

## Macroeconomics Multiple-Choice questions

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

1) Macroeconomics is concerned with 1) \_\_\_\_\_

- A) Only with changes in the overall price level.
- B) Only long-run trends in economic activity.
- C) Both long-run trends and short-term fluctuations in economic activity.
- D) Only short-run fluctuations in the business cycle.

2) Hyperinflation is 2) \_\_\_\_\_

- A) A period of increases in interest rates.
- B) A period of rapid increases in the overall price level.
- C) A period of high prices and high unemployment.
- D) A sustained increase in the overall price level.

3) Inflation is 3) \_\_\_\_\_

- A) A decrease in the overall level of economic activity.
- B) An increase in the overall price level.
- C) A decrease in the overall price level.
- D) An increase in the overall level of economic activity.

4) The record of a country's transactions in goods, services, and assets with the rest of the world

is its 4) \_\_\_\_\_

- A) Capital account. B) Current account.
- C) Balance of payments. D) Balance of trade.

5) Any transaction that brings in foreign exchange for a country is a 5) \_\_\_\_\_

- A) Debit item in that country's balance of payments.
- B) Debit item in that country's balance of trade.
- C) Credit item in that country's balance of payments.
- D) Credit item in that country's balance of trade.

6) Any transaction that causes a country to lose foreign exchange is a 6) \_\_\_\_\_

- A) Credit item in that country's balance of payments.
- B) Debit item in that country's balance of trade.
- C) Debit item in that country's balance of payments.
- D) Credit item in that country's balance of trade.

7) Which of the following would be a credit item in the U.K. balance of payments? 7)

\_\_\_\_\_

- A) The U.K. government lends Russia money
- B) A U.K. citizen travels to the USA for a two-week holiday
- C) A U.K. firm hires a non-U.K. citizen
- D) A U.K. company sells computer software to a company in Spain

8) The difference between a country's merchandise exports and its merchandise imports is the

8) \_\_\_\_\_

A) current account. B) Capital account.

C) Balance of trade. D) Balance of payments.

9) When a country's exports of goods are less than its imports of goods in a given period, it has

a 9) \_\_\_\_\_

A) a zero balance of trade. B) a positive trade balance.

C) a trade surplus. D) trade deficit.

10) The price of one country's currency in terms of another country's currency is the 10)

\_\_\_\_\_

A) balance of trade. B) terms of trade.

C) currency valuation. D) exchange rate.

11) All currencies other than the domestic currency of a given country are referred to as 11)

\_\_\_\_\_

A) near monies. B) foreign currency.

C) hard currency. D) reserve currency.

12) The diagram that shows the income received and payments made by each sector of the economy is the 12) \_\_\_\_\_

A) aggregate demand and aggregate supply diagram.

- B) Phillips curve.
- C) circular flow diagram.
- D) trade cycle diagram.

13) The diagram that shows the income received and payments made by each sector of the economy is the 13) \_\_\_\_\_

- A) income-price diagram.
- B) aggregate demand-aggregate supply diagram.
- C) circular flow diagram.
- D) income-expenditures diagram.

14) A household that spends more than it receives in income during a given period is 14) \_\_\_\_\_

- A) investing. B) running a surplus.
- C) receiving transfer payments. D) dis-saving.

15) The major lesson of the circular flow diagram is that 15) \_\_\_\_\_

- A) taxes must equal government expenditures.
- B) one person's expenditure is someone else's receipt.
- C) saving must always equal investment.
- D) all of the above

16) Consider the household sector. Firms 16) \_\_\_\_\_

- A) only demand from this market.
- B) only supply to this market.
- C) both supply to and demand from this market.
- D) neither supply to nor demand from this market.

17) Which of the following is NOT a cause of economic growth? 17) \_\_\_\_\_

- A) emigration B) investment
- C) immigration D) innovation

18) Which of the following statements is CORRECT? 18) \_\_\_\_\_

- A) When the interest rate rises, it becomes more expensive to borrow, and more investment projects are likely to be undertaken.
- B) When the interest rate rises, it becomes more expensive to borrow, and fewer investment projects are likely to be undertaken.
- C) When the interest rate rises, it becomes less costly to borrow, and fewer investment projects are likely to be undertaken.
- D) When the interest rate rises, it becomes less costly to borrow, and more investment projects are likely to be undertaken.

19) The term business cycle refers to the 19) \_\_\_\_\_

- A) long-term trends in the level of economic activity.
- B) long-term trends in the price level.
- C) short-term ups and downs in the price level.

D) short-term ups and downs in the economy.

20) A period during which aggregate output declines is known as 20) \_\_\_\_\_

A) a hyperinflation. B) an inflation.

C) a recession. D) a boom.

21) An expansion or boom is the period in the business cycle from a 21) \_\_\_\_\_

A) trough to a trough. B) trough up to a peak.

C) peak down to a trough. D) peak to a peak.

22) A contraction or recession is the period in the business cycle from a 22) \_\_\_\_\_

A) peak to a peak. B) trough to a trough.

C) trough up to a peak. D) peak down to a trough.

23) If the rate of change in output is negative 23) \_\_\_\_\_

A) then the economy is in the contractionary phase of the business cycle regardless of the overall level of output.

B) but the level of output is low, then the economy is entering the expansionary phase of the business cycle.

C) but the level of output is high, then the economy is still in the expansionary phase of the business cycle.

D) then the economy is in the expansionary phase of the business cycle regardless of the overall level of output.

24) Which of the following statements is FALSE? 24) \_\_\_\_\_

- A) The rate of change in economic activity is used to assess whether an economy is expanding or contracting.
- B) Business cycles are always symmetric - the length of an expansion is the same as the length of a contraction.
- C) Short-term ups and downs in the economy are known as business cycles.
- D) During a recession, output and employment are falling.

25) The period in the business cycle from a peak to a trough is called 25) \_\_\_\_\_

- A) a contraction, recession, or slump.
- B) a depression.
- C) a growth period.
- D) an expansion or boom.

26) The period in the business cycle from a trough to a peak is 26) \_\_\_\_\_

- A) an expansion or boom. B) a contraction or recession.
- C) a slowdown. D) a recession.

27) The term business cycle refers to the 27) \_\_\_\_\_

- A) short-term ups and downs in the economy.
- B) long-term trends in the level of economic activity.
- C) short-term ups and downs in the price level.

D) long-term trends in the price level.

28) A period during which aggregate output declines is known as 28) \_\_\_\_\_

A) an inflation. B) a hyperinflation.

C) a recession. D) a boom.

29) An expansion or boom is the period in the business cycle from a 29) \_\_\_\_\_

A) trough up to a peak. B) peak down to a trough.

C) peak to a peak. D) trough to a trough.

30) A contraction or recession is the period in the business cycle from a 30) \_\_\_\_\_

A) trough up to a peak. B) peak down to a trough.

C) peak to a peak. D) trough to a trough.

31) If the rate of change in output is negative 31) \_\_\_\_\_

A) but the level of output is high, then the economy is still in the expansionary phase of the business cycle.

B) then the economy is in the expansionary phase of the business cycle regardless of the overall level of output.

C) then the economy is in the contractionary phase of the business cycle regardless of the overall level of output.

D) but the level of output is low, then the economy is entering the expansionary phase of the business cycle.



32) Which of the following statements is FALSE? 32) \_\_\_\_\_

- A) During a recession, output and employment are falling.
- B) The rate of change in economic activity is used to assess whether an economy is expanding or contracting.
- C) Business cycles are always symmetric - the length of an expansion is the same as the length of a contraction.
- D) Short-term ups and downs in the economy are known as business cycles.

33) The period in the business cycle from a peak to a trough is called 33) \_\_\_\_\_

- A) a depression.
- B) an expansion or boom.
- C) a contraction, recession, or slump.
- D) a growth period.

34) The period in the business cycle from a trough to a peak is 34) \_\_\_\_\_

- A) a recession. B) a slowdown.
- C) an expansion or boom. D) a contraction or recession.

35) An individual who has a job but has been temporarily absent, with or without pay, is classified as 35) \_\_\_\_\_

- A) a discouraged worker. B) not in the labour force.
- C) employed. D) unemployed.

36) A 21-year-old university graduate wants to work full time but is unable to find a full-time job, so she accepts a part-time job. She is classified as 36) \_\_\_\_\_

A) employed. B) structurally unemployed.

C) frictionally employed. D) unemployed.

37) A woman who retired becomes bored with retirement and begins to look for a job. During the time she is searching for work she would be classified as 37) \_\_\_\_\_

A) structurally unemployed.

B) not unemployed because she was not working before she started looking for a job.

C) frictionally unemployed.

D) cyclically unemployed.

38) The labour force is the 38) \_\_\_\_\_

A) number of people employed plus those unemployed.

B) ratio of those employed to those unemployed.

C) number of people employed minus the unemployed.

D) ratio of the population to those not in the labour force.

39) The unemployment rate is 39) \_\_\_\_\_

A) the ratio of those unemployed to those employed.

B) the ratio of the number of people unemployed to the total number in the population.

C) the difference between the total number of people in the labour force and the number of

people employed.

D) the ratio of the number of people unemployed to the total number of people in the labour force.

40) If the number of people classified as unemployed is 20,000 and the number of people classified as employed is 230,000, what is the unemployment rate? 40) \_\_\_\_\_

A) 8.7% B) 9.2% C) 11.5% D) 8%

41) If the number of people employed is 120,000 and the labour force is 150,000, the unemployment rate 41) \_\_\_\_\_

A) is 8%.

B) is 25%.

C) is 20%.

D) cannot be determined from this information.

42) Disequilibrium unemployment means that 42) \_\_\_\_\_

A) at the going wage rate, there are people who want to work but who cannot find work.

B) the supply of labour exceeds the demand for it.

C) the wage rate is too low to attract all those people who wish find employment.

D) there are some people who will not be working due to the season of the year.

43) If the labour market becomes more efficient so that the unemployed are more quickly matched with jobs, this will 43) \_\_\_\_\_

- A) could either increase or decrease the equilibrium level of unemployment.
- B) decrease the equilibrium level of unemployment.
- C) not affect the equilibrium level of unemployment.
- D) increase the equilibrium level of unemployment.

44) During the early 1990s, companies started laying off people and as a result there has been a permanent reduction in the number of middle management positions. This change in the way businesses operate would have 44) \_\_\_\_\_

- A) not affected the equilibrium level of unemployment.
- B) decreased the equilibrium level of unemployment.
- C) increased the equilibrium level of unemployment.
- D) an unpredictable effect on the equilibrium level of unemployment.

45) The increase in unemployment that occurs during recessions is called 45) \_\_\_\_\_

- A) normal unemployment. B) cyclical unemployment.
- C) frictional unemployment. D) structural unemployment.

46) The demand for digital cameras falls when the economy enters a downturn. If a digital camera manufacturer lays off workers during an economic downturn, this would be an example of 46) \_\_\_\_\_

- A) structural unemployment. B) frictional unemployment.
- C) cyclical unemployment. D) natural unemployment.

47) The economy is in a recession and the housing market is in a slump. As a result of this, a construction firm lays off half of its workers. This is an example of 47) \_\_\_\_\_

- A) structural unemployment. B) cyclical unemployment.
- C) frictional unemployment. D) natural unemployment.

48) During the severe recession of the early 1980s, cyclical unemployment increased as the recession continued. This increase in cyclical unemployment would have 48) \_\_\_\_\_

- A) increased the equilibrium level of unemployment.
- B) either increased or decreased the equilibrium level of unemployment.
- C) had no effect on the equilibrium level of unemployment.
- D) decreased the equilibrium level of unemployment.

49) The portion of unemployment that is due to the ~~job~~ job/skill matching problems is called 49) \_\_\_\_\_

- A) cyclical unemployment. B) structural unemployment.
- C) natural unemployment. D) frictional unemployment.

50) Frictional unemployment is the 50) \_\_\_\_\_

- A) unemployment that occurs during recessions.
- B) unemployment that results when people become disheartened about their chances of finding a job so they stop looking for work.
- C) portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.

D) portion of unemployment that is due to the normal working of the labour market.

51) A man is sacked from his job because he was late for work too many times.

While he is searching for another job he would be classified as 51) \_\_\_\_\_

A) not in the labour force because his employer had a legitimate reason for sacking him.

B) frictionally unemployed.

C) structurally unemployed.

D) cyclically unemployed.

52) A man who quits his job to search for a job that takes full advantage of his educational background represents an example of 52) \_\_\_\_\_

A) cyclical unemployment. B) structural unemployment.

C) frictional unemployment. D) seasonal unemployment.

53) The portion of unemployment that is due to changes in the economy that result in a significant loss of jobs in certain industries is called 53) \_\_\_\_\_

A) natural unemployment. B) frictional unemployment.

C) cyclical unemployment. D) structural unemployment.

54) Structural unemployment is the 54) \_\_\_\_\_

A) portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.

B) unemployment that occurs during recessions and depressions.

C) unemployment that results when people become disheartened about their chances of finding a job so they stop looking for work.

D) portion of unemployment that is due to the normal working of the labour market.

55) A car worker in Dagenham who loses his job because the company relocated the plant represents an example of 55) \_\_\_\_\_

A) technological unemployment. B) regional unemployment.

C) natural unemployment. D) frictional unemployment.

56) The Ministry of Defence closes its Headquarters in Bath and transfers to a new building in Bristol.

A worker at the Bath office is given the opportunity and finance to move to Bristol. She turns down this opportunity because of family obligations.

While she is searching for a new job she would be classified as 56) \_\_\_\_\_

A) cyclically unemployed.

B) structurally unemployed.

C) frictionally unemployed.

D) not in the labour force because she turned down the opportunity to relocate.

57) The aggregate demand curve 57) \_\_\_\_\_

A) is horizontal. B) is a vertical.

C) slopes upward to the right. D) slopes downward to the right.

58) The aggregate supply curve cannot be the sum of the supply curves of all the individual firms in the economy because 58) \_\_\_\_\_

- A) some firms actually set prices instead of just responding to process determined in the market.
- B) it is unrealistic to believe that costs are constant for individual firms if the overall price level is increasing.
- C) the outputs of some firms are the inputs of other firms.
- D) all of the above

59) The aggregate supply curve 59) \_\_\_\_\_

- A) is a market supply curve.
- B) is the sum of the individual supply curves in the economy.
- C) embodies the same logic that lies behind an individual firm's supply curve.
- D) is none of the above.

60) In the short run, the aggregate supply curve is 60) \_\_\_\_\_

- A) fairly flat at very low levels of output and vertical at capacity.
- B) is a straight upward sloping line with a constant slope.
- C) vertical at low levels of output and fairly flat at capacity.
- D) is horizontal over all levels of output.

61) Hyperinflation is 61) \_\_\_\_\_

- A) a period of increases in interest rates
- B) a period of high prices and high unemployment.



- C) a sustained increase in the overall price level.
- D) a period of rapid increases in the overall price level.

62) Inflation is 62) \_\_\_\_\_

- A) a decrease in the overall level of economic activity.
- B) an increase in the overall level of economic activity.
- C) an increase in the overall price level.
- D) a decrease in the overall price level.

63) If the price index in period 3 is 125 and the price index in period 4 is 140, the rate of inflation between period 3 and period 4 63) \_\_\_\_\_

- A) is 10.7%.
- B) is 15%.
- C) is 12%.
- D) cannot be determined from this information because the base year is not known.

64) If the price index in period 3 is 125 and the price index in period 4 is 120, the rate of inflation between period 3 and period 4 is roughly 64) \_\_\_\_\_

- A) 5 %.
- B) - 5%.
- C) - 4 %.
- D) 4 %.

65) You want to make a 4% real return on a loan that you are planning to make, and the expected inflation rate during the period of the loan is %5. You should charge and interest rate of

65) \_\_\_\_\_

A) 1%. B) 9%. C) 4.5%. D) 5%.

66) If the inflation rate is greater than the interest rate, the real interest rate is 66) \_\_\_\_\_

A) negative. B) either positive or zero.

C) positive. D) zero.

67) Which of the following is likely to benefit from a high level of inflation? 67) \_\_\_\_\_

A) a couple who have borrowed money at a fixed rate of interest to buy their home

B) a person who has bought a fixed interest bond

C) a person who has retired on a fixed pension

D) a person with £20,000 on deposit at a building society

68) Which of the following statements is FALSE? 68) \_\_\_\_\_

A) Whether you gain or lose during a period of inflation depends on whether your income rises faster or slower than the prices of things you buy.

B) There are no costs or losses associated with anticipated inflation.

C) Inflation that is higher than expected benefits debtors, and inflation that is lower than expected benefits creditors.

D) When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy increases.

69) When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy 69) \_\_\_\_\_

- A) decreases. B) falls to zero.  
C) remains stable. D) increases.

70) Which of the following is TRUE? 70) \_\_\_\_\_

- A) A recession will lead to reduced output in the future, but inflation will lead to increased output in the future.  
B) A recession will lead to increased output in the future, but inflation will lead to decreased output in the future.  
C) A recession will lead to reduced output in the future, but inflation has no effect on future output.  
D) Both recessions and inflations may reduce output in the future.

