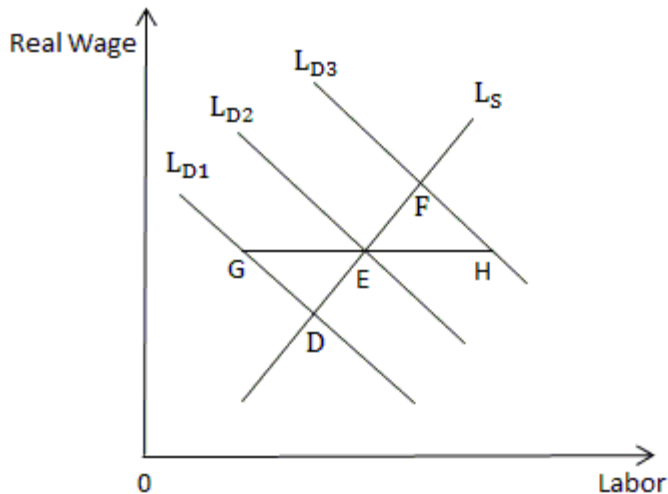
- 7) If the Fed purchases government bonds in the open market, it will cause: 7) \_\_\_\_\_  
A) a shift of the supply curve for reserves to the left.  
B) an upward movement along the supply curve for reserves.  
C) a downward movement along the supply curve for reserves.  
D) a shift of the supply curve for reserves to the right.
- 8) If there is a change in the federal funds rate from a target rate due to an increase in the demand for reserves, the Fed can maintain the target by: 8) \_\_\_\_\_  
A) causing the supply curve of reserves to shift to the left.  
B) causing the supply curve of reserves to shift to the right.  
C) causing an upward movement along the supply of reserves curve.  
D) causing a downward movement along the supply of reserves curve.
- 9) If the realized real interest rate in an economy is 6%, the realized inflation rate is 8%, and the expected inflation rate is 8%, then the nominal interest rate in the economy is: 9) \_\_\_\_\_  
A) 20%.                      B) 2%.                      C) 8%.                      D) 14%.
- 10) If there are no changes in inflation expectations, a purchase of government bonds by the Fed in the open market will cause \_\_\_\_\_. 10) \_\_\_\_\_  
A) the federal funds rate to fall and the long-run expected real interest rate to rise  
B) both the federal funds rate and long-run expected real interest rate to fall  
C) the federal funds rate to rise and the long-run expected real interest rate to fall  
D) both the federal funds rate and long-run expected real interest rate to rise

The following figure shows the labor demand curve,  $LD_2$  and labor supply curve,  $LS_1$ . at the trough of a recession. Six months later, the labor demand curve partially recovers and shifts to  $LD_1$ .



- 11) Refer to the figure above. Everything else remaining unchanged, if the wage is currently rigidly fixed at \$60, what will the change in employment be when the demand curve shifts to  $LD_1$ ? 11) \_\_\_\_\_
- A) 10                                      B) 20                                      C) 30                                      D) 40
- 12) Which of the following is not a property of economic fluctuations? 12) \_\_\_\_\_
- A) Co-movement of many aggregate macroeconomic variables  
 B) Regularity of fluctuations  
 C) Persistence in the rate of economic growth  
 D) Limited predictability of fluctuations
- 13) The marginal product of a country's workers falls during winters due to excessive cold. Which of the following is likely to happen in this case, assuming all else equal? 13) \_\_\_\_\_
- A) There will be an upward movement along the labor demand curve.  
 B) There will be a downward movement along the labor demand curve.  
 C) The country's labor demand curve will shift to the left in winter.  
 D) The country's labor demand curve will shift to the right in winter.
- 14) The \_\_\_\_\_ in employment during a recession is smaller if wages are \_\_\_\_\_. 14) \_\_\_\_\_
- A) increase; rigid                                      B) decline; rigid  
 C) decline; flexible                                      D) increase; flexible

The diagram below shows the labor demand and labor supply curves for an economy.



