1. If bell-bottomed pants once again become stylish,
    a. the price will decrease.
    b. the quantity supplied will increase.
    c. the supply curve will shift to the left.
    d. the quantity supplied will decrease.

2. The equilibrium cash price of central Illinois Number 2 yellow corn on Wednesday, September 12, was $2.26 a bushel on the free market. On Thursday, September 13, the price of the same grade of corn dropped to $2.20 on the free market. The decrease in the price of corn could have been caused by
    a. an increase in the demand for corn.
    b. an increase in the supply of corn.
    c. a decrease in the supply of corn.
    d. a decrease in the demand for corn.
    e. Either (b) or (d).

3. A stereo store discovers that the price elasticity of demand for its Advent speakers is -4. If the store wants to increase sales of the speakers by 20% to meet the manufacturer's sales quota, it should decrease the price of the speakers by
    a. 5%.
    b. 8%.
    c. 10%.
    d. 20%.

4. Suppose you receive an allowance of $400 per month, which you spend entirely on clothing and air travel to New York City to visit friends. The price of an outfit of clothing is $125, and the price of a round-trip ticket to New York City is $250. Which of the following is true?
    a. The opportunity cost of an outfit of clothing is 2 round trips to New York City.
    b. If the price of clothing falls, there will be no effect on the opportunity cost of a round trip to New York City
    c. The opportunity cost of a round trip to New York City will decline if your allowance increases to $600 per month.
    d. The opportunity cost of a round trip to New York City is 2 outfits of clothing.

5. An increase in the price of new houses is likely to
    a. decrease the supply of new houses
    b. increase the demand for apartment rentals.
    c. shift the demand curve for apartment rentals to the left.
    d. decrease the price of renting an apartment.

6. A government subsidy paid to the sellers of college textbooks will
    a. increase the price of textbooks
    b. decrease the demand for textbooks.
    c. increase the quantity of textbooks demanded.
    d. decrease the supply of textbooks.

7. A $4-per-unit tax is placed on the sellers of good Y, which has a perfectly inelastic demand curve and an upward-sloping supply curve. The before-tax equilibrium price of good Y is $50, and the equilibrium quantity is 200 units. What is the total government revenue from the tax?
    a. $760.
    b. $800.
    c. $820.
    d. $780.

8. What is the total product of a variable input?
    a. The increase in output from one more unit of an input when the quantity of all other inputs is unchanged.
    b. The amount of output produced, over any given period, when that input is used along with other fixed inputs.
    c. The total benefit to society that results from having the input available.
    d. The average quantity of the input that must be used to produce one unit of output.

9. As long as the marginal product of labor exceeds the average product,
    a. the marginal product will be decreasing.
    b. the average product will be decreasing.
    c. the marginal product will be increasing.
    d. the average product will be increasing.

10. Nolan owns a ranch in Alvin, Texas. Nolan hires you to help him determine his cattle output. You tell him he shouldn't produce any output if
    a. marginal revenue is less than price.
    b. price is less than minimum average total cost.
    c. he can't make economic profits by doing so.
    d. price is less than minimum average variable cost.

11. Which of the following is likely to decrease short-run supply of computers?
    a. An improvement in technology that increases the productivity of workers who produce computers.
    b. An increase in wages of workers who assemble the computers.
    c. An increase in fixed costs of producing the computers.
    d. A decrease in wages of workers who assemble the computers.

12. If the U.S. economy is in a contraction phase of the business cycle,
    a. potential real GDP will be declining.
    b. economic growth of real GDP will be positive.
    c. aggregate real income will be declining.
    d. the unemployment rate is likely to be declining.

13. Real GDP is equal to potential real GDP. This implies that
    a. the actual unemployment rate will be zero.
    b. the natural rate of unemployment will be zero.
    c. cyclical unemployment will be zero.
    d. frictional unemployment will be zero.

14. If the CPI was 147.3 in 1995 and 143.8 in 1994, what was the rate of inflation between 1994 and 1995?
    a. 0.024%
    b. 0.24%
    c. 2.43%
    d. 0.432%
    e. 3.7%.

15. Suppose employers view skilled and unskilled labor as being substitute goods. Further, suppose the minimum wage is below the market equilibrium wage paid to skilled labor, but above the equilibrium wage in the unskilled labor market. An increase in the minimum wage will
    a. cause a surplus in the market for skilled labor.
    b. increase the equilibrium wage paid to skilled labor.
    c. increase the supply of unskilled labor.
    d. decrease the demand for unskilled labor.

16. Taxes on goods with __________ demand curves will tend to yield more government revenue than taxes on goods with __________ demand curves.
    a. elastic, perfectly inelastic
    b. inelastic, elastic
    c. elastic, inelastic
    d. downward-sloping, vertical

17. A dairy farmer who sells milk in a perfectly competitive market has fixed costs of $4,008 per month. He's currently operating at an economic loss of $1,993 per month, at the level of output for which the marginal cost of milk equals its price. If the farmer seeks to minimize his losses, he must
    a. shut down.
    b. continue operating at the current level of output.
    c. increase output.
    d. raise the price of milk.