71) Which of the following actions is an example of an expansionary monetary policy? 71)  
\_\_\_\_\_

- A) an increase in wages  
B) a reduction in government spending on education  
C) an increase in income tax rates  
D) a decrease in interest rates

72) You are a member of the Treasury, and you are concerned that the inflation rate is too high. Which of the following policies should you recommend? 72) \_\_\_\_\_

- A) a decrease in the money supply  
B) an increase in the money supply

- C) a decrease in income tax rates
- D) an increase in government spending

73) A decrease in the money supply aimed at decreasing aggregate output is 73) \_\_\_\_\_

- A) an expansionary monetary policy.
- B) an expansionary fiscal policy.
- C) a contractionary monetary policy.
- D) a contractionary fiscal policy.

74) Government policies that focus on increasing production rather than stimulating aggregate demand are known as 74) \_\_\_\_\_

- A) monetary policies. B) fiscal policies.
- C) supply-side policies. D) incomes policies.

75) Supply-side policies are government policies 75) \_\_\_\_\_

- A) that focus on aggregate supply and increasing production.
- B) used to control the money supply.
- C) that directly attempt to control prices and wages.
- D) regarding taxes and expenditures.

76) If the price index in period 3 is 125 and the price index in period 4 is 140, the rate of inflation between period 3 and period 4 76) \_\_\_\_\_

- A) is 15%.

B) is 10.7%.

C) is 12%.

D) cannot be determined from this information because the base year is not known.

77) If the price index in period 3 is 125 and the price index in period 4 is 120, the rate of inflation between period 3 and period 4 77) \_\_\_\_\_

A) is -5.1%. B) is 4.17%. C) is -4%. D) is 4%.

78) You want to make a 4% real return on a loan that you are planning to make, and the expected inflation rate during the period of the loan is 5%. You should charge an interest rate of 78) \_\_\_\_\_

A) 1%. B) 5%. C) 4.5%. D) 9%.

79) If the inflation rate is greater than the interest rate, the real interest rate is 79) \_\_\_\_\_

A) either positive or zero. B) positive.

C) zero. D) negative.

80) Which of the following statements is FALSE? 80) \_\_\_\_\_

A) If people correctly anticipate [forecast] inflation there are no costs or losses from inflation.

B) Whether you gain or lose during a period of inflation depends on whether your income rises faster or slower than the prices of things you buy.

C) When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy increases.

D) Inflation that is higher than expected benefits debtors, and inflation that is lower than expected benefits creditors.

81) When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy 81) \_\_\_\_\_

- A) decreases. B) falls to zero.
- C) remains stable. D) increases.

82) Which of the following is TRUE? 82) \_\_\_\_\_

- A) A recession will lead to reduced output in the future, but inflation has no effect on future output.
- B) Both recessions and inflations may reduce output in the future.
- C) A recession will lead to increased output in the future, but inflation will lead to decreased output in the future.
- D) A recession will lead to reduced output in the future, but inflation will lead to increased output in the future.

83) Which of the following is likely to benefit from a high level of inflation? 83) \_\_\_\_\_

- A) a person with £20,000 on deposit at a building society
- B) a couple who have borrowed money at a fixed rate of interest to buy their home
- C) a person who has bought a fixed interest bond
- D) a person who has retired on a fixed pension

84) Wages and prices chasing each other as aggregate demand continually shifts to the right and aggregate supply continually shifts to the left is called 84) \_\_\_\_\_

- A) cost-push inflation. B) wage-price spiral.
- C) structural inflation. D) demand-pull inflation.

85) Which of the following is an example of a final good or service? 85) \_\_\_\_\_

- A) chocolate a bakery purchases to make cakes
- B) the timber purchased by a construction company that will be used by the company to build a model house to show its clients
- C) an economics textbook you purchase with the intent of selling after your course is over
- D) coffee beans that are purchased by a restaurant owner from a wholesale food distributor

86) Which of the following is an example of an intermediate good? 86) \_\_\_\_\_

- A) the chocolate you buy to make yourself some cookies
- B) the pizza sauce you purchase to make pizzas to sell for a fund-raiser
- C) the wood you purchase to build yourself bookshelves in your room
- D) all of the above

87) Double counting can be avoided by counting only 87) \_\_\_\_\_

- A) the value added to a product by each firm in the production process.
- B) the value of goods that a firm has in its inventory.
- C) the value of goods and services firms sell.
- D) the value of intermediate goods in production.

88) Which of the following would NOT be counted in 1994's GDP? 88) \_\_\_\_\_

- A) the commissions earned by a real estate agent in selling houses built prior to 1994
- B) the 1994 salary of a used car salesperson
- C) the dividend cheque you receive in 1994 on shares you bought in 1994
- D) the value of a computer manufactured in 1994 but not sold in 1994

89) Which of the following would be counted in 1994's GDP? 89) \_\_\_\_\_

- A) the profit-sharing cheque that an employee receives in 1994
- B) the value of a calculator that was produced in 1993 but not sold until 1994
- C) the value of a bond sold by the federal government
- D) the value of shares you purchased in 1994

90) Which of the following is NOT included in 1994's GDP? 90) \_\_\_\_\_

- A) the value of a computer chip that is used in the production of a personal computer
- B) the profit earned in 1994 from selling shares that you purchased in 1990
- C) the value of a car produced in the U.K. and exported to the U.S.A.
- D) the commission earned by an employment adviser when she locates a job for a client

91) When calculating GDP by the expenditure method, exports are \_\_\_\_\_ and imports are \_\_\_\_\_. 91) \_\_\_\_\_

- A) subtracted, added B) added, subtracted
- C) subtracted, subtracted D) added, added



92) The formula for calculating GDP from the income approach is 92) \_\_\_\_\_

- A)  $\text{GDP} = \text{National Income} - \text{Depreciation} + \text{Net Property Income from abroad.}$
- B)  $\text{GDP} = \text{National Income} + \text{Depreciation} + \text{Net Property Income from abroad.}$
- C)  $\text{GDP} = \text{National Income} + \text{Depreciation} - \text{Net Property Income from abroad.}$
- D)  $\text{GDP} = \text{National Income} - \text{Depreciation} - \text{Net Property Income from abroad.}$

93) Which of the following are deducted from GDP expenditure figures to determine GDP at factor cost? 93) \_\_\_\_\_

- A) the tax you pay on petrol
- B) the tariff on an imported car
- C) your national insurance contributions
- D) the council tax you pay on your house

94) Subsidies are 94) \_\_\_\_\_

- A) subtracted from GDP at market price to calculate GDP at factor cost.
- B) added to national income to calculate GDP at factor cost.
- C) subtracted from national income to calculate GDP at factor cost.
- D) added to GDP at market prices to calculate GDP at factor cost.

95) Net property income from abroad is: 95) \_\_\_\_\_

- A) the payment for exports minus the payment for imports.
- B) the receipt of property income from the rest of the world minus payments of property income

to the rest of the world.

C) payments of property income to the rest of the world plus the receipt of property income from the rest of the world.

D) payments of property income to the rest of the world minus the receipt of property income from the rest of the world.

96) If GDP is £500 billion, receipts of factor income from the rest of the world are £25 billion, and payments of factor income to the rest of the world are £10 billion, then GNP is 96) \_\_\_\_\_

A) £535 billion. B) £465 billion.

C) £515 billion. D) £485 billion.

97) Transfer payments are 97) \_\_\_\_\_

A) included in national income but not in personal disposable income.

B) included in both national income and personal disposable income.

C) excluded from both national income and personal disposable income.

D) not included in national income but are included in personal income.

98) Gross national product is 98) \_\_\_\_\_

A) a nation's total product minus what is required to maintain the value of its capital stock.

B) the total amount of income received by the factors of production in the economy.

C) the total market value of all final goods and services produced within a given period by factors of production located within a country.

D) the total market value of all final goods and services produced within a given period by

factors of production owned by a country's citizens, regardless of where output is produced.

99) Which of the following statements is FALSE? 99) \_\_\_\_\_

A) The product produced by U.K. citizens, even when those citizens are working abroad for a foreign company, is counted in U.K. GNP.

B) The income of foreigners working in the U.K. is counted in the U.K. GNP.

C) Dividends on profits earned in the U.K. by foreign-owned companies are not counted in U.K. GNP.

D) Dividends on profits earned abroad by U.K. companies are counted in U.K. GNP.

100) Which of the following would be counted in the GNP of the U.K., but not the GDP of the U.K.? 100) \_\_\_\_\_

A) rent paid to a Briton who owns land in the U.S.A.

B) wages paid to Britons working in the U.K. for foreign owned companies

C) wages paid to Britons working abroad

D) dividends on profits earned in the U.K. by foreign-owned companies

101) Gross national product measures the value of \_\_\_\_\_, while gross domestic product measures the value of \_\_\_\_\_. 101) \_\_\_\_\_

A) output produced by domestically owned factors of production, output produced by the factors of production located in a country

B) all production including government production, output produced in the private sector only

C) total production, only final goods produced

D) all production including net exports, production excluding both imports and exports

102) Profits earned in the U.K. by foreign-owned companies are included in 102) \_\_\_\_\_

A) neither GDP nor GNP. B) GDP but not GNP.

C) GNP but not GDP. D) both GDP and GNP.

103) The amount by which an asset's value falls in a given period is 103) \_\_\_\_\_

A) the net value. B) deflation.

C) depreciation. D) inflation.

104) If net investment is £200 billion and gross investment is £300 billion, depreciation is 104) \_\_\_\_\_

A) £150 billion. B) £500 billion.

C) £250 billion. D) £100 billion.

105) Depreciation is 105) \_\_\_\_\_

A) included in investment when calculating GDP using the expenditure approach.

B) added to national income to calculate GDP using the income approach.

C) included in GDP, but not GNP.

D) both A and B.

106) GDP can be calculated from either the expenditure approach or the income approach

because 106) \_\_\_\_\_

- A) GDP includes all income that is received by all individuals located in a country regardless of whether or not the income is a payment for current production.
- B) only the expenditures on final goods and services are included in GDP.
- C) every payment by a buyer is at the same time a receipt for the seller.
- D) GDP includes the value of all final goods and services produced by a country's citizens regardless of where the goods and services are produced.

107) Cash payments made by the government to people who do not supply goods, services, or labour in exchange for these payments are known as 107) \_\_\_\_\_

- A) relief payments. B) subsidy payments.
- C) transfer payments. D) in-kind payments.

108) An example of a transfer payment is 108) \_\_\_\_\_

- A) an interest payment on a government bond.
- B) the added value of stock from the time it was bought to the time it was sold.
- C) the salary paid to a member of the armed forces.
- D) a social security retirement benefit.

109) The total market value of all final goods and services produced within a given period by factors of production located within a country is 109) \_\_\_\_\_

- A) net national product. B) gross domestic product.
- C) gross national product. D) net national income.

110) Gross domestic product is 110) \_\_\_\_\_

- A) the total amount of income earned by the factors of production in the economy.
- B) a nation's total product minus what is required to maintain the value of its capital stock.
- C) the total market value of all final goods and services produced within a given period by factors of production located within a country.
- D) the total market value of all final goods and services produced within a given period by factors of production owned by a country's citizens regardless of where output is produced.

111) The largest income component of GDP is 111) \_\_\_\_\_

- A) rent.
- B) gross trading profits of companies.
- C) income from employment.
- D) income from self employment.

112) Of the following, the smallest income component of GDP is 112) \_\_\_\_\_

- A) income from self employment.
- B) gross trading profits of companies.
- C) rent.
- D) income from employment.

113) The single largest expenditure component in GNP is 113) \_\_\_\_\_

- A) investment. B) consumption.
- C) government purchases. D) exports.

114) Gross domestic product measured in current pounds is 114) \_\_\_\_\_

A) current GDP. B) constant GDP.

C) nominal GDP. D) real GDP.

115) Gross domestic product measured in terms of the prices of a fixed, or base, year is 115)  
\_\_\_\_\_

A) nominal GDP. B) real GDP.

C) base GDP. D) current GDP.

116) If real GDP decreased from 1995 to 1996, then 116) \_\_\_\_\_

A) output and prices both must have decreased from 1995 to 1996.

B) output decreased from 1995 to 1996.

C) only prices decreased from 1995 to 1996.

D) it cannot be determined whether output or prices or both decreased from 1995 to 1996.

117) The part of the economy in which transactions take place and income is generated that is unreported and, therefore, not counted in GDP is the 117) \_\_\_\_\_

A) money economy. B) barter company.

C) underground economy. D) illegitimate economy.

118) Real GDP is not a perfect measure of social welfare because 118) \_\_\_\_\_

A) real GDP may be increasing only because of price increase, not increases in output.

B) GDP accounting rules lead to different weights being placed on goods produced in the government sector than in the private sector.

C) GDP includes output produced in both the market and in the home.

D) GDP accounting rules do not adjust for production that causes negative externalities.

119) Which of the following statements is false? 119) \_\_\_\_\_

A) GDP is adjusted to reflect losses or social ills.

B) GDP says nothing about the distribution of output among individuals in a society.

C) GDP is neutral about the kinds of goods that an economy produced - all goods get counted in the same way regardless of the different weights that society might attach to these items.

D) GDP cannot be used to measure the effects of policies that redistribute income from one group to another.

120) If real GDP is growing more slowly than the rate of population growth, then, ceteris paribus, the average standard of living is 120) \_\_\_\_\_

A) remaining stable. B) increasing.

C) either increasing or decreasing. D) decreasing.

121) A variable whose value is determined independently of the model of which it is a part is termed a/an \_\_\_\_\_ variable. 121) \_\_\_\_\_

A) control B) endogenous

C) performance D) exogenous



122) If income is zero, consumption in the short term will normally be 122) \_\_\_\_\_

- A) greater than zero.
- B) zero.
- C) less than zero.
- D) either greater than or less than zero.

123) In the equation  $C = a + bY$ , which describes the aggregate consumption function, "a" stands for 123) \_\_\_\_\_

- A) the amount of consumption when income is zero.
- B) the marginal propensity to consume.
- C) the amount of income when consumption is zero.
- D) the average consumption level.

124) If autonomous consumption increases, the size of the multiplier would 124) \_\_\_\_\_

- A) remain constant.
- B) increase.
- C) either increase or decrease depending on the size of the change in autonomous consumption.
- D) decrease.

125) The fraction of a change in income that is consumed or spent is called 125) \_\_\_\_\_

- A) average consumption.
- B) the marginal propensity to save.
- C) the marginal propensity of income.

D) the marginal propensity to consume.

126) The marginal propensity to consume is 126) \_\_\_\_\_

A) the ratio of income to consumption.

B) the average amount of income that is consumed or spent.

C) the ratio of the change in consumption to a change in income.

D) the ratio of consumption to income.

127) A theory of household consumption that assumes households make consumption decisions based on their expectations of lifetime income is known as the 127) \_\_\_\_\_

A) Keynesian theory of consumption.

B) classical theory of consumption.

C) permanent income theory of consumption.

D) interest income theory of consumption.

128) The key difference between the Keynesian theory of consumption and the permanent income is that 128) \_\_\_\_\_

A) the Keynesian theory suggests that consumption and saving decisions are likely to be based on pre-tax income alone.

B) the Keynesian theory suggests that consumption and saving decisions are likely to be based on expectations of future income alone.

C) the permanent income theory suggests that consumption and saving decisions are likely to be based on both current income and expectations of future income.

D) the permanent income theory suggests that consumption and saving decisions are likely to be based on current income alone.

129) The MPS is 129) \_\_\_\_\_

A) the ratio of saving to income.

B) the ratio of income to saving.

C) the fraction of a change in income that is saved.

D) the average amount of income that is saved.

130) If consumption is £25,000 when income is £21,000, and consumption increases to £26,000 when income increases to £22,000, the MPS is 130) \_\_\_\_\_

A) -.1.

B) .1.

C) -.9.

D) indeterminate from this information.

131) If the MPS is .4, and savings is the only withdrawal the MPC is 131) \_\_\_\_\_

A) 1.4. B) 2.5. C) .4. D) .6.

132) If the MPC is .8, and savings is the only withdrawal the MPS is 132) \_\_\_\_\_

A) 1.8. B) 1.25. C) .8. D) .2.

133) When Richard's income is £20,000 he saves £500 and when his income increases to

£21,000 he saves £700. His MPS is 133) \_\_\_\_\_

A) .33. B) .25. C) .29. D) .2.

134) In a two sector economy, the MPS increases, the multiplier will 134) \_\_\_\_\_

A) increase.

B) either increase or decrease depending on the size of the change in investment.

C) decrease.

D) remain constant.

135) A decrease in net taxes at given price level leads to 135) \_\_\_\_\_

A) an increase in aggregate demand.

B) a decrease in aggregate supply.

C) no change in aggregate demand.

D) a decrease in aggregate demand.

136) When income rises, imports tend to 136) \_\_\_\_\_

A) fall.

B) stay the same.

C) behave in an unpredictable manner.

D) rise.

137) The change in imports caused by a 1 unit change in income is the marginal propensity

137) \_\_\_\_\_

A) to save. B) to consume.

C) to import. D) to spend.

138) Income increased by £1000 and imports increased by £250. The MPM 138) \_\_\_\_\_

A) is .25.

B) is 4.

C) is .75.

D) cannot be determined from this information.

139) If the marginal propensity to import is .10 and income increases by £1000, then spending on imports will 139) \_\_\_\_\_

A) decrease by £100. B) decrease by £90

C) increase by £100. D) increase by £90

140) The effect of a sustained increase in government spending (or investment) on income 140) \_\_\_\_\_

A) is smaller in an open economy than in a closed economy.

B) is larger in an open economy (i.e. one with substantial foreign trade) than in a closed economy (i.e. one with little foreign trade).