- 15) Refer to the figure above. The labor market is currently at point E. Which of the following is likely to happen if a recession hits the economy assuming that wages are downward rigid? 15) \_\_\_\_\_
- A) The labor market equilibrium will move from E to D.
  - B) The labor market equilibrium will move from E to F.
  - C) The labor market equilibrium will move from E to G.
  - D) The labor market equilibrium will move from E to H.
- 16) \_\_\_\_\_ emphasize(s) that changing productivity and technology are the main reasons behind fluctuations in the economy. 16) \_\_\_\_\_
- A) The real business cycle theory
  - B) Keynesian theory
  - C) Ricardian theory
  - D) Monetary and Financial theory
- 17) Agraria specializes in the production of cotton. However, cotton manufacturers in Agraria are expecting the demand for its exports to fall sharply due to growing competition from a neighboring country. Assuming all else equal, which of the following is likely to happen in this case? 17) \_\_\_\_\_
- A) Investment expenditure in Agraria will rise.
  - B) Consumption expenditure in Agraria will fall.
  - C) The equilibrium unemployment in Agraria will fall.
  - D) The equilibrium real wage in Agraria will rise.
- 18) Why did many banks fail in the U.S. during 2007–2009? 18) \_\_\_\_\_
- A) Fall in housing prices
  - B) Many people stopped paying their mortgages
  - C) Many mortgages vastly exceeded the value of the homes
  - D) all of the above
- 19) A decrease in money supply will lead to \_\_\_\_\_ if nominal wages are fixed. 19) \_\_\_\_\_
- A) higher output
  - B) lower unemployment
  - C) lower real wages
  - D) higher real wages
- 20) A decline in money supply will lead to a(n) \_\_\_\_\_ if nominal wages are rigid. 20) \_\_\_\_\_
- A) increase in labor demand
  - B) fall in real wages
  - C) increase in real output
  - D) fall in labor demand

- 21) Identify the correct statement. 21) \_\_\_\_\_
- A) Countercyclical monetary policy stimulates the economy during a recession by shifting the labor demand curve to the left.
  - B) Countercyclical fiscal policy stimulates the economy during a recession by shifting the labor demand curve to the left.
  - C) Countercyclical monetary policy slows down the growth rate of an economy during an expansion by shifting the labor demand curve to the right.
  - D) Countercyclical fiscal policy stimulates the economy during a recession by shifting the labor demand curve to the right.
- 22) Why would policymakers target a reduction in GDP growth by using contractionary policies? 22) \_\_\_\_\_
- i) The Fed fights inflation by increasing interest rates, which in turn causes a reduction in employment as a by-product.
  - ii) Excessive optimistic sentiments about the economy can result in an unsustainable economic expansion.
- A) i) is true and ii) is false
  - B) i) and ii) are both false
  - C) i) and ii) are both true
  - D) i) is false and ii) is true
- 23) If the long-run real interest rate falls, \_\_\_\_\_. 23) \_\_\_\_\_
- A) the demand for loans decreases
  - B) investment by firms decreases
  - C) investment by firms increases
  - D) unemployment increases
- 24) \_\_\_\_\_ occurs when the Fed creates a large amount of reserves to buy long-term bonds from banks. 24) \_\_\_\_\_
- A) Monetary neutrality
  - B) Quantitative easing
  - C) Budgetary surplus
  - D) Money illusion
- 25) According to the Taylor Rule, for a given inflation rate, \_\_\_\_\_. 25) \_\_\_\_\_
- A) every percentage point increase in the nominal interest rate increases the federal funds rate by half a percentage point
  - B) every percentage point increase in the inflation rate increases the federal funds rate by 1.5 percentage points
  - C) every percentage point increase in the nominal interest rate decreases the federal funds rate by half a percentage point
  - D) every percentage point increase in the inflation rate decreases the federal funds rate by 1.5 percentage points
- 26) Suppose the inflation rate target is 2% and the long run federal funds target is 3.5% Using the Taylor rule, calculate the federal funds rate if the current inflation rate is 5% and real output is 6% below trend output. 26) \_\_\_\_\_
- A) 11.0%
  - B) 3.5%
  - C) 5.0%
  - D) 4.5%
- 27) Which of the following is an example of an automatic stabilizer during a recession? 27) \_\_\_\_\_
- A) An increase in interest rates due to a decrease in investment
  - B) An increase in government expenditure in unemployment benefits
  - C) A decrease in inflation due to an increase in consumption
  - D) An decrease in money supply due to a decrease in bank deposits

28) Which of the following is an example of an expansionary fiscal policy during a recession? 28) \_\_\_\_\_  
A) A reduction in public assistance programs  
B) A decrease in money supply to lower the federal funds rate  
C) An increase in tax rates to increase revenue  
D) A temporary tax cut to boost consumption

29) Which of the following is likely to be true when the economy is in a boom? 29) \_\_\_\_\_  
A) The unemployment rate is high.  
B) The size of government expenditure multiplier is large.  
C) The inflation rate is negative.  
D) The size of government expenditure multiplier is small.

30) If the value of a government-taxation multiplier is 1.8, which of the following is likely to be true if all other variables remain unchanged? 30) \_\_\_\_\_  
A) A \$1 reduction in taxation increases gross domestic product by \$1.80.  
B) A \$1 increase in taxation increases gross domestic product by \$1.80.  
C) A \$1.80 reduction in taxation increases gross domestic product by \$1.80.  
D) A \$1.80 increase in taxation increases gross domestic product by \$1.80.

