Econ 1204 – 001

Final Exam – All questions are worth 10 points and must go on a blue scantron. They will not be scored on this exam or on another color scantron.

1. Trade between countries
   a. allows each country to consume at a point outside its production possibilities frontier.
   b. limits a country's ability to produce goods and services on its own.
   c. must benefit both countries equally; otherwise, trade is not mutually beneficial.
   d. can best be understood by examining the countries' absolute advantages.

Ans.: a)

2. When studying changes in the economy over time, economists want a measure of the total quantity of goods and services the economy is producing that is not affected by changes in the prices of those goods and services. In other words, economists want to study
   a. nominal GDP.
   b. real GDP.
   c. the GDP deflator.
   d. GNP.

Ans.: b)

3. The one variable that stands out as the most significant explanation of large variations in living standards (real GDP per capita) around the world is
   a. prices.
   b. population.
   c. preferences.
   d. labor productivity.

Ans.: d)

4. Keynes believed that economies experiencing high unemployment should adopt policies to
   a. reduce the money supply.
   b. reduce government expenditures.
   c. increase aggregate demand.
   d. increase aggregate supply.

Ans.: c)

5. In the short run, an increase in the money supply causes interest rates to
   a. increase, and aggregate demand to decrease (shift left).
   b. decrease, and aggregate demand to increase (shift right).
   c. increase, and aggregate demand to increase (shift right).
   d. decrease, and aggregate supply to decrease (shift left).

Ans.: b)

6. Let's say a bottle of Dr. Wells (an actual soft drink still available but hard to obtain) cost $0.15 in 1970. If the consumer price index (CPI) in 1970 was 37.8 and the current CPI is 240, then the inflation-adjusted price of Dr. Wells would be (rounded to the nearest penny)

a. $0.0236.
b. $2.36.
c. about a dollar.
d. $0.95
e. $95.00.

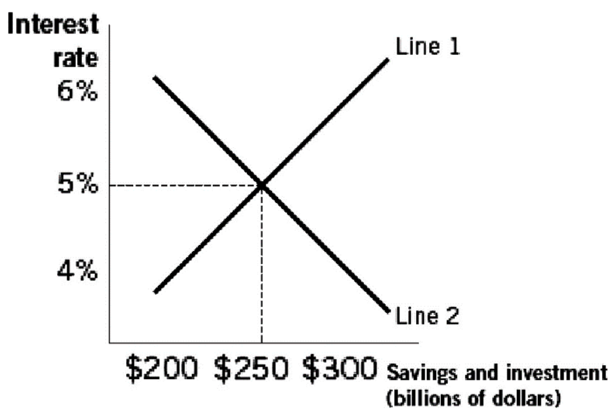
ANS: D DIF: Moderate REF: Using the CPI to Equate Dollar Values over Time
OBJ: 8.1 MSC: Analyzing

7. The notion of the loanable funds market is the method by which

a. consumers get payday loans and auto-title loans.
b. savers (typically households and individuals) supply funds to borrowers (typically firms).
c. savers (typically firms) supply funds to borrowers (typically the government).
d. borrowers are exploited by loan sharks.
e. the government lends money to big corporations.

ANS: B DIF: Easy REF: What Is the Loanable Funds Market?
OBJ: 9.1 MSC: Understanding

Refer to the following graph to answer the next five questions:



8. In the figure, line 1 represents ________, line 2 represents ________, and 5 percent represents ________.

a. savings; the supply of loanable funds; a surplus of loanable funds
b. savings; the demand for loanable funds; the equilibrium interest rate
c. investment; the supply of loanable funds; a shortage of loanable funds
d. investment; the demand for loanable funds; the equilibrium interest rate
e. foreign savings; the supply of loanable funds; a surplus of loanable funds

ANS: B DIF: Easy REF: What Is the Loanable Funds Market?
OBJ: 9.1 MSC: Analyzing

9. In the figure, at an interest rate of 4 percent, the

a. quantity demanded of loanable funds equals the quantity supplied of loanable funds, and equilibrium is reached.
b. quantity demanded of loanable funds is greater than the quantity supplied of loanable funds, and there is a surplus of loanable funds.
c. demand for loanable funds is greater than the supply of loanable funds, and there is a shortage of loanable funds.
d. quantity demanded of loanable funds is greater than the quantity supplied of loanable funds, and there is a shortage of loanable funds.
e. quantity demanded of loanable funds is less than the quantity supplied of loanable funds, and there is a shortage of loanable funds.