C) is the same regardless of whether the economy is open or closed.

D) could be larger or smaller in an open economy than in a closed economy.

141) When government spending or investment increases in an open economy, 141) \_\_\_\_\_

- A) some of the extra consumption spending that results is on foreign products and not on domestically produced goods and services.
- B) consumption rises but income does not.
- C) all of the extra consumption spending that results is on foreign products; none of it on domestically produced goods and services.
- D) none of the extra consumption spending that results is on foreign products; all of it is on domestically produced goods and services.

142) Assuming no government or foreign sector, if the MPC is .8, the multiplier is 142)

\_\_\_\_\_

- A) .8. B) 1.25. C) .2. D) 5.

143) Assuming no government or foreign sector, the formula for the multiplier is 143)

\_\_\_\_\_

- A)  $1/\text{MPC}$ . B)  $1 - \text{MPC}$ .
- C)  $1/(1 + \text{MPC})$ . D)  $1/\text{MPS}$ .

144) Assuming there is no government or foreign sector, if the multiplier is 2.5, the MPC is

144) \_\_\_\_\_

- A) .6. B) .4. C) 2.5. D) .25.

145) Northshire University is trying to convince taxpayers that the tax pounds spent at Northshire University are well spent. One of the university's arguments is that for every £1

spent by Northshire University an additional £5 of expenditures are generated within the economy. Northshire University is arguing that the multiplier for their expenditures is 145)

\_\_\_\_\_

A) 1. B) .2. C) .5. D) .4.

146) If the multiplier is 10, the marginal propensity to consume domestic goods is 146)

\_\_\_\_\_

A) 1.1. B) .2. C) 0.1. D) 0.9.

147) A decrease in planned investment causes 147) \_\_\_\_\_

A) output to decrease but by a larger amount than the decrease in investment.

B) output to decrease by an amount equal to the decrease in investment.

C) output to increase.

D) output to decrease but by a smaller amount than the decrease in investment.

148) The ratio of the change in the equilibrium level of output to a change in some autonomous variable is the 148) \_\_\_\_\_

A) elasticity coefficient.

B) average propensity of the autonomous variable.

C) multiplier.

D) marginal propensity of the autonomous variable.

149) Assume that a £1.00 increase in exports increases GDP by £2.00, and a £1.00 increase in

income increases import spending by £0.15. In this case, a £500 million increase in exports will increase net exports by 149) \_\_\_\_\_

- A) £150 million. B) £650 million.
- C) £350 million. D) £500 million.

150) According to the "paradox of thrift," as individuals increase their saving, 150) \_\_\_\_\_

- A) income in the economy increases because there is more money available for firms to invest.
- B) income in the economy will remain constant because the change in consumption equals the change in saving.
- C) income in the economy will fall because the decreased consumption that results from increased saving causes the economy to contract.
- D) income in the economy increases because interest rates will fall and the economy will expand.

151) According to the "paradox of thrift," increased efforts to save will cause 151) \_\_\_\_\_

- A) a decrease in income but an increase in saving.
- B) a decrease in income and no overall change in saving.
- C) an increase in income and an increase in overall saving.
- D) an increase in income but no overall change in saving.

152) When total injections are less than total withdrawals at full-employment national income there is said to be 152) \_\_\_\_\_

- A) a hysteresis. B) a deflationary gap.
- C) a paradox of thrift. D) an inflationary gap.



153) Planned aggregate expenditure in an open economy equals: 153) \_\_\_\_\_

A)  $C_d + I + G + T$  B)  $C_d + I + G + M$

C)  $C_d + I + G + X$  D)  $C_d + I + G + S$

154) The tendency for investment to increase when aggregate output increases and decrease when aggregate output decreases is known as the \_\_\_\_\_ effect. 154) \_\_\_\_\_

A) accelerator B) cyclical

C) disequilibrium D) multiplier

155) Firms react to unplanned inventory reductions by 155) \_\_\_\_\_

A) reducing output. B) increasing output.

C) increasing consumption. D) reducing planned investment.

156) Firms react to unplanned increases in inventories by 156) \_\_\_\_\_

A) increasing consumption. B) increasing planned investment.

C) reducing output. D) increasing output.

157) Aggregate output will increase if there is 157) \_\_\_\_\_

A) an unplanned rise in inventories.

B) an increase in saving.

C) an unplanned fall in inventories.

D) a decrease in consumption.

158) The level of induced investment, divided by the change of national income which caused it to take place, is known as the 158) \_\_\_\_\_

- A) Keynes constant. B) accelerator co-efficient.
- C) output/capital ratio. D) multiplier.

159) If there is a feedback loop: Injections>national income>induced investment>national income, this is called the 159) \_\_\_\_\_

- A) Keynes law.
- B) Say's law.
- C) multiplier-accelerator interaction.
- D) paradox of thrift.

160) The phase of the business cycle when national income does not change very much is called the 160) \_\_\_\_\_

- A) expansion. B) upturn. C) peak. D) recession.

161) Fiscal policy refers to 161) \_\_\_\_\_

- A) the techniques used by a firm to reduce its tax liability.
- B) the government's ability to regulate a firm's behaviour in the financial markets.
- C) the behaviour of the nation's central bank, regarding the nation's money supply.
- D) the spending and taxing policies used by the government to influence the economy.

162) According to the non-monetarist views of inflation, which of the following could bring inflation

- (i) An increase in import prices.
- (ii) An increase in money supply.
- (iii) An increase in inflationary expectations
- (iv) An increase in wages 162) \_\_\_\_\_

- A) (i) and (ii)
- B) (ii) and (iv)
- C) (i) and (iii)
- D) (i), (iii) and (iv)
- E) (ii) and (iii)

163) If central government's spending exceeded its tax receipts in 199x, the country would have a 163) \_\_\_\_\_

- A) public sector borrowing requirement.
- B) budget deficit.
- C) monetary deficit.
- D) national debt.

164) If the budget deficit is lower than it was last year, we could say that 164) \_\_\_\_\_

- A) ceteris paribus, the level of aggregate demand will be lower than it was last year.
- B) the government must have a reflationary fiscal stance.
- C) the level of aggregate demand will be higher than it was last year.

D) the government's fiscal stance is deflationary.

165) The difference between what a government spends and what it collects in taxes in a year is

165) \_\_\_\_\_

A) net revenue. B) the budget deficit.

C) net taxes. D) the government debt.

166) In 199x if the government collected £250bn in taxes and spent £400bn it would have had a

166) \_\_\_\_\_

A) budget surplus of £150bn. B) budget deficit of £150bn.

C) budget deficit of £650bn. D) budget surplus of 83%.

167) If the government wants to reduce unemployment, government spending should be

\_\_\_\_\_ and/or taxes should be \_\_\_\_\_. 167) \_\_\_\_\_

A) increased, decreased B) increased, increased

C) decreased, decreased D) decreased, increased

168) The excess of the central government's tax receipts over its spending is called the 168)

\_\_\_\_\_

A) budget deficit B) PSBR.

C) net revenue. D) budget surplus.

169) The accumulated budget deficit [less any surpluses] over the years is called the 169)

\_\_\_\_\_

A) PSDR. B) net revenue.

C) PSBR. D) national debt.

170) When a country has a public sector borrowing requirement, it means that 170) \_\_\_\_\_

A) the government has accumulated debt over a number of years.

B) central government's spending exceeds its tax receipts.

C) the total expenditure of central government, local government and public corporations exceeds the tax revenues and sales revenues collected by those bodies.

D) nationalised industries are being subsidised.

171) If total expenditure of the UK public-sector is £650bn and revenues to the UK public sector are £325bn in 199x, then 171) \_\_\_\_\_

A) the UK will have a public-sector borrowing requirement of £325bn in 1995.

B) the UK government will have a budget deficit of £325bn.

C) the subsidies being paid to UK public corporations exceed the sales revenues of privatised nationalised industries by £325bn in 1995.

D) the UK will have a public-sector debt repayment of £325bn.

172) If a government had a PSDR for three years, we could say that over that period 172) \_\_\_\_\_

A) the national debt would have fallen.

B) the government could have had either a reflationary or a deflationary stance.

C) the government had a reflationary fiscal stance.

D) the total expenditure of the public sector exceeded the total receipt of the public sector.

173) When a deficit, surplus or debt is referred to as "general government" this means it concerns 173) \_\_\_\_\_

A) this year's accounts only.

B) the public sector.

C) central government only.

D) central and local government only.

174) Fiscal stance refers to 174) \_\_\_\_\_

A) a government that prefers the use of fiscal to monetary policy for demand management.

B) a government that is running a budget deficit.

C) whether a government is pursuing an expansionary or contractionary fiscal policy.

D) a government that takes a tough stance when it comes to running the country's finances.

175) Whether a government is pursuing an expansionary or contractionary fiscal policy is referred to as its 175) \_\_\_\_\_

A) fiscal policy. B) budget deficit.

C) PSBR. D) fiscal stance.

176) Which of the following is NOT an automatic stabiliser? 176) \_\_\_\_\_

A) VAT

- B) government expenditure on road building programmes
- C) unemployment benefit
- D) income support

177) An automatic stabiliser is 177) \_\_\_\_\_

- A) a policy for growth of an economy where the current account of the balance of payments is kept in balance.
- B) a monetary or fiscal policy that aims to smooth out the business cycle.
- C) a tax or form of government expenditure that has the effect of reducing the size of the multiplier.
- D) the tendency for inflation to fall as unemployment rises.

178) Which of the following is an automatic stabiliser? 178) \_\_\_\_\_

- A) disaster relief B) VAT
- C) military spending D) inheritance tax

179) Deliberate changes in tax rates and levels of government spending to influence the level of aggregate demand are called 179) \_\_\_\_\_

- A) fiscal stance. B) discretionary fiscal policy.
- C) automatic stabilisers. D) fiscal policy.

180) If  $\frac{1}{1 - \text{MPC}} = 0.85$ , the tax multiplier will be 180) \_\_\_\_\_

- A) 5.67. B) 6.67. C) 0.13. D) 0.15.

181) If  $\frac{\Delta Y}{\Delta T} = 0.7$ , the tax multiplier will be 181) \_\_\_\_\_

A) -3.33. B) 3.33. C) -2.33 D) 2.33.

182) The  $\frac{\Delta Y}{\Delta T} = 0.8$ . Suppose that in the next Budget, the Chancellor decides to cut taxes by £50 million. What will be the effect on national income? 182) \_\_\_\_\_

A) National income will rise by £200 million.

B) National income will fall by £200 million.

C) National income will rise by £250 million.

D) National income will rise by £40 million.

183) The  $\frac{\Delta Y}{\Delta T} = 0.75$ . If the Chancellor of the Exchequer decides to cut taxes by £35 million, what will be the effect on national income? 183) \_\_\_\_\_

A) National income will rise by £105 million.

B) National income will rise by £140 million.

C) National income will fall by £140 million.

D) National income will rise by £262.5 million.

184) If the Chancellor of the Exchequer raises taxes by £25 million in order to finance an increase in the road building programme of £25 million, the effect on aggregate demand will be that 184) \_\_\_\_\_

A) it will fall since the population resents increased taxes more than they appreciate increased government expenditure.



- B) it will remain the same but the distribution of income will change since those who pay the increase in taxes are not necessarily the same people who will use the new roads.
- C) it will rise since the multiplier effect from increased government expenditure is greater than the multiplied reduction in income from increased taxes.
- D) it will remain the same as all that has happened is that tax revenue has been spent on a project that costs the same amount.

185) Let the  $mpw = 0.25$ . The government increases its expenditure on the NHS by £500 million and simultaneously raises income taxes by £500 million. Aggregate demand in the economy will 185) \_\_\_\_\_

- A) rise by £125 million. B) rise by £500 million.
- C) fall by £125 million. D) remain the same.

186) Let the  $mpw = 0.15$ . The government raised taxes by £250 million in order to fund the cost of re-equipping the RAF with a new type of fighter plane. Aggregate demand will 186) \_\_\_\_\_

- A) rise by £250 million. B) remain the same.
- C) rise by £212.5 million. D) rise by £37.5 million.

187) The Chancellor of the Exchequer is concerned that the level of aggregate demand is too high and that this will cause inflation. He feels that it is necessary to reduce demand by £5 billion. The MPC is 8. Which of the following would be the best thing to do? 187) \_\_\_\_\_

- A) Reduce government spending by £1 billion.

- B) Increase taxes by £1 billion.
- C) Reduce government spending by £5 billion.
- D) Increase taxes by £5 billion.

188) The tax multiplier is 188) \_\_\_\_\_

- A) the ratio of the change in the equilibrium level of output to the changes in taxes.
- B) the MPC multiplied by the MPS.
- C) the ratio of the change in taxes to the change in the equilibrium level of output.
- D) the difference in taxes multiplied by the change in the equilibrium level of output.

189) The formula for the tax multiplier is 189) \_\_\_\_\_

- A)  $MPS/MPC$ . B)  $-(MPS/MPC)$ .
- C)  $-1/MPS$ . D)  $-(MPC/MPS)$ .

190) If the MPC is .8, the tax multiplier is 190) \_\_\_\_\_

- A) -5. B) -4. C) -0.25. D) -1.

191) If the MPS is .4, the tax multiplier is 191) \_\_\_\_\_

- A) -0.67. B) -1.67. C) -1.5. D) -2.5.

192) Taxes are reduced by £200 million and income increases by £800 million. The value of the tax multiplier is 192) \_\_\_\_\_

- A) -0.25. B) 0.25. C) -4. D) 4.

193) If the tax multiplier is -5 and taxes are reduced by £200 million, output 193) \_\_\_\_\_

A) increases by £1 billion. B) increases by £40 million.

C) falls by £40 million. D) falls by £1 billion.

194) If taxes are £20 billion, the equilibrium level of output is £600 billion. If taxes increase to £30 billion, everything else the same, the equilibrium level of output falls to £550 billion.

The value of the tax multiplier 194) \_\_\_\_\_

A) is 5.

B) is -5.

C) is -5.5.

D) cannot be determined from this information because the MPC is not given.

195) The value of the balanced-budget multiplier 195) \_\_\_\_\_

A) is always 1.

B) is always -1.

C) depends on the value of the MPC.

D) is always 0.

196) If the government spending multiplier is 5, then the tax multiplier is 196) \_\_\_\_\_

A) is -4.

B) is -5.

C) is 1.

D) cannot be determined because the MPS is not given.

197) If government spending is increased by £500 and taxes are reduced by £500, equilibrium output will change by 197) \_\_\_\_\_

A) £0.

B) £500.

C) -£500.

D) an amount that cannot be determined from this information.

198) Assume that the MPC is 0.75. By increasing government spending by £400 million, equilibrium output \_\_\_\_\_; and by increasing taxes by £400 million, equilibrium output \_\_\_\_\_. 198) \_\_\_\_\_

A) increases by £1.6 billion, decreases by £1.6 billion

B) increases by £1.6 billion, decreases by £1.2 billion

C) increases by £1.2 billion, decreases by £1.6 billion

D) increases by £400 million, decreases by £400 million

199) You are advising the Prime Minister. The Prime Minister feels that the current unemployment rate is too high. The unemployment rate can be reduced if aggregate output increases. He wants to know what policy to pursue to increase aggregate output by £3 billion. The MPC is 0.8. Which of the following policies should you recommend? 199) \_\_\_\_\_

A) increase government spending by £1.5 billion

B) cut taxes by £0.6 billion

- C) cut taxes by £0.6 billion and to increase government spending by £0.6
- D) increase government spending by £0.6 billion

200) What is "fiscal drag"? 200) \_\_\_\_\_

- A) when inflation puts a given real income into a higher tax bracket
- B) when inflation puts a given nominal income into a higher tax bracket
- C) when inflation reduces real interest rates
- D) when inflation increases tax rates
- E) when inflation reduces real income

201) Fiscal drag is 201) \_\_\_\_\_

- A) when fiscal policy is implemented after monetary policy.
- B) when there are simultaneously high levels of unemployment and inflation.
- C) a situation when tax revenues rise and government expenditure falls as national income rises.
- D) the tendency for automatic stabilisers to reduce the recovery of an economy from the recession.

202) If the economy were booming, we would expect 202) \_\_\_\_\_

- A) government expenditure to be high and tax revenues to be low causing a large budget deficit.
- B) government expenditure to be low and tax revenues to be low so that the government could pay off the national debt.
- C) government expenditure to be low and tax revenues to be high so that the public-sector might be running a surplus.

D) none of the above

203) If the economy were in recession, we would expect 203) \_\_\_\_\_

A) government expenditure to be high and tax revenues to be low causing a large public-sector deficit.

B) government expenditure to be high and tax revenues to be high so that the government might have a large PSDR.

C) government expenditure to be low and tax revenues to be low so that the government could run a public sector surplus.

D) none of the above

204) Which of the following is NOT an example of fiscal drag? 204) \_\_\_\_\_

A) The economy is in stage 1 of the trade cycle. Despite reductions in corporate tax, recovery from the recession is hesitant and therefore expenditure on unemployment benefit remains high.

B) The economy is in stage 2 of the trade cycle and as national income rises, so too does the amount of tax revenue.

C) The economy is in stage 3 of the trade cycle. Since the economy is booming, the Chancellor can afford to make some tax cuts.

D) The economy is booming and the government engages in a programme of privatisation that reduces government expenditure and frees up resources for use by the private sector.