Consider two economies, Beta and Zeta. Each farmer in Beta can grow 1,000 pounds of apples in a year or 500 pounds of oranges. Each farmer in Zeta can grow 400 pounds of apples or 1,200 pounds of oranges in a year.

31) Refer to the scenario above. Which of the following statements is true? 31) \_\_\_\_\_  
A) Zeta has absolute advantage in producing apples.  
B) Beta has a comparative advantage in producing apples.  
C) Beta has a comparative advantage in producing oranges.  
D) Zeta has a comparative advantage in producing apples.

32) Refer to the scenario above. Which of the following statements is true? 32) \_\_\_\_\_  
A) Beta has a comparative advantage in producing oranges.  
B) Zeta has a comparative advantage in producing apples.  
C) Zeta has absolute advantage in producing oranges.  
D) Beta has an absolute advantage in producing oranges.

33) Refer to the scenario above. Which of the following statements is true? 33) \_\_\_\_\_  
A) Zeta has an absolute advantage in producing both oranges and apples.  
B) Beta and Zeta will suffer losses if they engage in foreign trade.  
C) Beta has a comparative advantage in producing both oranges and apples.  
D) Zeta should specialize in producing oranges and Beta should specialize in producing apples.

Industria is predominantly a producer and exporter of manufactured goods. However, it imports several agricultural products.

34) Refer to the scenario above. Recently, the government has imposed a tariff on the import of some cash crops. Which of the following is likely to happen in this case? 34) \_\_\_\_\_  
A) The volume of imports is likely to increase.  
B) The domestic consumers of these crops will be better off.  
C) The domestic producers of these crops will be better off.  
D) The government's revenue is expected to fall.

Lawland imports cell phones worth \$1,000 billion, and exports coffee worth \$820 billion in a year.

- 35) Refer to the scenario above. If Lawland's net factor payments from abroad equals zero and net transfer payments from abroad is negative, \_\_\_\_\_. 35) \_\_\_\_\_
- A) Lawland is likely to experience a current account deficit
  - B) Lawland is likely to experience a current account surplus
  - C) Lawland is likely to stop trading with its trading partners
  - D) Lawland is likely to experience a net inflow of assets

There are two countries – Earthland and Plutoland – who trade only with each other. Residents in Earthland purchased buildings worth \$10 billion in Plutoland during a certain year. None of the other transactions between the two countries during that year involved purchase or sale of assets.

- 36) Refer to the scenario above. Earthland's financial account would report a balance of \_\_\_\_\_ for the year. 36) \_\_\_\_\_
- A) -\$10 billion
  - B) \$10 billion
  - C) \$4 billion
  - D) -\$6 billion

The table below shows the payments received from foreigners by the residents of Laborland and the payments made to foreigners by Laborland's residents during a certain year.

	Payment from foreigners	Payment to foreigners
Trade in goods and services	\$136 billion	\$154 billion
Factor payments	\$200 billion	\$180 billion
Transfers	\$0	\$25 billion

- 37) Refer to the table above. Laborland's net exports equal \_\_\_\_\_. 37) \_\_\_\_\_
- A) -\$20 billion
  - B) \$25 billion
  - C) \$18 billion
  - D) -\$18 billion
- 38) Refer to the table above. Laborland's net factor payments from abroad equal \_\_\_\_\_. 38) \_\_\_\_\_
- A) -\$20 billion
  - B) \$25 billion
  - C) -\$18 billion
  - D) \$20 billion
- 39) Refer to the table above. Laborland's current account balance equals \_\_\_\_\_. 39) \_\_\_\_\_
- A) -\$61 billion
  - B) -\$23 billion
  - C) \$23 billion
  - D) \$20 billion
- 40) Refer to the table above. Which of the following is likely to be true in this case? 40) \_\_\_\_\_
- A) There will be a deficit in laborland's financial account.
  - B) Laborland's economy will go into a recession.
  - C) Laborland's terms of trade will improve.
  - D) There will be a surplus in Laborland's financial account.
- 41) Everything else equal, an appreciation of the dollar against the yuan: 41) \_\_\_\_\_
- A) will lead to a decrease in the quantity of dollars demanded.
  - B) will lead to an increase in the quantity of dollars demanded.
  - C) will lead to a decrease in the quantity of dollars supplied.
  - D) can either lead to an increase or a decrease in the quantity of dollars demanded depending on the magnitude of the appreciation.