ANS: D DIF: Moderate REF: What Is the Loanable Funds Market?
OBJ: 9.1 MSC: Analyzing

10. In the figure, at an interest rate of 6 percent, the
a. quantity demanded of loanable funds equals the quantity supplied of loanable funds, and equilibrium is reached.
b. quantity demanded of loanable funds is greater than the quantity supplied of loanable funds, and there is a surplus of loanable funds.
c. demand for loanable funds is greater than the supply of loanable funds, and there is a shortage of loanable funds.
d. quantity demanded of loanable funds is greater than the quantity supplied of loanable funds, and there is a shortage of loanable funds.
e. quantity demanded of loanable funds is less than the quantity supplied of loanable funds, and there is a surplus of loanable funds.

ANS: E DIF: Moderate REF: What Is the Loanable Funds Market?
OBJ: 9.1 MSC: Analyzing

11. In the figure, at an interest rate of 5 percent, the
a. quantity demanded of loanable funds equals the quantity supplied of loanable funds, and equilibrium is reached.
b. quantity demanded of loanable funds is greater than the quantity supplied of loanable funds, and there is a surplus of loanable funds.
c. demand for loanable funds is greater than the supply of loanable funds, and there is a shortage of loanable funds.
d. quantity demanded of loanable funds is greater than the quantity supplied of loanable funds, and there is a shortage of loanable funds.
e. quantity demanded of loanable funds is less than the quantity supplied of loanable funds, and there is a surplus of loanable funds.

ANS: A DIF: Easy REF: What Is the Loanable Funds Market?
OBJ: 9.1 MSC: Analyzing

12. In the figure, line 2 represents the ________, and at an interest rate of 6 percent a ________ of loanable funds exists.
    a. supply of loanable funds; shortage
    b. quantity demanded of loanable funds; surplus
    c. demand for loanable funds; shortage
    d. quantity supplied of loanable funds; surplus
    e. demand of loanable funds; surplus

ANS: E DIF: Easy REF: What Is the Loanable Funds Market?
OBJ: 9.1 MSC: Analyzing

13. The government
    a. sets most interest rates.
    b. is a net lender (or supplier of loanable funds).
    c. is a net borrower (or demander of loanable funds).
    d. determines the "federal risk premium" portion of commercial interest rates.
    e. earns more interest on treasury securities when interest rates rise.

ANS: C DIF: Moderate REF: What Is the Loanable Funds Market?
OBJ: 9.1 MSC: Remembering

14. You deposit $500.00 into an asset that pays 10 percent annual interest for three years. At the end of the three years, you would have
    a. $650.00.
    b. $665.50.
    c. $425.25.
    d. $1,655.00.
    e. $732.05

ANS: B DIF: Difficult
REF: Economics for Life: Compound Interest: When Should You Start Saving for Retirement?
OBJ: 9.4 MSC: Analyzing

15. The aggregate demand curve is best represented by which of the following equations?
    a. $AD = C + I + G + NX$
    b. $AD = C + I + G - NX$
    c. $AD = C + I + G$
    d. $AD = C + I$
    e. $AD = C + I - G - NX$

ANS: A DIF: Easy REF: What Is Aggregate Demand?
OBJ: 13.2 MSC: Remembering

16. Classical economists stress the importance of aggregate ________ and generally believe that the economy ________ to reach full-employment equilibrium on its own.
    a. supply and demand; needs help
    b. demand; needs help
    c. supply; needs help
    d. demand; does not need help
    e. supply; does not need help

ANS: E DIF: Moderate REF: Classical Economics
OBJ: 14.2 MSC: Remembering

17. Fiscal policy is
  a. the use of the money supply to influence the economy.
  b. actions taken by the Federal Reserve to influence the economy.
  c. only used during times of recession.
  d. only used during times of expansion.
  e. the use of government spending and taxes to influence the economy.