205) A rise in government spending of £x will lead to a rise in injections that is smaller than £x if 205) \_\_\_\_\_

- A) parents decide to send their children to state schools rather than to private schools when the Dept of Education's budget increases.
- B) the Department of Transport is given an increase in its funds for the roadbuilding programme.
- C) the Department of Education states that there will now be sufficient funds to finance the education of all 4-year-olds.
- D) the government's funding of a major tourist attraction attracts an equivalent level of funding from the European community.

206) Fiscal policy which does not involve any changes in money supply is called 206)

\_\_\_\_\_

- A) discretionary fiscal policy. B) fiscal drag.
- C) pure fiscal policy. D) fiscal stance.

207) Which of the following is NOT a lag that affects the working of fiscal policy. A lag between: 207) \_\_\_\_\_

- A) action being taken and effects happening.
- B) action being taken and expectations being formed.
- C) it being noticed and action being taken.
- D) a problem happening and it being noticed.

208) Which of the following is NOT an undesirable side effect of discretionary fiscal policy?

208) \_\_\_\_\_

- A) cuts in spending may harm the poor

B) tax changes could have disincentive effects

C) raising taxes raises prices

D) tax changes may change expectations

209) Carrying out fiscal policy is a political matter. In a \_\_\_\_\_ the \_\_\_\_\_ would \_\_\_\_\_.

A) slump, left, lower taxes B) boom, right, increase taxes

C) slump, left, increase spending D) boom, right, increase spending

210) The idea that consumption spending is related to some idea of probable future income rather than present income is called the 210) \_\_\_\_\_

A) money illusion. B) fallacy of composition.

C) paradox of thrift. D) permanent income hypothesis.

211) The direct exchange of goods and services for other goods and services is 211) \_\_\_\_\_

A) a unit of account exchange. B) a fiat exchange.

C) barter. D) a legal tender exchange.

212) Mike makes excellent cheesecake and Sue is very good at changing the oil in a car. Sue agrees to change the oil in Mike's car, if he makes her a cheesecake. This is an example of 212)

\_\_\_\_\_

A) commodity money. B) fiat money.

C) barter. D) legal tender.



213) Which of the following statements does NOT constitute one of the weaknesses of a barter economy? 213) \_\_\_\_\_

- A) People are generally uninterested in exchanging goods with one another.
- B) Some stores of value are not easily divisible.
- C) Some stores of value are difficult to transport.
- D) Both parties to an exchange must want what the other has.

214) The development of money as a medium of exchange has facilitated the expansion of trade because 214) \_\_\_\_\_

- A) holding money increases people's wealth.
- B) money eliminates the barter "double coincidence of wants" problem.
- C) no other mediums of exchange are available.
- D) holding money increases people's income.

215) A medium of exchange is 215) \_\_\_\_\_

- A) a standard unit that provides a consistent way of quoting prices.
- B) what sellers generally accept and buyers generally use to pay for goods and services.
- C) an asset that can be used to transport purchasing power from one period of time to another.
- D) the ability to buy something today but to defer payment to the future.

216) Diana won \$100 at a bingo game. She deposits her \$100 winnings into a building society account so that she can use the money next year to pay her tuition fees. This is an

example of money serving as 216) \_\_\_\_\_

A) a store of value. B) a medium of exchange.

C) a unit of account. D) an investment good.

217) John received an income tax refund of £100 in May 1999. He put this money in a shoebox in his wardrobe so that he could spend it when he went on holiday to Ibiza in July 1999. This is an example of money serving as 217) \_\_\_\_\_

A) a unit of account. B) an investment good.

C) a store of value. D) a medium of exchange.

218) A store of value is 218) \_\_\_\_\_

A) the ability to buy something today but to defer payment to the future.

B) a standard unit that provides a consistent way of quoting price.

C) what sellers generally accept and buyers generally use to pay for goods and services.

D) an asset that can be used to transport purchasing power from one period of time to another.

219) The main disadvantage of using money as a store of value is that 219) \_\_\_\_\_

A) the value of money actually falls when the prices of goods and services rise.

B) money is not portable.

C) it requires a double coincidence of wants.

D) currency is intrinsically worthless.

220) The liquidity property of money is the property that makes money 220) \_\_\_\_\_

- A) a good store of value and a good standard of deferred payment.
- B) a good medium of exchange and a good store of value.
- C) a good store of value and a good unit of account.
- D) a good medium of exchange and a good unit of account.

221) A unit of evaluation is 221) \_\_\_\_\_

- A) an asset that can be used to transport purchasing power from one period of time to another.
- B) the ability to buy something today but to defer payment to the future.
- C) a standard unit that provides a consistent way of quoting prices.
- D) what sellers generally accept and buyers generally use to pay for goods and services.

222) Floral Plus, a wholesale supplier of real and silk flowers, carries 200 different stock lines.

In January 1999, Floral Plus estimates the value of flowers in its warehouses at £400,000.

This is an example of using money as 222) \_\_\_\_\_

- A) a medium of exchange.
- B) a standard of deferred payment.
- C) a unit of evaluation.
- D) a store of value.

223) A shopping guide quotes the price of good X at £10 and good Y at £20. This is an example of money serving as 223) \_\_\_\_\_

- A) an investment good. B) a store of value.

C) a medium of exchange. D) a unit of evaluation.

224) If people start to sell a currency and buy gold it means that they distrust that currency as

224) \_\_\_\_\_

A) a means of adding up assets.

B) a standard for payments over time.

C) a medium of exchange.

D) a store of value.

225) An item used as money that also has intrinsic value in some other use is 225) \_\_\_\_\_

A) token money. B) legal tender.

C) hard currency. D) commodity money.

226) On the island of Gulem, chocolate biscuits are used as money. This is an example of

226) \_\_\_\_\_

A) near money. B) commodity money.

C) legal money. D) token money.

227) Money that can be directly used for transactions is 227) \_\_\_\_\_

A) near money. B) broad money.

C) M4. D) narrow money.

228) Narrow money is 228) \_\_\_\_\_

- A) M0 only. B) N1BM1 and M2 only.  
C) M0, N1BM1 and M2. D) N1BM1 only.

229) Which of the following institutions would not be considered a financial intermediary?

229) \_\_\_\_\_

- A) commercial banks B) car insurance companies  
C) pension funds D) life insurance companies

230) The value of a firm to its stockholders or owners is its 230) \_\_\_\_\_

- A) liabilities. B) capital. C) deposits. D) assets.

231) A loan made by a bank is considered \_\_\_\_\_ of that bank. 231) \_\_\_\_\_

- A) a liability B) an investment  
C) an asset D) capital

232) A time deposit in a bank is considered \_\_\_\_\_ of that bank. 232) \_\_\_\_\_

- A) capital B) an asset  
C) a liability D) an investment

233) Pound Bank has £100 million in deposits.

Pound Bank is meeting its liquidity ratio requirement and has no excess liquidity.

It has £20 million in liquid assets.

Pound Bank faces a required reserve ratio of 233) \_\_\_\_\_

A) 25%. B) 4%. C) 1.25%. D) 20%.

234) Bank One has £100 million in liquid assets.

Bank One is meeting its liquidity ratio requirement and has no excess liquidity.

The required liquidity ratio is 20%.

Bank One's demand deposits are 234) \_\_\_\_\_

A) £500 million. B) £120 million.

C) £600 million. D) £200 million.

235) Northland Bank plc has £100 million in deposits.

The required liquidity ratio is 10%.

Northland Bank must keep \_\_\_\_\_ in liquid assets. 235) \_\_\_\_\_

A) £6 million B) £100 million

C) £160 million D) £60 million

236) When a bank has no excess liquidity, and thus can make no more advances, it can be said to be 236) \_\_\_\_\_

A) bankrupt. B) in receivership.

C) ripe for takeover. D) loaned up.

237) Pound Bank is currently fully "loaned up."

If the required liquidity ratio is lowered, 237) \_\_\_\_\_

A) Pound Bank's capital will increase.

- B) Pound Bank's actual liquidity will increase, but it will still be fully loaned up.
- C) Pound Bank will still be loaned up because it did not receive any additional deposits.
- D) Pound Bank will have excess liquidity on which it can make additional loans that it can lend out.

238) Banks can create money 238) \_\_\_\_\_

- A) by offering financial services, such as money market accounts.
- B) by paying interest to their depositors.
- C) only by illegally printing additional currency notes.
- D) by making loans that result in additional deposits.

239) The value by which total deposits can increase for every pound increase in reserves is the 239) \_\_\_\_\_

- A) credit limit. B) liquidity ratio.
- C) money multiplier. D) none of the above.

240) The ratio of reserves to the total of deposits is the 240) \_\_\_\_\_

- A) money multiplier. B) credit limit.
- C) liquidity ratio. D) none of the above.

241) Assume the banking system is "closed" [all deposits are made in the banking system].

The liquidity ratio is 25%.

If a new deposit of £100 is made, total deposits can increase by 241) \_\_\_\_\_

A) £40,000. B) £10,000. C) £50,000. D) £25,000.

242) Which of the following activities is one of the responsibilities of the Bank of England?

242) \_\_\_\_\_

A) advising on income tax rates

B) administration of the indirect taxation system

C) auditing central and local government accounts

D) ensuring that there is sufficient liquidity in the financial system

243) The Home Loan Bank has £40 million in deposits and is fully loaned up.

The liquidity ratio is increased.

The Home Loan Bank finds that 243) \_\_\_\_\_

A) its capital decreases.

B) it must lower the interest rate that it charges on loans.

C) it now has excess liquid assets to lend.

D) it has insufficient liquid assets on hand.

244) The banking system has deposits of £100 million and no excess liquidity.

The liquidity ratio is reduced from 25% to 20%.

If there are no leakages from the banking system, the banking system 244) \_\_\_\_\_

A) could make additional loans up to £5 million.

B) could make additional loans up to £20 million.

C) could not make any additional loans because it has not received any new deposits.



D) could make additional loans up to £25 million.

245) The banking system has £100 million in deposits.

The liquidity ratio is 20%.

The Bank of England wants to increase deposits in the banking system to £150 million.

There are no leakages from the banking system.

Deposits would increase to £150 million if the liquidity ratio is 245) \_\_\_\_\_

A) increased to 25%. B) reduced to 10%.

C) increased to 40%. D) reduced to 5%.

246) Assume that all commercial banks are loaned up.

Total deposits in the banking system are £100 million.

The liquidity ratio is increased from 20% to 25%.

The money supply will 246) \_\_\_\_\_

A) decrease by £40 million.

B) decrease by £5 million.

C) decrease by £10 million.

D) not change because there was no change in deposits.

247) The central bank of the United Kingdom is known as 247) \_\_\_\_\_

A) the money market. B) Lloyds

C) the Bank of England. D) the Treasury.

248) Which of the following activities is NOT one of the responsibilities of the Bank of England? 248) \_\_\_\_\_

- A) clearing interbank payments
- B) managing exchange rates
- C) administering the tax system
- D) regulating the banking system

249) Close substitutes for transactions money are known as 249) \_\_\_\_\_

- A) token monies.
- B) commodity monies.
- C) legal tender.
- D) near monies.

250) Which of the following is the best example of a near money? 250) \_\_\_\_\_

- A) a valuable painting
- B) a treasury bill
- C) a share in a "blue-chip" company
- D) a £5 note

251) M0 consists of 251) \_\_\_\_\_

- A) Notes and coins in circulation with the public + banks' till money + operational balances at the Bank of England.
- B) Banks' till money + operational balances at the Bank of England.
- C) Banks' till money + operational balances in the Bank of England + private sterling sight deposits.
- D) Banks' operational balances at the Bank of England + Private sterling sight deposits.

252) An advantage of using M2 instead of M1 as the measure for money is that 252) \_\_\_\_\_

- A) M2 includes banks' till money.
- B) M2 includes banks' operational balances at the Bank of England.
- C) M2 does not include notes and coins in circulation with the public.
- D) M2 includes retail building society deposits.

253) The liquidity ratio is 10%. The money multiplier is 253) \_\_\_\_\_

- A) 1. B) 9. C) 10. D) .1.

254) The liquidity ratio is 20%. The money multiplier is 254) \_\_\_\_\_

- A) .8. B) .2. C) 5. D) 10.

255) If the money multiplier is 2, the required reserve ratio is 255) \_\_\_\_\_

- A) 2%. B) 25%. C) 50%. D) 20%.

256) Assume that banks become more conservative in their lending policies, and start holding some excess liquid assets.

Compared to a situation in which banks are not holding excess reserves, the size of the money multiplier will be 256) \_\_\_\_\_

- A) the same. B) larger. C) zero. D) smaller.

257) As the liquidity ratio is decreased, the money multiplier 257) \_\_\_\_\_

- A) remains the same, as long as banks hold no excess reserves.

B) increases.

C) could either increase or decrease.

D) decreases.

258) Assume that some people who receive bank loans do not deposit the full amount of the loan into a bank. This will cause the money multiplier to be \_\_\_\_\_ the money multiplier that results when all loans are deposited in banks. 258) \_\_\_\_\_

A) greater than

B) either greater than or smaller than

C) smaller than

D) the same as

259) A money multiplier of 8 means that an increase in liquid assets of £1 could cause an increase in deposits of \_\_\_\_\_ if there were no leakage out of the system. 259) \_\_\_\_\_

A) £1.00 B) £1.80 C) £80 D) £8.00

260) A bank has excess liquid assets to lend but is unable to find anyone to borrow the money.

This will \_\_\_\_\_ the size of the money multiplier. 260) \_\_\_\_\_

A) double B) have no effect on

C) reduce D) increase

261) A £20,000 bond that pays £1,000 a year in interest has an interest rate of 261) \_\_\_\_\_

A) 5%. B) 10%. C) 2%. D) 1%.

262) The main reason that people hold money - to buy things - is referred to as the 262)

\_\_\_\_\_

- A) profit motive. B) speculation motive.
- C) precautionary motive. D) transactions motive.

263) When economists speak of the "demand for money", which of the following questions are they asking? 263) \_\_\_\_\_

- A) How much cash do you wish you could have?
- B) How much wealth would you like?
- C) How much income would you like to earn?
- D) What proportion of your financial assets do you want to hold in non-interest bearing forms?

264) If output increases and the interest rate remains constant, there will be 264) \_\_\_\_\_

- A) a decrease in the quantity of money demanded.
- B) a decrease in the quantity of money supplied.
- C) an increase in the quantity of money supplied.
- D) an increase in the quantity of money demanded.

265) If the amount of money demanded by households and firms is less than the amount in circulation as determined by the Bank of England, 265) \_\_\_\_\_

- A) the interest rate will decrease.
- B) the money supply will increase.

- C) the interest rate will increase.
- D) the money supply will decrease.

266) If the amount of money demanded by households and firms is greater than the amount in circulation as determined by the Bank of England, 266) \_\_\_\_\_

- A) the interest rate will decrease.
- B) the money supply will increase.
- C) the interest rate will increase.
- D) the money supply will decrease.

267) An increase in aggregate output causes the demand for money to \_\_\_\_\_ and the interest rate to \_\_\_\_\_. 267) \_\_\_\_\_

- A) decrease, increase B) increase, decrease
- C) increase, increase D) decrease, decrease

268) A decrease in aggregate output causes the demand for money to \_\_\_\_\_ and the interest rate to \_\_\_\_\_. 268) \_\_\_\_\_

- A) decrease, increase B) decrease, decrease
- C) increase, increase D) increase, decrease

269) Money demand is a function of all the following variables except the 269) \_\_\_\_\_

- A) price level. B) tax rate.
- C) interest rate. D) level of real income.

270) Stagflation is the most difficult macroeconomic problem for the Chancellor of the Exchequer to address because 270) \_\_\_\_\_

A) if the Bank of England reduces the money supply, the inflation rate will fall, but so will output, which is already quite low.

B) if the Bank of England reduces the money supply, output will rise, but so will the inflation rate, which is already quite high.

C) if the Bank of England expands the money supply, the inflation rate will fall, but so will output, which is already quite low.

D) if the Bank of England expands the money supply, the inflation rate will rise even higher and output will fall even lower.

271) The economy is experiencing both low output and high inflation. Which of the following is TRUE? 271) \_\_\_\_\_

A) If the Chancellor of the Exchequer dislikes low output more than high inflation, he should try to persuade the Bank of England to contract the money supply.

B) If the Chancellor of the Exchequer dislikes high inflation more than low output, he should try to persuade the Bank of England to expand the money supply.

C) If the Chancellor of the Exchequer dislikes high inflation more than low output, he should try to persuade the Bank of England to contract the money supply.

D) In this situation the Chancellor of the Exchequer will always try to persuade the Bank of England to contract the money supply.

272) The belief that the money supply should change to "accommodate" changes in aggregate demand is held by 272) \_\_\_\_\_

A) Keynesians. B) monetarists.

C) A and B D) neither A nor B

273) The belief that inflation is caused by too much money, and that the aim should be to have "sound money" is held by 273) \_\_\_\_\_

A) monetarists. B) Keynesians.

C) A and B. D) neither A nor B.

274) The banking system has £200 million in deposits. The bank liquidity ratio is 20%. The Bank of England wants to increase deposits in the banking system to £400 million. There are no leakages from the banking system. Deposits would increase to £400 million if the liquidity ratio were: 274) \_\_\_\_\_

A) increased to 25%. B) increased to 40%.

C) reduced to 10%. D) reduced to 5%.