- 42) Everything else equal, a shift to the left of the demand curve for dollars in exchange for the pesos: 42) \_\_\_\_\_
- A) will cause the dollars to appreciate against the pesos and will decrease the quantity of dollars being traded in the foreign exchange market.
  - B) will cause the dollars to appreciate against the pesos and will increase the quantity of dollars being traded in the foreign exchange market.
  - C) will cause the dollars to depreciate against the pesos and will decrease the quantity of dollars being traded in the foreign exchange market.
  - D) will cause the dollars to depreciate against the pesos and will increase the quantity of dollars being traded in the foreign exchange market.
- 43) If it is said that a foreign currency is overvalued against the dollar, it is meant that: 43) \_\_\_\_\_
- A) the dollar is worth less of that currency than it would have been under a fixed exchange rate regime.
  - B) the dollar is worth less of that currency than it would have been under a flexible exchange rate regime.
  - C) the dollar is worth less of that currency than it would have been under a managed exchange rate regime.
  - D) the dollar is worth more of that currency than it would have been under a fixed exchange rate regime.
- 44) If the dollar is undervalued against the peso, it implies that: 44) \_\_\_\_\_
- A) quantity of dollar supplied in exchange of pesos equals the quantity of dollars demanded in exchange of pesos in the foreign exchange market.
  - B) the exchange rate between the dollar and the peso is flexible.
  - C) quantity supplied of dollar in exchange of pesos exceeds the quantity of dollars demanded in exchange of pesos in the foreign exchange market.
  - D) quantity supplied of dollars in exchange of pesos is less than the quantity of dollars demanded in exchange of pesos in the foreign exchange market.
- 45) Assume that the dollar price of a U.S. basket is \$2 and the Mexican price for a U.S. basket is 40 pesos. On the other hand, the Mexican price for the Mexican basket is 100 pesos. Given this information, the dollar price for the Mexican basket will be: 45) \_\_\_\_\_
- A) \$12.                      B) \$10.                      C) \$8.                      D) \$5.
- 46) When the ratio of domestic prices to foreign prices falls: 46) \_\_\_\_\_
- A) the real exchange rate depreciates even when the nominal exchange rate is constant.
  - B) the real exchange rate appreciates.
  - C) the real exchange rate depreciates only when the nominal exchange rate appreciates.
  - D) the real exchange rate depreciates only when the nominal exchange rate depreciates.
- 47) If the government of a country uses expansionary monetary policy: 47) \_\_\_\_\_
- A) its currency will appreciate.
  - B) its currency will depreciate.
  - C) its currency will initially appreciate and then depreciate.
  - D) its value of its currency in the foreign exchange market will not be affected.
- 48) Everything else equal, a depreciation of the dollar will: 48) \_\_\_\_\_
- A) cause U.S. exports to decrease.
  - B) cause the unemployment rate to rise in the U.S.
  - C) cause U.S. imports to increase.
  - D) cause the unemployment rate to fall in the U.S.



- 49) What will be the likely effect of an increase in the demand for American goods in the markets of Mexico on the exchange rate between dollars and pesos? 49) \_\_\_\_\_
- A) This will cause the dollar to appreciate and the peso to depreciate.
  - B) This will cause the dollar to depreciate and the peso to appreciate.
  - C) This will cause the dollar and the peso to appreciate
  - D) This will cause the dollar and the peso to depreciate
- 50) How would a government with a fixed nominal exchange rate defend an undervalued currency? 50) \_\_\_\_\_
- A) To defend the currency, the domestic government has to buy the foreign currency and sell the domestic currency.
  - B) To defend the currency, the domestic government has to sell the foreign currency and buy the domestic currency.
  - C) To defend the currency, the domestic government has to buy the foreign and the domestic currency.
  - D) To defend the currency, the domestic government has to sell the foreign and the domestic currency.

## Answer Key

Testname: ECON 252 SAMPLE FINAL EXAM

- 1) C
- 2) D
- 3) C
- 4) C
- 5) D
- 6) C
- 7) D
- 8) B
- 9) D
- 10) B
- 11) B
- 12) B
- 13) C
- 14) C
- 15) C
- 16) A
- 17) B
- 18) D
- 19) D
- 20) D
- 21) D
- 22) C
- 23) C
- 24) B
- 25) B
- 26) C
- 27) B
- 28) D
- 29) D
- 30) A
- 31) B
- 32) C
- 33) D
- 34) C
- 35) A
- 36) A
- 37) D
- 38) D
- 39) B
- 40) D
- 41) A
- 42) C
- 43) B
- 44) D
- 45) D
- 46) A
- 47) B
- 48) D
- 49) A
- 50) A