18. When marginal product is decreasing,
    a. average variable cost is decreasing.
    b. marginal cost is increasing.
    c. marginal cost is decreasing.
    d. average total cost is decreasing.

19. The marginal cost curve
    a. first rises, then declines.
    b. rises when the average total cost curve lies above the average variable cost curve.
    c. rises when the point of diminishing marginal returns is reached.
    d. intersects the total variable cost and total cost curves from below, at their maximum points.

20. Which of the following could result in a shortage of rental housing?
    a. A price floor on rents set above the market equilibrium rent.
    b. A price ceiling on rents set above the market equilibrium rent.
    c. A price floor on rents set below the market equilibrium rent.
    d. A price ceiling on rents set below the market equilibrium rent.

21. The price of a gallon of milk falls from $4 to $3, and a consumer's elasticity of demand is calculated to be -1.75 between the two prices. The consumer purchased 6 gallons of milk per week when the price was $4. How many gallons does the consumer purchase each week at a price of $3 per gallon?
    a. 12 gallons.
    b. 8 gallons.
    c. 10 gallons.
    d. 9 gallons.

22. If the demand for rental cars in Hazard, Kentucky, is inelastic, and price increases, total revenue will
    a. decrease.
    b. remain unchanged.
    c. increase if the elasticity of supply isn't zero.
    d. increase.
    e. decrease if the elasticity of supply isn't zero.

23. If domestic consumers increase their demand for imports, aggregate demand will ___________, causing real GDP to __________.
    a. increase, decrease
    b. decrease, decrease
    c. increase, increase
    d. decrease, increase

24. A change in interest rates will cause
    a. a rightward shift of the money demand curve.
    b. a leftward shift of the money demand curve.
    c. movement along the money demand curve.
    d. movement along the money supply curve.

25. As the U.S. economy expanded in 1993 and the first half of 1994, both interest rates and the equilibrium M1 money stock increased. Which of the following is likely to have occurred in money markets over this period?
    a. An increase in demand for money, accompanied by a stable supply of money.
    b. A decrease in demand for money, accompanied by a decrease in the supply of money.
    c. A decrease in the supply of money, accompanied by a stable demand for money.
    d. A stable demand for money, accompanied by an increase in the supply of money.

26. Suppose the Hugo National Bank has a total of $8,000 in excess reserves, demand deposits of $70,000, and a 25% reserve requirement on total deposits. The amount of Hugo National Bank's actual reserves is
    a. $50,000.
    b. $70,000.
    c. $2,500.
    d. $25,500.

27. Suppose that, in Costa Rica, the price index is 140 and the level of real GDP is $280 billion (base year dollars). A classical economist would predict that the long-run effect of a 10% increase in the money supply would be
    a. an increase in the price index to 154.
    b. an increase in real GDP to $308 billion.
    c. a level of nominal GDP equal to $392 billion.
    d. a new price index that's greater than 140, but less than 154.
    e. a new equilibrium level of real GDP that's greater than $280 billion, but less than $308 billion.

28. A decrease in input prices will shift _________________.
    a. Aggregate supply to the right.
    b. Aggregate supply to the left
    c. Aggregate demand to the right.
    d. Aggregate demand to the left.

29. Inflation is defined as
    a. a decrease in the money supply.
    b. An increase in the money supply.
    c. A general decrease in prices
    d. A general increase in prices.

30. The GDP deflator will tend to fall if
    a. nominal GDP is falling more slowly than real GDP.
    b. nominal GDP is rising faster than real GDP.
    c. nominal GDP is falling faster than real GDP.
    d. None of the above.

31. During the recession of 1982, monetary policy would have been more effective in influencing investment spending if
    a. state governments had decreased spending.
    b. the prime rate had been about 20%.
    c. investment demand had been sensitive to interest rate changes.
    d. the government had been more sensitive to the needs of small business.

32. Other things being equal, which of the following is likely to increase short-term interest rates in the U.S. economy?
    a. An increase in the demand for money.
    b. A decrease in the demand for money.
    c. Open market purchases of government securities by the Fed.
    d. An increase in the supply of money.

33. To eliminate a recessionary GDP gap, government fiscal policy might include
    a. additional funding for education spending.
    b. increased tax rates on corporate profits.
    c. elimination of subsidies for farm products.
    d. cancellation of a highway construction program.
    e. a federal budget surplus.

34. Which of the following policies should be used to close an inflationary GDP gap?
    a. Increases in government spending and in transfer payments.
    b. Tax increases.
    c. Increases in government spending.
    d. Increases in transfer payments.