275) Assume that all commercial banks are making their maximum amount of loans possible. Total deposits in the banking system are £5 million. The liquidity ratio is increased from 20% to 25%. The money supply will: 275) \_\_\_\_\_

A) decrease by £40 million.

B) decrease by £5 million.

C) not change because there was no change in deposits.



D) decrease by £10 million.

276) Monetarists have tended not to use changes in the liquidity ratio as a means of controlling the money supply because: 276) \_\_\_\_\_

A) they feel that banks should be free from government restrictions.

B) a change in the liquidity ratio has only a very small impact on the money supply.

C) it takes a long time for the Bank of England to approve a change in the liquidity ratio.

D) only banks that are members of the Bank of England are subject to reserve requirements, and most banks do not belong to the Bank of England.

277) A government wishing to operate a tighter monetary policy might: 277) \_\_\_\_\_

A) lower interest rates to encourage spending and discourage savings.

B) work to lower the exchange rate.

C) promote investment in other countries by British firms.

D) raise interest rates and manipulate the money supply.

278) Some argue that the demand curve for money is unstable and its position is difficult to predict. The main reason for this is: 278) \_\_\_\_\_

A) that consumer tastes change.

B) speculation over inflation, interest rates, exchange rates and the rate of growth of the economy.

C) the banks' ability to create credit fluctuates depending on their liquidity ratio.

D) that individuals do not behave in rational ways.

279) Which of the following instruments is not used by the Bank of England to change the money supply? 279) \_\_\_\_\_

- A) bank rate B) the tax system
- C) the liquidity ratio D) open market operations

280) Which of the following actions by the Bank of England will result in a decrease in the money supply? 280) \_\_\_\_\_

- A) imposing a higher liquidity rate on banks
- B) a decrease in government spending
- C) buying government securities in the open market
- D) a decrease in the bank rate

281) If the Bank of England sets the money supply independent of the interest rate, then the money supply curve is 281) \_\_\_\_\_

- A) downward sloping. B) horizontal.
- C) vertical. D) upward sloping.

282) When economists refer to "tight" monetary policy, they mean that the Bank of England is taking actions that will 282) \_\_\_\_\_

- A) contract the money supply.
- B) expand the money supply.
- C) increase the demand for money.

D) decrease the demand for money.

283) An example of a tight monetary policy is 283) \_\_\_\_\_

A) the Bank of England selling government securities in the open market.

B) a decrease in the bank rate.

C) an increase in the tax rate.

D) a decrease in the liquidity ratio.

284) An example of a tight monetary policy is 284) \_\_\_\_\_

A) a decrease in the tax rate.

B) the Bank of England buying government securities in the open market.

C) a decrease in the bank rate.

D) an increase in the liquidity ratio.

285) When economists refer to "easy" monetary policy, they mean that the Bank of England is taking actions that will 285) \_\_\_\_\_

A) contract the money supply.

B) decrease the demand for money.

C) increase the demand for money.

D) expand the money supply.

286) Which of the following is an example of an easy monetary policy? 286) \_\_\_\_\_

A) a decrease in the tax rate

- B) an increase in the liquidity ratio
- C) a decrease in the bank rate
- D) the Bank of England selling government securities in the open market

287) The Bank of England is likely to be asked by the Chancellor of the Exchequer to increase the money supply during times of 287) \_\_\_\_\_

- A) low output and high inflation. B) low output and low inflation.
- C) high output and low inflation. D) high output and high inflation.

288) The Bank of England is likely to be asked by the Chancellor of the Exchequer to decrease the money supply during times of 288) \_\_\_\_\_

- A) low output and high inflation. B) low output and low inflation.
- C) high output and high inflation. D) high output and low inflation.

289) The economy's unemployment rate is 10% and the inflation rate is 1%. The most appropriate policy for the Chancellor of the Exchequer ask the Bank of England to pursue would be to 289) \_\_\_\_\_

- A) reduce the money supply to try to bring the inflation rate to zero.
- B) increase the money supply to try to reduce the unemployment rate.
- C) do nothing because the inflation rate is so low.
- D) raise interest rates to try to stimulate saving.

290) The economy's unemployment rate is 3% and the inflation rate is 15%. The most

appropriate policy for the Chancellor of the Exchequer to ask the Bank of England to pursue would be to 290) \_\_\_\_\_

- A) reduce the money supply to try to reduce the inflation rate.
- B) raise interest rates to try to stimulate saving.
- C) increase the money supply to try to reduce the unemployment rate.
- D) do nothing because the unemployment rate is so low.

291) Which of the following represents an action by the Bank of England which is designed to increase the money supply? 291) \_\_\_\_\_

- A) buying government securities in the open market
- B) an increase in the bank rate
- C) an increase in government spending
- D) an increase in the liquidity ratio

292) Which of the following represents an action by the Bank of England which is designed to decrease the money supply? 292) \_\_\_\_\_

- A) a decrease in the liquidity ratio
- B) a decrease in the bank rate
- C) an increase in tax rates
- D) selling government securities in the open market

293) The best instrument for controlling week-to-week changes in the money supply is: 293) \_\_\_\_\_

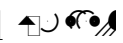
- A) the liquidity ratio. B) the bank rate.  
C) open market operations. D) moral suasion.

294) An open market purchase of securities by the Bank of England results in \_\_\_\_\_ in reserves and \_\_\_\_\_ in the supply of money. 294) \_\_\_\_\_

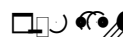
- A) a decrease, a decrease B) a decrease, an increase  
C) an increase, an increase D) an increase, a decrease

295) An open market sale of securities by the Bank of England results in \_\_\_\_\_ in reserves and \_\_\_\_\_ in the supply of money. 295) \_\_\_\_\_

- A) a decrease, a decrease B) a decrease, an increase  
C) an increase, a decrease D) an increase, an increase

296) Assume that there is no leakage from the banking system and that all banks are lending their maximum amount. The liquidity ratio is 25%. If the Bank of England buys  worth of government securities from the public, the change in the money supply will be 296) \_\_\_\_\_

- A) -£12.5 million. B) -£20 million.  
C) £20 million. D) £12.5 million.

297) Assume that there is no leakage from the banking system and that all banks are lending their maximum amount. The liquidity ratio is 20%. If the Bank of England sells  worth of government securities to the public, the change in the money supply will be 297) \_\_\_\_\_

\_\_\_\_\_

A) -£50 million. B) £50 million.

C) -£20 million. D) £20 million.

298) The money supply has increased from £100 trillion to £101 trillion. Which of the following could have caused this increase? 298) \_\_\_\_\_

A) The Bank of England increased the bank rate.

B) Banks began to hold excess reserves.

C) Consumers who were holding money outside the banking system deposit this money to buy government securities.

D) The Bank of England sold government securities to the public.

299) What is the effect of raising banks' minimum reserve asset ratios? 299) \_\_\_\_\_

A) The amount of credit available to borrowers will be reduced.

B) The amount of credit available to borrowers will be increased.

C) The Central Bank will sell bills in the money markets.

D) Commercial banks will place special deposits with the central bank.

300) The interest rate that discount houses pay to borrow money from the Bank of England is the: 300) \_\_\_\_\_

A) bank rate. B) reserve rate.

C) prime lending rate. D) government funds rate.

301) Which of the following represents an action by the Bank of England which is designed to increase the money supply? 301) \_\_\_\_\_

- A) a decrease in the bank rate
- B) a decrease in tax rates
- C) an increase in the liquidity ratio
- D) selling government securities in the open market

302) Which of the following represents an action by the Bank of England which is designed to decrease the money supply? 302) \_\_\_\_\_

- A) an increase in the bank rate
- B) a decrease in government spending
- C) buying government securities in the open market
- D) a decrease in the liquidity ratio

303) The bank rate cannot be used to control the money supply with great precision because 303) \_\_\_\_\_

- A) there is a maximum amount of money that the discount houses can borrow from the Bank of England in any one year.
- B) its effects on banks' demand for reserves are uncertain.
- C) a change in the bank rate will not affect a bank until two weeks after the change is implemented.
- D) only banks that are members of the Bank of England can borrow from the Bank of England, and most banks are not members of the Bank of England.



304) Assume that banks are holding excess reserves because firms and consumers are not willing to borrow money. A decrease in the bank rate is likely to 304) \_\_\_\_\_

A) decrease the money supply because it will now be more expensive for firms and consumers to borrow money.

B) increase the money supply because it is now cheaper for discount houses to borrow from the Bank of England.

C) not change the money supply because banks already have excess reserves they cannot lend.

D) decrease the money supply because it is now cheaper for discount houses to borrow from the Bank of England instead of buying government securities.

305) The Bank of England sometimes sells Treasury Bills to recognised banks at very attractive prices, its aim is to 305) \_\_\_\_\_

A) keep interest rates down.

B) keep interest rates up.

C) help the banks that have a liquidity problem.

D) A and B.

306) Which of the following does NOT cause problems in controlling the money supply? 306) \_\_\_\_\_

A) PSDR B) competition between banks

C) increasing use of credit cards D) budget deficits

307) Monetary base control is a policy that focuses on 307) \_\_\_\_\_

- A) cash.
- B) consumer credit.
- C) cash and deposits at the Bank of England.
- D) broad liquidity.

308) The Bank of England has not used "Special Deposits" to control the recognised banks since 308) \_\_\_\_\_

- A) 1981. B) 1985. C) 1979. D) 1992.

309) What is Goodhart's Law? 309) \_\_\_\_\_

- A) If you control the indicator of a problem, rather than the problem itself, the indicator will lose its indicative value.
- B) There is no point in trying to use indicators for the formulation of monetary policy.
- C) Money supply cannot be controlled.
- D) Interest rates should be kept as low as possible.

310) The Medium Term Financial Strategy describes the monetary policy followed by the 310) \_\_\_\_\_

- A) UK conservative government in the 1980s.
- B) UK conservative government in the 1990s.
- C) European central bank from 1998.
- D) UK labour government from 1997.

311) The Bank of England experienced difficulties in controlling the 1980s credit boom. One of the reasons was that the conservative government would not allow the Bank of England to suggest to banks that they should be more prudent in their lending to private individuals. This practice of asking the commercial banks to do things which might reduced their profits was known as 311) \_\_\_\_\_

- A) exchange control. B) moral suasion.
- C) monetary control. D) open market operations.

312) Disintermediation occurs when 312) \_\_\_\_\_

- A) the Bank of England is made independent of the Treasury.
- B) banks take over building societies.
- C) consumers obtain credit from institutions not subject to Bank of England control.
- D) building societies become banks.

313) In Britain in the 1990s, fine-tuning of the economy was done mainly by the use of 313) \_\_\_\_\_

- A) taxes on imports and subsidies on exports so as to balance the two.
- B) increasing and decreasing government expenditure.
- C) changing interest rates.
- D) increasing and decreasing taxes.

314) Between 1981 and 1989, on average, money incomes rose by about 8% a year and

consumer borrowing rose by about 314) \_\_\_\_\_

A) 12%. B) 20%. C) 16%. D) 8%.

315) An economic problem NOT caused by the 1981-1989 credit boom was 315) \_\_\_\_\_

A) unemployment. B) balance of payment deficit.

C) inflation. D) rapidly rising house prices.

316) What is/are the main target(s) of bank of England interest rate changes 316) \_\_\_\_\_

A) aggregate demand. B) the exchange rate.

C) A and B. D) neither A nor B.

317) If the bank of England raises interest rates it will 317) \_\_\_\_\_

A) raise aggregate demand and raise the exchange rate.

B) lower aggregate demand and raise the exchange rate.

C) lower aggregate demand and lower the exchange rate.

D) raise aggregate demand and lower the exchange rate.

318) Which of the following will make it easier for the Bank of England to control the commercial banks? 318) \_\_\_\_\_

A) if they have few competitors in their business of lending to consumers

B) if the banks are financially very sound

C) if they have many competitors in their business of lending to consumers

D) A and B

319) Which of the following is NOT an argument for an independent central bank? 319)

\_\_\_\_\_

- A) can have longer run aims than politicians appear to have
- B) may be more credible and thus have more influence on expectations
- C) has a clear legal status and objectives
- D) removes monetary policy from political control

320) Which of the following is a good argument against an independent central bank, it will

320) \_\_\_\_\_

- A) keep monetary policy separate from other economic policies.
- B) gradually become more dependent on government.
- C) have more influence on expectations than a government institution.
- D) be concerned to maintain its independence.

321) The Keynesian view of the quantity theory of money stresses 321) \_\_\_\_\_

- A) the unstable and unpredictable nature of the velocity of circulation.
- B) the stable and predictable velocity of circulation of money.
- C) the ways that the money supply can be measured accurately in practice.
- D) the constant nature of velocity of circulation of money.

322) The equation  $MV=PT$  is an expression of the quantity theory of money formulated by

322) \_\_\_\_\_

- A) Friedman in 1948.
- B) Keynes in 1933.
- C) Cambridge economists around 1900.
- D) Fisher in 1911.

323) The idea that supply creates demand is called 323) \_\_\_\_\_

- A) the paradox of thrift. B) Fisher's law.
- C) monetarism. D) Say's Law.

324) Which of the following statements is CORRECT? 324) \_\_\_\_\_

- A) When the interest rate rises, it becomes more expensive to borrow, and more investment projects are likely to be undertaken.
- B) When the interest rate rises, it becomes less costly to borrow, and fewer investment projects are likely to be undertaken.
- C) When the interest rate rises, it becomes more expensive to borrow, and fewer investment projects are likely to be undertaken.
- D) When the interest rate rises, it becomes less costly to borrow, and more investment projects are likely to be undertaken.

325) As the interest rate increases, 325) \_\_\_\_\_

- A) planned investment decreases and aggregate expenditure decreases.
- B) planned investment increases, but aggregate expenditure remains constant.
- C) planned investment increases and aggregate expenditure increases.

D) planned investment decreases, but aggregate expenditure remains constant.

326) As the interest rate increases, 326) \_\_\_\_\_

A) planned investment increases, aggregate expenditure decreases, and the equilibrium level of output falls.

B) planned investment decreases, aggregate expenditure increases, and the equilibrium level of output increases.

C) planned investment increases, aggregate expenditure increases, and the equilibrium level of output increases.

D) planned investment decreases, aggregate expenditure decreases, and the equilibrium level of output falls.

327) The equilibrium level of output in the UK will fall if 327) \_\_\_\_\_

A) the price level falls.

B) the money supply increases.

C) the interest rate increases.

D) the demand for money decreases.

328) The notion that the money supply is exogenous, is most closely associated with the view that: 328) \_\_\_\_\_

A) the Central Bank (The Bank of England) has autonomous control over the money supply.

B) the money supply is very volatile.

C) it is difficult to collect empirical evidence on the money supply.

D) the money supply responds to changes in money demand.

329) Monetarists argue that: 329) \_\_\_\_\_

A) if the actual level of national income is below the full employment level, the money supply should be increased.

B) the money supply should be cut in order to deal with the problem of inflation.

C) the money supply should be allowed to grow at a steady and predictable rate.

D) the size of the money supply should be varied to affect changes in aggregate demand.

330) The monetarists think that inflation is caused by 330) \_\_\_\_\_

A) too much money in circulation. B) cost-push.

C) demand-pull. D) trade-unions.

331) According to the traditional Keynesian transmission mechanism, an increase in the money supply will tend to: 331) \_\_\_\_\_

A) raise interest rates and the price of bonds.

B) lead to a fall in investment.

C) raise interest rates and encourage investment.

D) lead to a fall in interest rates and an increase in investment.

332) If we draw a Phillips curve with unemployment on the horizontal axis and inflation on the vertical axis, monetarists think that the long run curve is 332) \_\_\_\_\_

A) vertical. B) horizontal.



C) negatively inelastic. D) negatively elastic.

333) Prices that do not always adjust rapidly in response to changes in demand and supply are called \_\_\_\_\_ prices. 333) \_\_\_\_\_

A) market B) regulatory C) sticky D) fixed

334) As the unemployment rate declines in response to the economy moving closer and closer to capacity output, the aggregate price level 334) \_\_\_\_\_

A) rises at a declining rate. B) rises at an increasing rate.

C) falls at a declining rate. D) falls at an increasing rate.

335) As the economy nears full capacity, the short-run aggregate supply curve 335) \_\_\_\_\_

A) shifts to the left. B) becomes flatter.

C) shifts to the right. D) becomes steeper.

336) If input prices respond very quickly to changes in the overall price level, the short-run aggregate supply curve will be 336) \_\_\_\_\_

A) downward sloping. B) U-shaped.

C) very steep. D) very flat.

337) If one were at neither of the political extremes, as an economist you would believe that an increase in aggregate demand when the economy is operating at low levels of output is likely to result in 337) \_\_\_\_\_

- A) an increase in the overall price level but little increase in output.
- B) an increase in output but little increase in the overall price level.
- C) little increase in either output or the overall price level.
- D) a large increase in both output and the overall price level.

338) The aggregate supply curve is likely to be fairly flat at low levels of aggregate output because 338) \_\_\_\_\_

- A) prices and wages are below their equilibrium levels.
- B) at low levels of output, the additional cost of producing more output is likely to be small.
- C) aggregate demand is low.
- D) interest rates are very low and therefore investment will be increasing.

339) According to the political left, an increase in aggregate demand is likely to result in 339) \_\_\_\_\_

- A) little or no increase in either output or the overall price level.
- B) a large increase in both output and the overall price level.
- C) an increase in output but little or no increase in the overall price level.
- D) an increase in the overall price level but little or no increase in output.

340) According to the political right, an increase in aggregate demand is likely to result in 340) \_\_\_\_\_

- A) an increase in both output and the overall price level.
- B) an increase in the overall price level but no increase in output.

- C) no increase in either output or the overall price level.
- D) an increase in output but no increase in the overall price.

341) If a decrease in taxes in the United Kingdom resulted in a very small increase in aggregate output and a very large increase in the price level, then the economy must have been 341)

\_\_\_\_\_

- A) on the very flat part of the aggregate demand curve.
- B) on the very steep part of the aggregate demand curve.
- C) on the very flat part of the aggregate supply curve.
- D) on the very steep part of the aggregate supply curve.

342) Monetarist models assume that people's expectations of inflation 342) \_\_\_\_\_

- A) are set by merely guessing what the future inflation rate will be.
- B) are determined by looking at all the relevant information and forecasting the future inflation rate.
- C) are set by assuming a continuation of present inflation.
- D) will be zero in the future.

343) For the Phillips curve to slope upward in the short run, 343) \_\_\_\_\_

- A) input prices must adjust immediately to output prices.
- B) input price changes must move ahead of output price changes.
- C) input price changes must lag behind output price changes.
- D) price level changes must be fully anticipated.

344) "Adaptive expectations" are mainly associated with 344) \_\_\_\_\_

- A) Keynesians. B) new-Keynesians.
- C) monetarists. D) new-classical economists.

345) The NAIRU (non-accelerating inflation rate of unemployment) assumes a \_\_\_\_\_  
Phillips curve and \_\_\_\_\_ markets. 345) \_\_\_\_\_

- A) vertical, imperfect B) sloping, imperfect
- C) vertical, perfect D) sloping, perfect

346) Monetarists would cure the problem of stagflation by using a \_\_\_\_\_ monetary policy  
and \_\_\_\_\_ side policies. 346) \_\_\_\_\_

- A) neutral, demand B) restrictive, demand
- C) neutral, supply D) restrictive, supply

347) The natural level of unemployment can be defined as 347) \_\_\_\_\_

- A) voluntary unemployment.
- B) structural unemployment.
- C) frictional + structural unemployment.
- D) frictional unemployment.

348) New Classical theories were an attempt to explain 348) \_\_\_\_\_

- A) the increase in the growth rate during the 1960s.

- B) how unemployment could have persisted for so long during the great depression.
- C) the stagflation of the 1970s.
- D) why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.

349) The key question regarding New Classical Economics is how realistic is the assumption

349) \_\_\_\_\_

- A) that monetary policy affects aggregate demand.
- B) that fiscal policy affects aggregate demand.
- C) that markets do not clear quickly.
- D) of rational expectations.

350) the hypothesis that people know the "true" model of the economy and that they use this model to form their expectations is the \_\_\_\_\_ expectations hypothesis 350) \_\_\_\_\_

- A) adaptive B) lagged C) rational D) passive

351) The rational expectations hypothesis suggests that the forecasts that people make concerning future inflation rates 351) \_\_\_\_\_

- A) are correct on average, but subject to errors that are randomly distributed.
- B) are always correct.
- C) consistently overestimate the actual values.
- D) consistently underestimate the actual values.

352) New classical economists think that 352) \_\_\_\_\_

- A) markets clear very quickly.
- B) high interest rates cause unemployment.
- C) A and B
- D) neither A nor B

353) What definition of unemployment would you expect new classical economists to use?

353) \_\_\_\_\_

- A) Anyone who is currently not working.
- B) Anyone who is actively seeking work.
- C) Anyone who is willing to work if the market wage increases.
- D) Anyone who is willing to work at the current market wage, but has not yet been able to find employment.

354) An assembly-line worker in a car factory loses his job as a result of a sharp decline in new car sales associated with the latest recession.

Employment is available in other lines of work at a lower wage.

The  worker is not willing to accept a job at a lower wage.

An advocate of the classical view of the labour market would conclude that this worker 354)

\_\_\_\_\_

- A) is frictionally unemployed. B) is seasonally unemployed.
- C) is structurally unemployed. D) has chosen to be unemployed.

355) The primary argument against the rational-expectations assumption is that 355) \_\_\_\_\_

- A) it requires households and firms to know too much.
- B) people expect certain outcomes from the government's policy actions.
- C) it assumes that unexploited opportunities for profit persist in the economy.
- D) the costs of formulating rational expectations are very low.

356) According to the New Classical School, if people have rational expectations, then 356) \_\_\_\_\_

- A) they will be able to predict policy changes.
- B) unknown policy changes can produce no price surprises, and thus no increases in real output.
- C) known policy changes can produce price surprises, and thus increases in real output.
- D) known policy changes can produce no price surprises, and thus no increases in real output.

357) Rational-expectations theory suggests there should be 357) \_\_\_\_\_

- A) a role for fiscal policy, but not monetary policy, in the economy.
- B) an extensive role for government policy in the economy.
- C) no role for government policy in the economy.
- D) a very small role for government policy in the economy.

358) New Classicists believe that 358) \_\_\_\_\_

- A) contractionary policies, but not expansionary policies, can have an impact on real output.
- B) neither anticipated nor unanticipated policy changes can have an impact on output.
- C) only unanticipated policy changes can have an impact on output.

D) expansionary policies, but not contractionary policies, can have an impact on real output.

359) New Classicists believe that 359) \_\_\_\_\_

A) unanticipated policy changes have no effect on real output.

B) anticipated policy changes have no effect on real output.

C) anticipated policy changes have a significant effect on real output.

D) the effect that policy changes have on real output is the same, regardless of whether those changes are anticipated or not.

360) According to New Classical analysis a change in government policy can affect real output only if 360) \_\_\_\_\_

A) expansionary policy changes are made.

B) the policy change is correctly anticipated by the public.

C) the policy change is a mix of both fiscal and monetary policy changes.

D) the policy change is a surprise.

361) According to the New Classical School, an announced change in monetary policy affects

361) \_\_\_\_\_

A) the actual price level, but not the expected price level.

B) the expected price level, but not the actual price level.

C) neither the actual price level nor the expected price level.

D) both the actual price level and the expected price level.



362) According to the New Classical School, an announced monetary policy change will lead to 362) \_\_\_\_\_

- A) a positive price surprise for expansionary monetary policy, and a negative price surprise for contractionary monetary policy.
- B) a positive price surprise.
- C) no price surprise.
- D) a negative price surprise.

363) According to the New Classical School, an announced monetary policy change will 363) \_\_\_\_\_

- A) increase output, but never decrease output.
- B) not change output.
- C) decrease output, but never increase output.
- D) either increase or decrease output, depending on the type of monetary policy change.

364) According to the New Classical School, if people's expectations are on target, then the amount of output they produce 364) \_\_\_\_\_

- A) will always be below potential GDP.
- B) is directly related to the price level.
- C) will always be above potential GDP.
- D) is not related to the price level.

365) The New Classical School believes that 365) \_\_\_\_\_

- A) both anticipated monetary and fiscal policy changes will affect real output.
- B) an anticipated monetary policy change will have an effect on real output, but an anticipated fiscal policy change will not have an effect on real output.
- C) an anticipated monetary policy change will have no effect on real output, but an anticipated fiscal policy change will have an effect on real output.
- D) neither anticipated monetary policy changes nor anticipated fiscal policy changes will have an effect on real output.

366) The hypothesis that people know the "true model" of the economy and that they use this model to form their expectations of the future is the 366) \_\_\_\_\_

- A) lagged-expectations hypothesis.
- B) adaptive-expectations hypothesis.
- C) passive-expectations hypothesis.
- D) rational-expectations hypothesis.

367) According to the rational-expectations hypothesis, 367) \_\_\_\_\_

- A) people form expectations of inflation only if the benefits of doing so exceed the costs of not forming expectations.
- B) people assume that the current inflation rate will continue into the future.
- C) people know the true model that generates inflation and use this model to forecast future inflation rates.
- D) if people incorrectly anticipate the inflation rate, they adjust their expectations of inflation by some fraction of the difference between their original forecast and the actual inflation rate.

368) The rational expectations hypothesis suggests that errors in forecasting future inflation rates are due to 368) \_\_\_\_\_

- A) random, unpredictable events.
- B) the fact that people consistently underestimate future inflation.
- C) the fact that people consistently overestimate future inflation.
- D) the fact that people assume that the current inflation rate will continue into the future.

369) People are said to have rational expectations if they 369) \_\_\_\_\_

- A) assume that this year's inflation rate will be the same as last year's inflation rate.
- B) merely guess at the inflation rate.
- C) use all available information in forming their expectations.
- D) assume that this year's inflation rate will be equal to the average inflation rate over the past 10 years.

370) When expectations are rational, disequilibrium in any market 370) \_\_\_\_\_

- A) is only a temporary phenomenon resulting from the tendency for prices to adjust downward quickly but upward slowly.
- B) is a permanent condition resulting from random, unpredictable shocks.
- C) is a permanent condition resulting from institutional rigidities in the economy.
- D) is only a temporary phenomenon resulting from random, unpredictable shocks.

371) If expectations were rational, the multiplier would be 371) \_\_\_\_\_

- A) larger than it's currently estimated value of 1.4.
- B) zero.
- C) infinitely large.
- D) negative.

372) The term Great Depression refers to a prolonged slump in Europe and the USA in the 372)

\_\_\_\_\_

- A) 1930s. B) 1970s. C) 1890s. D) 1920s.

373) Orthodox UK economists and politicians responded to mass unemployment in the 1930s by suggesting 373) \_\_\_\_\_

- A) paying unemployed workers less benefit.
- B) leaving the gold standard.
- C) increased spending on armaments.
- D) devaluing the pound sterling.

374) In the Great Depression the UK Treasury opposed curing unemployment by a "public works" programme because it said that such a programme would 374) \_\_\_\_\_

- A) use resources that would otherwise have been used in the private sector.
- B) push up interest rates and so make private sector projects unprofitable.
- C) push up wages and make exports uncompetitive.
- D) raise incomes, causing increased imports and a trade deficit.

375) Keynesian economics became popular because it was able to explain 375) \_\_\_\_\_

A) prolonged and high unemployment in the 1930s.

B) demand-pull inflation during the 1960s.

C) low growth rates during the 1980s.

D) stagflation in the 1970s.

376) Which of the following would be regarded as Keynesian policies to increase aggregate demand? 376) \_\_\_\_\_

A) a "tight" money policy and control of public sector wages in the Budget

B) an increased budget deficit, increased unemployment benefits and tax cuts

C) an increased budget surplus, control of public and private sector wages and a reduction in government spending

D) a balanced budget, a prices and incomes policy and stable money supply

377) Which of these views is NOT compatible with Keynesian view of the economy? 377) \_\_\_\_\_

A) The recognition that, normally, a situation of disequilibrium exists that can only be corrected by government intervention to counter act involuntary unemployment.

B) High interest rates are favoured since this will lead to increased saving and therefore increased investment.

C) The concept of the "multiplier" that enabled Keynes to explain how economic activity and employment could be greatly increased for a modest level of additional private or public spending.

D) Aggregate demand management is both essential and possible since the government can finance budget deficits to complement private investment that is usually both unstable and unpredictable.

378) In a Keynesian model of the economy, which of the following statements implies that a closed national economy with no government sector is in equilibrium? 378) \_\_\_\_\_

A) The economy has reached the point of full employment.

B) Planned savings and investment are equal (injections equal withdrawals).

C) The level of investment is static.

D) Aggregate consumption expenditure equals aggregate income from producing consumer goods and services.

379) Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of 379) \_\_\_\_\_

A) the economy to grow at a rapid rate during the 1950s.

B) demand management policies during the 1960s.

C) the Classical model to explain the prolonged existence of high unemployment during the Great Depression.

D) economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.

380) In a recession, Keynes argued that if individuals increased their saving 380) \_\_\_\_\_

A) income in the economy would increase because there would be more money available for

firms to invest.

B) income in the economy would remain constant because the change in consumption equal the change in saving.

C) income in the economy would increase because interest rates would fall and the economy would expand.

D) income in the economy would fall because the decreased consumption that results from increased saving would cause the economy to contract.

381) According to Keynes, in a recession, increased efforts to save will cause 381) \_\_\_\_\_

A) a decrease in income and an overall decrease in investment.

B) an increase in income and an increase in overall investment.

C) a decrease in income but an increase in investment.

D) an increase in income but no overall change in investment.

382) According to Keynes, the level of unemployment is determined by 382) \_\_\_\_\_

A) the quantity of money.

B) the level of aggregate demand for goods and services.

C) prices and wages.

D) the behaviour of trade unions.

383) The government increases spending to reduce unemployment. this is an example of 383)

\_\_\_\_\_

A) automatic stabilisers. B) laissez-faire.

C) fine tuning. D) monetarism.

384) the notion that the government can stabilise the macroeconomy is known as 384)

\_\_\_\_\_

A) microeconomics. B) the Classical model.

C) fine tuning. D) Monetarism.

385) Assume that the percentage of the labour force covered by labour contracts that set wages for a predetermined period of time decreases. This will tend to 385) \_\_\_\_\_

A) increase the effectiveness of fiscal policy, but decrease the effectiveness of monetary policy.

B) increase the effectiveness of both monetary and fiscal policy.

C) decrease the effectiveness of both monetary and fiscal policy.

D) have no impact on the effectiveness of either monetary or fiscal policy.

386) The multiplier will be smaller if 386) \_\_\_\_\_

A) people save a lot. B) interest rates are high.

C) interest rates are low. D) the money supply is increased.

387) To get the economy out of a slump, Keynes believed that the government should 387)

\_\_\_\_\_

A) increase taxes and/or decrease government spending.

B) decrease taxes and/or increase government spending.

C) increase both taxes and government spending.



D) cut both taxes and government spending.

388) To take the economy out of a situation of demand-pull inflation, Keynes argued that the government should 388) \_\_\_\_\_

A) cut both taxes and government spending.

B) decrease taxes and/or increase government spending.

C) increase taxes and/or decrease government spending.

D) increase both taxes and government spending.

389) Tackling the problems of the business cycle by alternating policies of deflation and reflation is called 389) \_\_\_\_\_

A) fiscal policy. B) Thatcherism.

C) stop-go. D) automatic stabilisers.

390) The 1970s combination of high unemployment and high inflation was called 390) \_\_\_\_\_

A) stagflation. B) hysteresis.

C) monetarism. D) the great depression.

391) Rapid increases in the price level during periods of high unemployment are known as 391) \_\_\_\_\_

A) stagnation. B) stagflation. C) inflation. D) slump.

392) The persistence of a phenomenon, such as unemployment, even when its "causes" have been removed is called 392) \_\_\_\_\_

- A) ceteris paribus. B) the fallacy of composition.
- C) negative entropy. D) hysteresis.

393) The hysteresis which caused high unemployment to persist from the 1980s into the 1990s can be explained by 393) \_\_\_\_\_

- A) the long term employed had become unemployable.
- B) lack of capital, due to low investment in the 1980s.
- C) firms being able to increase output by pressurising existing employees.
- D) A, B and C

394) Economists who think that real wages can remain high even when unemployment is high, due to the phenomena of efficiency wages and insider-outsider effects are called 394) \_\_\_\_\_

- A) new classical economists. B) monetarists.
- C) Marxists. D) new Keynesians.

395) The insider-outsider model of the labour market was created to explain how 395) \_\_\_\_\_

- A) women were excluded from top managerial jobs.
- B) ethnic minorities suffered high rates of unemployment.
- C) high wages could co-exist with high unemployment.
- D) A, B and C

396) In explaining the labour market an "outsider" is 396) \_\_\_\_\_

A) a contract worker. B) a casual worker.

C) A and B D) neither A nor B

397) Economists who think that institutional and behavioural factors and business confidence lead firms to respond to changes in demand by changing output rather than prices are called 397) \_\_\_\_\_

A) new classical economists. B) monetarists.

C) new Keynesians. D) Marxists.

398) A group of modern economists who believe that institutional factors and confidence strongly influence business behaviour, and that expanding demand will usually increase output more than prices are 398) \_\_\_\_\_

A) New Classical economists. B) Keynesians.

C) Monetarists. D) New Keynesians.

399) If wages are "sticky", then as the demand for labour decreases the wage rate will stick at its original level 399) \_\_\_\_\_

A) but the quantity of labour supplied will fall so that equilibrium is restored in the labour market.

B) but the quantity of labour demanded will fall so that equilibrium is restored in the labour market.

C) and there will be an excess demand for labour.

D) and there will be an excess supply of labour.

400) If a rise in import prices caused UK prices to rise this is commonly called \_\_\_\_\_  
inflation. 400) \_\_\_\_\_

A) cost-push B) exogenous

C) injected D) demand-pull

401) Which of the following is NOT an important part of modern Keynesian thinking? 401)  
\_\_\_\_\_

A) monetary policy rules

B) expectations

C) demand-deficient unemployment

D) cost-push factor

402) The idea that some economic changes are difficult to reverse is called 402) \_\_\_\_\_

A) stagflation.

B) the clockwise Phillips curve.

C) the expectations augmented Phillips curve.

D) hysteresis.

403) The efficiency wage rate can be defined as the wage that ensures 403) \_\_\_\_\_

A) a supply of well-motivated high quality employees.

B) the natural rate of unemployment.

C) full employment.