35. Based on a new economic report, market participants expect prices to increase at a faster rate. This change in expectations will _________ the demand for money and _______ interest rates.
    a. Decrease; Increase
    b. Decrease; Decrease
    c. Increase; Decrease
    d. Increase; Increase
    e. Decrease; Not Change

36. Classical economists argued that
    a. The primary cause of business cycles is changes in aggregate demand.
    b. The velocity of money is relatively constant over time.
    c. Changes in aggregate demand will shift aggregate supply, returning the economy to potential real GDP without government intervention.
    d. All of the above.
    e. None of the above.

37. Keynes argued that
    a. The primary cause of business cycles is changes in aggregate demand.
    b. The velocity of money is relatively constant over time.
    c. Changes in aggregate demand will shift aggregate supply, returning the economy to potential real GDP without government intervention.
    d. All of the above.
    e. None of the above.

38. With regard to business cycles, the main disagreement between Classical and Keynesian economists is over
    a. The cause of business cycles.
    b. The relationship between inflation and employment.
    c. The degree of flexibility of prices.
    d. The relationship between real interest rates and investment.
    e. The relationship between consumption and saving.

39. Which of the following is an example of expansionary monetary policy?
    a. The fed selling treasuries (government bonds).
    b. Increasing the federal funds rate and the discount rate.
    c. Increasing reserve requirements.
    d. The fed buying treasuries from banks.

40. Which of the following is an example of expansionary fiscal policy?
    a. Increasing taxes and increasing government spending by the same amount.
    b. Increasing government spending while holding taxes constant.
    c. Decreasing taxes and decreasing government spending by the same amount.
    d. Increasing taxes while holding government spending constant.
    e. Increasing the government’s budget surplus.

41. Prices and real GDP are both falling. Keynes would recommend
    a. Decreasing the supply of money while holding government spending constant.
    b. Decreasing the budget deficit to minimize the crowding out of private investment.
    c. Increasing government spending.
    d. Raising reserve requirements.
    e. Increasing taxes.
42. Contractionary monetary policy involves ________ the money supply. Contractionary fiscal policy involves ________ aggregate demand.
    a. Increasing; increasing
    b. Increasing; decreasing
    c. Decreasing; increasing
    d. Decreasing; decreasing

43. Which of the following is NOT a tool the Federal Reserve can use to control the supply of money and interest rates?
    a. Setting reserve requirements.
    b. Setting credit standards for commercial and residential lending.
    c. Setting the federal funds rate.
    d. Setting the discount rate.
    e. Executing open market operations.

44. When an economy is overheated,
    a. equilibrium real GDP exceeds potential real GDP.
    b. equilibrium real GDP equals potential real GDP.
    c. equilibrium real GDP is less than potential real GDP.
    d. inflation is unlikely to be a problem for the economy.

45. Stagflation is defined as
    a. an increase in corporate profit that causes the price level to decline.
    b. the case in which real GDP stagnates at a given level while inflation ensues at relatively high rates.
    c. an across-the-board increase in government spending.
    d. an increase in unemployment.

46. Suppose the U.S. economy becomes overheated, with equilibrium real GDP actually exceeding potential real GDP. Other things being equal, which of the following is likely to occur?
    a. Wages and other input prices will increase, causing aggregate supply to decrease.
    b. Wages and other input prices will decrease, causing aggregate supply to increase.
    c. The equilibrium price level will fall.
    d. The equilibrium level of real GDP will increase.
    e. Both (c) and (d).

47. Under what condition might short-run increases in aggregate demand cause long-run aggregate supply to increase?
    a. When no supply-side shocks shift aggregate supply to the left.
    b. Never. Shifts in aggregate demand do not affect long-run aggregate supply.
    c. Whenever aggregate demand moves over a horizontal section of the aggregate supply curve.
    d. If short-run increases in aggregate demand offset any temporary inclination for short-run aggregate supply to decrease.
    e. If inflationary gaps persist for long periods.

48. If inflation is expected to increase,
    a. the supply of short-term credit will increase.
    b. the supply of long-term credit will decline.
    c. the supply of long-term credit will increase.
    d. Both (a) and (b).
    e. Both (a) and (c).

49. Suppose that, over the next 3 years, the income velocity of circulation of money measured as M1 is expected to increase. Over the same period, real GDP is expected to grow at 2% per year. To achieve zero inflation over the period, the Fed should target the money stock (M1) to grow at
    a. less than 2% per year.
    b. more than 2% per year.
    c. exactly 2% per year.
    d. exactly 3% per year.

50. Government borrowing to finance a budget deficit can indirectly reduce aggregate demand due to its impact on credit markets. Specifically, government borrowing
    a. puts downward pressure on the interest rate, causing declines in investment spending and financed consumer purchases.
    b. puts upward pressure on the interest rate, causing a higher proportion of disposable income to be saved.
    c. induces higher tax rates, thereby reducing the amount of disposable income available for purchases.
    d. increases total government indebtedness and, therefore, makes American borrowers less creditworthy.