D) transfer earnings.

404) In the 1950s and 60s Keynesians were in favour of \_\_\_\_\_ fiscal policy and \_\_\_\_\_ monetary policy. 404) \_\_\_\_\_

A) passive, active B) passive, passive

C) active, passive D) active, active

405) The condition of rising unemployment and high inflation in the 1970s was called 405) \_\_\_\_\_

A) stagflation. B) the Phillips curve.

C) stop-go. D) monetarism.

406) In the early 1980s monetarist policies were tried in the UK, and the results were \_\_\_\_\_ inflation \_\_\_\_\_ growth and \_\_\_\_\_ unemployment. 406) \_\_\_\_\_

A) low, fast, high B) high, fast, high

C) low, slow, high D) high, slow, low

407) One of the controversies in macroeconomics between Keynesians and monetarists is whether policies should be "rule-based" or "discretionary".

Monetarists believe that fiscal policy should be \_\_\_\_\_ and monetary policy should be \_\_\_\_\_. 407) \_\_\_\_\_

- A) discretionary, rule-based B) rule-based, discretionary
- C) rule-based, rule-based D) discretionary, discretionary

408) An increase in the money supply aimed at increasing aggregate output is referred to as  
408) \_\_\_\_\_

- A) contractionary monetary policy.
- B) expansionary monetary policy.
- C) expansionary fiscal policy.
- D) contractionary fiscal policy.

409) An example of an expansionary monetary policy is 409) \_\_\_\_\_

- A) the Central Bank buying government securities in the open market.
- B) an increase in the required reserve ratio.
- C) a reduction in the taxes banks pay on their profits.
- D) an increase in the discount rate.

410) The chain of events that results from an expansionary monetary policy is 410) \_\_\_\_\_

- A) money supply increases, the interest rate decreases, planned investment increases, aggregate output increases, and money demand increases.
- B) money demand increases, the interest rate decreases, planned investment increases, aggregate output increases, and money demand increases.
- C) money supply increases, the interest rate increases, planned investment increases, aggregate output increases, and money demand increases.

D) aggregate output increases, the demand for money increases, the interest rate increases, planned investment decreases, output falls.

411) The intended goal of expansionary fiscal and monetary policy is 411) \_\_\_\_\_

- A) an increase in the level of aggregate output.
- B) an increase in the price level.
- C) an increase in interest rates.
- D) the equalisation of the distribution of income.

412) An increase in the money supply aimed at increasing aggregate output is referred to as 412) \_\_\_\_\_

- A) expansionary monetary policy.
- B) expansionary fiscal policy.
- C) contractionary fiscal policy.
- D) contractionary monetary policy.

413) Government policies that focus on increasing production rather than stimulation aggregate demand are known as 413) \_\_\_\_\_

- A) fiscal policies. B) incomes policies.
- C) supply-side policies. D) monetary policies.

414) An important instrument of supply-side policy has been the 414) \_\_\_\_\_

- A) interest rate policy.

- B) tax system.
- C) imposition of wage and price controls.
- D) monetary system.

415) Supply-side policies are government policies 415) \_\_\_\_\_

- A) used to control the money supply.
- B) regarding taxes and expenditures.
- C) that directly attempt to control prices and wages.
- D) that focus on aggregate supply and increasing production.

416) A cut in the tax rate designed to encourage investment is an example of 416) \_\_\_\_\_

- A) a supply side policy. B) a monetary policy.
- C) an inflation policy. D) an incomes policy.

417) Some government regulations imposed on business have the impact of reducing productivity.

The elimination of these regulations would be an example of 417) \_\_\_\_\_

- A) an incomes policy. B) a supply-side policy.
- C) a fiscal policy. D) a monetary policy.

418) Proponents for supply-side policies argue that the best way to increase the supply of goods and services is 418) \_\_\_\_\_

- A) to increase the supply of money in the economy.



- B) to increase government production so that public-sector employment increases.
- C) to stimulate the supply of labour and capital and increase investment.
- D) for the government to directly control prices and wages.

419) Which of the following would be considered a supply-side policy? 419) \_\_\_\_\_

- A) investment tax credits for businesses to encourage investment
- B) an increase in the minimum wage that would cause consumer spending to increase
- C) an increase in government spending that would lead to increased aggregate demand
- D) restrictions placed on the amount that can be imported

420) According to supply-side economists, as tax rates are reduced, labour supply should increase. This implies that 420) \_\_\_\_\_

- A) the income effect of a wage change is greater than the substitution effect of a wage change.
- B) there is no income effect when tax rates are changed.
- C) the substitution effect of a wage change is greater than the income effect of a wage change.
- D) there is no substitution effect when tax rates are changed.

421) The kind of supply-side policy that is NOT likely to be suggested by a Keynesian is 421) \_\_\_\_\_

- A) benefit cuts to encourage people back to work.
- B) training schemes.
- C) investment subsidies.
- D) anti-monopoly policy.

422) The kind of supply-side policy that IS likely to be suggested by a Keynesian is 422)

\_\_\_\_\_

- A) reducing government expenditure to prevent crowding out.
- B) reducing taxes to increase incentives.
- C) reducing welfare benefits to increase incentives.
- D) tax credits for investment projects.

423) Which one of the following supply-side policies was not used in the UK in the 1980s?

423) \_\_\_\_\_

- A) A reduction of the PSBR.
- B) Regional grants to encourage industrial relocation.
- C) Limiting the automatic entitlement to certain welfare benefits.
- D) Controls on both public- and private-sector prices and incomes to prevent inflation.
- E) Deregulation and privatisation of British industry.

424) Deindustrialisation refers to 424) \_\_\_\_\_

- A) the growth in science parks where only high-technology industries are located.
- B) the decline. in the country's manufacturing base.
- C) the movement back to an agriculturally based economy.
- D) the growth in the service sector.
- E) the modernisation of manufacturing industry.

425) One of the aims of supply-siders who are on the political right is to reduce government spending.

In the 1980s in the UK which category of government expenditure was NOT targeted for reduction? 425) \_\_\_\_\_

- A) assistance to poorer regions of the country
- B) military spending
- C) welfare payments to disabled people
- D) assistance to industry

426) According to supply-side economists, if taxes are cut so that people have an increased incentive to work and businesses have an increased incentive to invest 426) \_\_\_\_\_

- A) aggregate supply will increase, aggregate demand will decrease and the price level will decrease.
- B) both aggregate supply and demand will increase and the price level will increase.
- C) aggregate supply will increase, aggregate output will increase, and the price level will decrease.
- D) aggregate supply will increase, aggregate output will increase, and the price level will increase.

427) If the government cuts the tax rate on company profits the result will be 427) \_\_\_\_\_

- A) higher dividends.
- B) dependent on the relative strength of the income and substitution effects.
- C) price cuts.

D) increased investment.

428) In 1993 the UK [Thatcher] government abolished Wages Councils which set minimum wages in clothing, fast food and retailing where unions either did not exist or were very weak.

The government stated that this would 428) \_\_\_\_\_

A) reduce unemployment.

B) weaken the power of trade unions.

C) reduce poverty.

D) help small businesses.

429) If a government manages to have a pleasant budget just before an election this is called

429) \_\_\_\_\_

A) demand management. B) stop-and-go.

C) monetarism. D) the political business cycle.

430) The political business cycle is most likely to take place if a country has elections 430)

\_\_\_\_\_

A) any time the government decides up to five years.

B) every year.

C) every four years.

D) never.

431) Countries have internal and external policy objectives. Internal objectives include 431)

- 
- A) encouraging international trade.
  - B) stable exchange rates.
  - C) balance of payments equilibrium.
  - D) stable interest rates.

432) Countries have internal and external policy objectives. External objectives include 432)

- 
- A) stable exchange rates. B) economic growth.
  - C) low unemployment. D) low inflation.

433) External balance in the narrow sense is where there is 433) \_\_\_\_\_

- A) a current-plus-capital account balance.
- B) a total currency flow balance.
- C) no movement into or out of the reserves.
- D) a current account balance.
- E) no need for tariffs or quotas.

434) The record of a country's transactions in goods, services and assets with the rest of the world is its 434) \_\_\_\_\_

- A) capital account. B) balance of trade.
- C) balance of payments. D) current account.

435) The difference between a country's merchandise exports and its' merchandise imports is its

435) \_\_\_\_\_

A) balance of trade. B) current account.

C) balance of payments. D) capital account.

436) The balance of payments is divided into 2 major accounts, the 436) \_\_\_\_\_

A) current and reserve accounts. B) current and capital accounts.

C) current and trade accounts. D) trade and capital accounts.

437) Which of the following statements is correct? 437) \_\_\_\_\_

A) If the current account is in deficit the capital account must also be in deficit.

B) The overall sum of all the entries in the balance of payments must be positive.

C) The overall sum of all the entries in the balance of payments must be zero.

D) If the current account is in surplus the capital account must also be in surplus.

438) Which of the following statements is true? 438) \_\_\_\_\_

A) If the current account is in surplus the capital account must be in deficit.

B) A country has a capital account deficit if it imports more than it exports.

C) A country has a current account surplus if it sells more of its assets abroad than it buys overseas assets.

D) The overall sum of the entries in the balance of payments must be positive.

439) If the European central Bank cuts interest rates and the Bank of England does not, it is

likely that the value of the £ will \_\_\_\_\_ and the UK trade deficit will \_\_\_\_\_. 439)

\_\_\_\_\_

A) rise, decrease B) fall, decrease

C) fall, increase D) rise, increase

440) When countries achieve similar levels of growth, inflation and budget deficits this is called 440) \_\_\_\_\_

A) monetary convergence.

B) convergence.

C) international harmonisation of economic policies.

D) globalisation.

441) The system under which the government allows the exchange rate to be determined is called the 441) \_\_\_\_\_

A) monetary policy. B) Bretton Woods agreement.

C) exchange rate regime. D) fiscal stance.

442) When countries diverge, then their exchange rates tend to change. Which of the following divergences will NOT quickly lead to changes in exchange rates 442) \_\_\_\_\_

A) growth rate. B) inflation rate.

C) unemployment rate. D) interest rates.

443) When the exchange rate falls this is called 443) \_\_\_\_\_

- A) devaluation. B) deflation.  
C) floating. D) revaluation.

444) When the exchange rate rises this is called 444) \_\_\_\_\_

- A) revaluation. B) floating.  
C) deflation. D) devaluation.

445) When the government intervenes to influence movements in the exchange rate this is called 445) \_\_\_\_\_

- A) the Gold Standard.  
B) a floating exchange rate.  
C) an intermediate exchange rate regime.  
D) a fixed exchange rate.

446) An exchange rate regime where rates are fixed, but are changed if deficits or surpluses persist is usually called 446) \_\_\_\_\_

- A) fixed exchange rate. B) revaluation system.  
C) joint float. D) adjustable peg.

447) An exchange rate regime where the government allows the gradual movement of the exchange rate is usually called 447) \_\_\_\_\_

- A) adjustable peg. B) joint float.  
C) crawling peg. D) fixed exchange rate.



448) A currency is allowed to fluctuate in value against other currencies, but from time to time the government adjusts its interest rates and uses its reserves to push the exchange rate up or down. Such a system is called: 448) \_\_\_\_\_

- A) Free floating.
- B) Dirty floating.
- C) Crawling peg.
- D) Adjustable peg.
- E) Fixed.

449) When a group of currencies are pegged to each other, but float against other currencies this is called 449) \_\_\_\_\_

- A) crawling peg. B) adjustable peg.
- C) dirty floating. D) joint float.

450) When a currency is allowed to float between upper and lower rates but not allowed to move outside this band it is called 450) \_\_\_\_\_

- A) dirty floating. B) adjustable peg.
- C) crawling peg. D) exchange rate band.

451) Under Keynesian assumptions, if there are fixed exchange rates and a rise in demand causes wages and prices to rise there will be a current account \_\_\_\_\_ and the capital account will \_\_\_\_\_. 451) \_\_\_\_\_

- A) deficit, not change much B) deficit, deteriorate  
C) equilibrium, deteriorate D) deficit, improve

452) Under Keynesian assumptions, if there are fixed exchange rates, and there is a fall in demand for exports, there will be a current account \_\_\_\_\_ and the capital account will \_\_\_\_\_. 452) \_\_\_\_\_

- A) deficit, not change much B) deficit, improve  
C) deficit, deteriorate D) equilibrium, deteriorate

453) Under fixed exchange rates balance of payments problems will NOT be caused by 453) \_\_\_\_\_

- A) faster growth.  
B) relative inflation.  
C) the income elasticity of demand [IED] for imports being higher than the IED for exports.  
D) improvement in the terms of trade.

454) Which one of the following is likely to lead to persistent balance of payments deficits under fixed exchange rates? 454) \_\_\_\_\_

- A) a growth in the country's monopoly power in the export market  
B) a higher rate of inflation abroad than in the domestic economy  
C) a lower rate of growth at home than abroad  
D) the long-term development of import substitutes at home  
E) a lower income elasticity of demand for the country's exports than for its imports

455) According to Keynesians, which of the following is NOT an advantage of fixed exchange rates 455) \_\_\_\_\_

- A) prevents "irresponsible" expansion of aggregate demand.
- B) certainty over prices and profits.
- C) a current account deficit does not automatically lead to a capital account surplus.
- D) automatic correction of an over-expanded money supply.

456) If an exchange rate falls, but is expected to rise again later, there will be \_\_\_\_\_ speculation. 456) \_\_\_\_\_

- A) no B) destabilising
- C) stabilising D) neutral

457) If an exchange rate falls, and is expected continue falling, there will be \_\_\_\_\_ speculation. 457) \_\_\_\_\_

- A) neutral B) stabilising
- C) destabilising D) no

458) Which of the following is NOT an advantage of floating exchange rates? 458) \_\_\_\_\_

- A) governments are free to choose their own domestic economic policy
- B) speculation will stabilise exchange rates
- C) balance of payments disequilibria are self-correcting
- D) there is no problem of inadequate foreign exchange reserves

459) Which of the following is NOT a disadvantage of floating exchange rates? 459) \_\_\_\_\_

- A) unstable exchange rates
- B) investment overseas becomes safer
- C) speculation can be destabilising
- D) trading becomes a lottery

460) With floating exchange rates fiscal policy is \_\_\_\_\_ it is under fixed exchange rates.

460) \_\_\_\_\_

- A) more effective than B) not as effective as
- C) equally as effective as D) much more effective than

461) With floating exchange rates monetary policy is \_\_\_\_\_ it is under fixed exchange rates. 461) \_\_\_\_\_

- A) much more effective than B) more effective than
- C) equally as effective as D) not as effective as

462) The Bretton Woods system was abandoned in 1972 and replaced by floating exchange rates. The reason this occurred was NOT due to 462) \_\_\_\_\_

- A) countries being reluctant to revalue and thus putting more pressure on deficit countries.
- B) there not being enough reserves to cope with balance of payments deficits.
- C) the Vietnam war causing large US deficits which in turn caused excess liquidity.
- D) floating exchange rates being obviously better for all countries outside the soviet bloc.

463) From 1972 currencies floated, but this was "managed floating", often called 463)

\_\_\_\_\_

- A) dirty floating. B) crawling peg.
- C) joint floating. D) adjustable peg.


464) Which of the following is NOT a cause of volatile exchange rates? 464) \_\_\_\_\_

- A) reluctance of governments to change interest rates
- B) abolition of exchange controls
- C) speculation by specialist currency traders
- D) speculation by firms engaged in exporting and importing

465) Why did the UK leave the European ERM [Exchange Rate Mechanism] in 1992? 465)

\_\_\_\_\_

- A) The ERM was changed after the Maastricht Treaty.
- B) Public opinion in the UK had become much more Euro-sceptic.
- C) Mrs Thatcher took account of a rising tide of Euro-scepticism in her party.
- D) Massive speculation against the £.

466) The EC arrangement which aimed to create currency stability, monetary  and the convergence of economic policies, starting in 1979, was called 466) \_\_\_\_\_

- A) ERM. B) EMU. C) EMS. D) ECU.

467) The UK was a member of the ERM from \_\_\_\_\_ to \_\_\_\_\_. 467) \_\_\_\_\_

A) 1979, 1997 B) 1990, 1992 C) 1979, 1992 D) 1990, 1997

468) Which of the following is NOT a reason for the vulnerability of the ERM to speculation in the period 1990 to 1993? 468) \_\_\_\_\_

A) The French franc appeared to be over-valued after 1990.

B) The Maastricht Treaty was signed in February 1992.

C) Cuts in US interest rates were causing capital to flow to Germany.

D) The Germans kept their interest rates high after re-unification.

469) Which of the following is NOT a reason for the vulnerability of the ERM to speculation in the period 1990 to 1993? 469) \_\_\_\_\_

A) the UK entered the ERM in 1990 with an over-valued £ and a large budget deficit

B) removal, in 1991, of restrictions on the movement of capital within the EC

C) fears that the Danish and French voters might reject the Maastricht Treaty

D) the proposal to set up the ESCB [European System of Central Banks] and the ECB [European Central Bank]

470) The Maastricht Treaty of 1992 set out a programme for EMU [European Monetary

Union]. In order to take part in the proposed single currency countries had to fulfil 5

"convergence criteria". Which of the following was NOT one of the criteria? 470) \_\_\_\_\_

A) unemployment not more than 2% more than the average of the three lowest countries

B) national debt not more than 60% of GDP

C) budget deficit not more than 3% of GDP

D) exchange rate within the ERM bands for at least 2 years

471) The ERM [Exchange Rate Mechanism] survived crises in 1992 and 1993 mainly because

471) \_\_\_\_\_

A) almost all of the EC countries appeared to be pursuing convergent economic policies.

B) it agreed to make the bands (which currencies could fluctuate within) larger.

C) the UK left the ERM in 1992.

D) A and B.

472) The acronym for the process of establishing a single EC currency is 472) \_\_\_\_\_

A) EMU. B) ERM. C) ECU. D) EMS.

473) Which of the following is NOT usually given as a reason for having a single EC currency?

473) \_\_\_\_\_

A) increased freedom to pursue national monetary policy

B) increased competition and efficiency

C) increased inward investment

D) elimination of the cost of currency conversion

474) Which of the following is NOT usually given as a reason for having a single EC currency?

474) \_\_\_\_\_

A) elimination of exchange rate uncertainty

- B) lower inflation
- C) lower interest rates
- D) elimination of asymmetric shocks

475) Which of the following is NOT a characteristic of an "optimal currency area"? 475)

\_\_\_\_\_

- A) labour is mobile between countries or areas
- B) countries or areas are similar in industrial structure
- C) different countries or areas need different interest rates
- D) wage rates are flexible

476) Which of the following is NOT a Eurosceptic argument against the single EC currency?

476) \_\_\_\_\_

- A) loss of national independence
- B) it makes dealing with asymmetric shocks more difficult
- C) makes adjustment to domestic problems more difficult
- D) puts too much emphasis on fiscal policy

477) Economists use the term globalisation to mean 477) \_\_\_\_\_

- A) trade is growing faster than GDP.
- B) countries are more vulnerable to changes in the rest of the world.
- C) former communist countries have become capitalist.
- D) A and B.



E) A and C.

478) Which of the following is/are causes of globalisation? 478) \_\_\_\_\_

A) Trade is growing faster than GDP.

B) Restrictions on trade are being removed.

C) Currency speculation has grown.

D) A and B.

E) A, B and C.

479) Which of the following are the 2 main ways in which global forces act on an individual country? 479) \_\_\_\_\_

A) trade and international agreements

B) trade and financial markets

C) international agreements and financial markets

D) exports and imports

480) Which of the following would INCREASE globalisation? 480) \_\_\_\_\_

A) an increase in demand for Coca Cola

B) a reduction of world trade

C) green policies leading to increased self-sufficiency

D) regulation of international speculation

481) Which of the following would DECREASE globalisation? 481) \_\_\_\_\_

A) WTO [the World Trade Organisation] saying that countries must not prevent the use of GM foods

B) an increase in demand for Coca Cola

C) regulation of international speculation

D) an increase in world trade

482) From 1948 to 1999 World GDP grew by 3.7% annually, and trade grew by \_\_\_\_\_ annually. 482) \_\_\_\_\_

A) 6% B) 5% C) 7% D) 4%

483) Each day over \_\_\_\_\_ of assets are traded across the foreign exchanges. 483) \_\_\_\_\_

A) \$100,000,000,000 B) \$10,000,000,000

C) \$500,000,000,000 D) \$1,000,000,000,000

484) Over the last 25 years the value of bank deposits held by overseas investors has increased by \_\_\_\_\_ a year. 484) \_\_\_\_\_

A) 10% B) 20% C) 15% D) 5%

485) Over the last 25 years the value of cross-border transactions in bonds and shares has increased by \_\_\_\_\_ a year. 485) \_\_\_\_\_

A) 20% B) 30% C) 15% D) 25%

486) Speculators would move their money into a country which had a/an \_\_\_\_\_ fiscal

policy and a \_\_\_\_\_ monetary policy. 486) \_\_\_\_\_

- A) expansionary, tight B) deflationary, tight
- C) deflationary, relaxed D) expansionary, relaxed

487) Speculators would move their money out of a country which had a current account \_\_\_\_\_ and a \_\_\_\_\_ monetary policy. 487) \_\_\_\_\_

- A) deficit, relaxed B) surplus, tight
- C) surplus, relaxed D) deficit, tight

488) The effect of changes in imports or exports of one country on the national income of another country is called 488) \_\_\_\_\_

- A) trade contagion.
- B) globalisation.
- C) the trade transmission system.
- D) the international trade multiplier.

489) One lesson which could be learned from the exchange rate crises of the 1990s is that 489) \_\_\_\_\_

- A) globalisation has made exchange rate crises less likely.
- B) a floating currency is the only long-term defence against speculation.
- C) when central banks act together they can use their reserves to offset speculation.
- D) controls on capital movements would not reduce speculation.

490) Exchange controls [controls over international financial transactions] have been used successfully by 490) \_\_\_\_\_

A) UK in 1992. B) France in 1993.

C) Malaysia in 1998. D) Taiwan in 1997.

491) The 1998 IMF report suggested that the 1997-8 Asian crises were due to 491) \_\_\_\_\_

A) accounts which allowed massive withdrawal of funds.

B) a weak banking system.

C) floating exchange rates.


D) A and B.

E) A, B and C.

492) In 1998 the IMF suggested a solution to the 1997-8 Asian crises could have been exchange controls which would have prevented 492) \_\_\_\_\_

A) speculative flows. B) massive withdrawal of funds.

C) inward investment. D) all of the above.

493) Before the crisis of 1997, the ASEAN-5 economies [Indonesia, Malaysia, Philippines, Singapore and Thailand]  income levels had grown by \_\_\_\_\_ a year since 1987.

493) \_\_\_\_\_

A) 6% B) 4% C) 10% D) 8%

494) In 1996 the S E Asian region purchased about \_\_\_\_\_ of US exports. 494) \_\_\_\_\_

A) 10% B) 5% C) 15% D) 20%

495) Which of the following was NOT a cause of the 1997 S E Asian crisis? 495) \_\_\_\_\_

A) exchange rates were fixed

B) governments had not dealt with problems of "over-heating"

C) financial institutions were not regulated enough

D) too many controls and regulations

496) In the aftermath of the 1997 S E Asian crisis, speculation even affected the currencies of

496) \_\_\_\_\_

A) Greece, Russia and Ukraine. B) Argentina, Brazil and Mexico.

C) UK and USA. D) A and B.

497) Short term movements of finance around the world can be controlled in a variety of ways.

Which of the following has NOT been suggested as one of them? 497) \_\_\_\_\_

A) limits on the proportion of assets that can be traded in any one day/week/whatever

B) having to deposit part of a transaction in the central bank of the recipient country

C) delays in processing transactions, to make speculation more risky

D) a "Tobin tax" of, say, 0.5% per transaction

498) In 1987 the G7 countries responded to pressure on the dollar caused by US budget and

trade deficits by agreeing to what was know as the Louvre Accord. This did NOT provide for

498) \_\_\_\_\_

- A) joint intervention to support the dollar.
- B) the US to tackle the deficits.
- C) convergence of interest rates.
- D) Germany and Japan to revalue their currencies.

499) While the developed nations account for only about 15% of the world's population, they are estimated to consume what proportion of world's output? 499) \_\_\_\_\_

- A) one-quarter B) one-half
- C) three-quarters D) two-thirds

500) While the developing nations account for about 85% of the world's people, they are estimated to receive what percentage of the world's income? 500) \_\_\_\_\_

- A) one-half B) one-quarter
- C) two-fifths D) one-third

501) The lack of capital in developing nations causes 501) \_\_\_\_\_

- A) the savings rate to be too high.
- B) consumption rates to be too high.
- C) output to be low in the present but high in the future.
- D) labour productivity to remain low.

502) Development strategy involves trade-offs between 502) \_\_\_\_\_

- A) central planning and free markets.

- B) export promotion and import substitution.
- C) agriculture and industry.
- D) all of the above.

503) An industrial trade strategy that favours developing local industries that can manufacture goods to replace imports is referred to as 503) \_\_\_\_\_

- A) industrial promotion. B) unbalanced growth.
- C) export promotion. D) import substitution.

504) Many developing countries instituted import-substitution policies because 504) \_\_\_\_\_

- A) the prices of the goods they exported were increasing.
- B) the ratio of export to import prices seemed to be on a long-run decline.
- C) the ratio of export to import prices seemed to be increasing over the long-run.
- D) the prices of the goods they imported were falling.

505) A trade strategy designed to encourage sales abroad is referred to as 505) \_\_\_\_\_

- A) import substitution. B) industrial promotion.
- C) unbalanced growth. D) export promotion.

506) A developing nation provides subsidies to firms that are producing products that will be sold to other nations. This is an example of 506) \_\_\_\_\_

- A) an adjustment in the balance of payments.
- B) import substitution.

- C) an import promotion.
- D) an export promotion.

507) A developing nation pursues a strategy that reduces the value of its currency relative to other currencies. This is an example of 507) \_\_\_\_\_

- A) an adjustment in the balance of trade.
- B) an import promotion.
- C) import substitution.
- D) an export promotion.

508) The policy that has been the most successful in increasing agricultural output in developing countries is 508) \_\_\_\_\_

- A) export promotion. B) agricultural subsidies.
- C) land reform. D) import substitution.

509) One of the primary reasons why land reform has been successful in increasing agricultural output is that land reform 509) \_\_\_\_\_

- A) enables farmers to escape the problem of diminishing returns.
- B) requires that farmers invest in new and more productive agricultural technologies.
- C) makes farmers owners of the land instead of tenants and thereby relieves them of debt bondage.
- D) allows the farmers to set the prices for their agricultural products.



510) Dualism is the name given to 510) \_\_\_\_\_

- A) the concept of a "two-speed Europe" where some members of the EU will proceed towards monetary union at a faster speed than others.
- B) the concentration of a country on producing and exporting the goods of two main industries.
- C) the problem of being able to achieve only two of the four national economic objectives at any one time.
- D) the division of an economy into a modern sector and a poor traditional sector.

511) In a developing country, we may see capital-intensive, large-scale industries setting up in urban areas and paying relatively high wages whilst the rural areas remain largely agricultural and poor. This problem is called 511) \_\_\_\_\_

- A) a two-tier society.
- B) sectoral inequality.
- C) locational segmentation.
- D) dualism.

512) Which of the following is NOT one of the common economic issues facing most developing nations? 512) \_\_\_\_\_

- A) labour shortages
- B) foreign debt
- C) rapid population growth
- D) food shortages

513) A developing nation pursues a strategy that reduces the value of its currency relative to other currencies. This is an example of 513) \_\_\_\_\_

- A) an adjustment in the balance of trade.
- B) import substitution.

C) an import promotion.

D) an export promotion.

514) The policy that has been the most successful in increasing agricultural output in developing countries is 514) \_\_\_\_\_

A) agricultural subsidies. B) export promotion.

C) land reform. D) import substitution.

515) One of the primary reasons why land reform has been successful in increasing agricultural output is that land reform 515) \_\_\_\_\_

A) requires that farmers invest in new and more productive agricultural technologies.

B) makes farmers owners of the land instead of tenants and thereby relieves them of debt bondage.

C) allows the farmers to set the prices for their agricultural products.

D) enables farmers to escape the problem of diminishing returns.

516) Dualism is the name given to 516) \_\_\_\_\_

A) the problem of being able to achieve only two of the four national economic objectives at any one time.

B) the division of an economy into a modern sector and a poor traditional sector.

C) the concentration of a country on producing and exporting the goods of two main industries.

D) the concept of a "two-speed Europe" where some members of the EU will proceed towards monetary union at a faster speed than others.

517) In a developing country, we may see capital-intensive, large-scale industries setting up in urban areas and paying relatively high wages whilst the rural areas remain largely agricultural and poor. This problem is called 517) \_\_\_\_\_

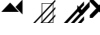
- A) dualism. B) sectoral inequality.
- C) a two-tier society. D) locational segmentation.

518) Which of the following is NOT one of the common economic issues facing most developing nations? 518) \_\_\_\_\_

- A) foreign debt B) labour shortages
- C) rapid population growth D) food shortages

519) Those economists who believe that high inflation rates are caused by the economy hitting bottlenecks as it tries to expand, are called 519) \_\_\_\_\_

- A) Structuralists. B) New Classicists.
- C) Monetarists. D) Keynesians.

520) A review of development experiences shows that the most effective way of achieving egalitarian and economically sustainable improvements in the quality of life for the poor has been through a  strategy. The two elements of the strategy are 520) \_\_\_\_\_

- A) to pursue strategies that ensure productive use of labour and the widespread provision of basic social services.
- B) central planning and state ownership of all resources.

C) improvement in the country's infrastructure and policies to attract investment from companies in developed countries.

D) to encourage exports and to discourage imports.

521) The original cause of the Third World debt crisis was 521) \_\_\_\_\_

A) the rapid growth in the populations of developing countries and their inability to feed the people.

B) a rapid rise in world interest rates and therefore an outflow of funds from these countries.

C) the fall in world commodity prices and therefore a loss in export earnings.

D) the impact of the 1973 oil crisis.

522) The roots of the current Third World debt crisis 522) \_\_\_\_\_

A) go back as far as the early 1900s.

B) go back only as far as the early 1950s.

C) are in the period of colonialisation.

D) go back only as far as the early 1970s.

523) In the early 1970s, banks became willing to lend substantial sums of money to developing countries because 523) \_\_\_\_\_

A) interest rates after allowing for inflation were at their highest rates. So this made risky loans profitable.

B) funds were in abundant supply as a result of the infusion of petrodollars into the international banking system.

C) the international banking system was trying to encourage developing countries to abandon central planning in favour of market economies.

D) there was a large decrease in the demand for loans in developed countries.

524) For many developing countries, the increase in oil prices in the early 1970s caused the cost of their imports to 524) \_\_\_\_\_

A) decrease and their export revenues to decrease.

B) increase and their export revenues to decrease.

C) increase and their export revenue to increase.

D) fall and their export revenues to increase.

525) Which of the following is NOT a reason why some developing countries were in danger of defaulting on their loans during the debt crisis? 525) \_\_\_\_\_

A) The developing countries found that they had to spend increasing amounts of money to purchase imported products vital to their economic survival.

B) The money that had been borrowed was used for investment in infrastructure instead of in projects that would have led to an immediate increase in consumer income.

C) The tight monetary policies of the advanced countries in the early 1980s raised the debt obligations of the developing countries because of increasing interest rates.

D) OPEC oil shocks caused an international recession, thus lowering the value of developing countries' exports.

526) The repayment of loan principal plus interest payments, as a percentage of export

revenues, is the 526) \_\_\_\_\_

- A) trade feedback ratio. B) liquidity ratio.
- C) balance of trade. D) debt service ratio.

527) Debt service is the name given to 527) \_\_\_\_\_

- A) the state of being in debt to another/other country(ies).
- B) the total amount of debt of a country.
- C) the service of lending funds to a debtor country.
- D) the interest and capital repayments on a debt.

528) Which of the following is NOT a reason for the Third World debt crisis in the early 1980s? 528) \_\_\_\_\_

- A) There was a sharp increase in real interest rates.
- B) Demand for export from the LDCs was very low due to the world recession.
- C) Revenue from LDC exports was low due to falls in their export prices.
- D) Banks and other lenders refused to lend the LDCs any more money.

529) In the 1980s, the prospect of loan defaults by the Third World threatened 529) \_\_\_\_\_

- A) the financial stability of a few banks in developed countries that had made the loans.
- B) the entire international financial system and transformed the debt crisis into a global problem.
- C) the political stability of Third World governments, but it has no impact on the economic development of these countries.
- D) only the people who lived in the Third World.

530) The rescheduling of official loans to the LDCs in the 1980s was done through 530)

\_\_\_\_\_

A) the Paris Club. B) the IMF.

C) the World Bank. D) the London Club.

531) Which of the following would NOT be a demand, made by the IMF, of Third World debtor countries? 531) \_\_\_\_\_

A) to institute tougher fiscal policies in order to reduce the government deficit

B) to bring in supply-side reforms to encourage the market mechanism

C) to devalue the currency to encourage exports

D) to bring in minimum wage policy to reduce poverty

532) Which of the following would NOT be a demand, made by the IMF, of Third World debtor countries? 532) \_\_\_\_\_

A) to reduce interest rates so that demand and investment would be encouraged

B) to institute a tighter monetary policy in order to reduce inflation

C) to have a more open trade policy in order to encourage competition

D) to devalue the currency in order to encourage exports

533) An agreement between banks and borrowers through which a new schedule of repayments of the debt is negotiated is 533) \_\_\_\_\_

A) a debt rescheduling. B) a stabilisation programme.

C) a debt service agreement. D) an austerity programme.

534) Which of the following was NOT a solution proposed by the UN conference at Rio de Janeiro in 1992, to the problem of ecocide? 534) \_\_\_\_\_

A) Institute programmes of birth control so as to help reduce population growth.

B) Increase research into environmentally friendly farming methods.

C) Increase the bank loans to debtor nations so that such countries like Brazil and Indonesia need not resort to ecocide.

D) Target aid to projects that improved the environment.

535) In 1996 the World Bank and the IMF [International Monetary Fund] set up the HIPC [Heavily Indebted Poor Countries] scheme, in response to political and moral pressure from around the world. By 2003 the results were: 535) \_\_\_\_\_

A) Poor countries now spend 1% less of their GDP on debt payments .

B) Some countries are now able spend more on health and education.

C) Some countries cannot meet the conditions set by the World Bank and IMF.

D) all of the above