ANS: E DIF: Easy REF: What Is Fiscal Policy?
OBJ: 16.1 MSC: Understanding

18. Monetary policy is
  a. the use of the money supply to influence the economy.
  b. action taken by Congress to influence the economy.
  c. only used during times of recession.
  d. only used during times of expansion.
  e. the use of government spending and taxes to influence the economy.

ANS: A DIF: Easy REF: What Is Fiscal Policy?
OBJ: 16.1 MSC: Remembering

19. Crowding-out occurs when
  a. supply-side fiscal policy does not increase total output.
  b. consumption increases when government spending increases.
  c. private spending falls in response to increases in government spending.
  d. time lags crowd out the effects of fiscal policy.
  e. increases in government spending and decreases in taxes are offset by increases in savings.

ANS: C DIF: Easy REF: Crowding-Out
OBJ: 16.2 MSC: Remembering

20. Depending on how fiscal policy is implemented, it can affect
  a. only aggregate demand.
  b. only aggregate supply.
  c. both aggregate demand and aggregate supply.
  d. neither aggregate demand nor aggregate supply.
  e. monetary policy.

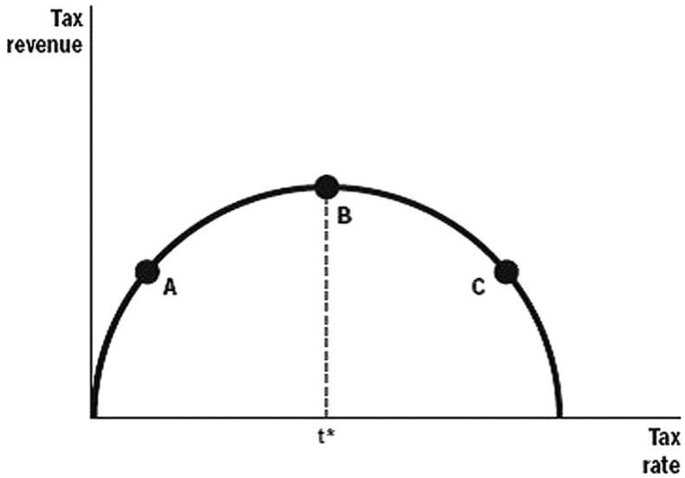
ANS: C DIF: Easy REF: What Is Supply-Side Fiscal Policy?
OBJ: 16.3 MSC: Remembering

21. Typical fiscal policy focuses squarely on
  a. aggregate demand.
  b. short-run aggregate supply.
  c. long-run aggregate supply.
  d. government spending.
  e. taxes.

ANS: A DIF: Easy REF: What Is Supply-Side Fiscal Policy?

OBJ: 16.3 MSC: Remembering

Refer to the following figure to answer the next four questions.



22. According to the figure, which point(s) would see tax revenues increase if the tax rate increased?
    a. only A
    b. only B
    c. A and B
    d. A and C
    e. B and C

ANS: A DIF: Moderate REF: Marginal Income Tax Rates
OBJ: 16.3 MSC: Analyzing

23. According to the figure, which point(s) would see tax revenues decrease if the tax rate increased?
    a. only A
    b. only B
    c. A and B
    d. A and C
    e. B and C

ANS: E DIF: Moderate REF: Marginal Income Tax Rates
OBJ: 16.3 MSC: Analyzing

24. According to the figure, which point(s) would see tax revenues increase if the tax rate decreased?
    a. only A
    b. only B
    c. only C
    d. A and C
    e. B and C

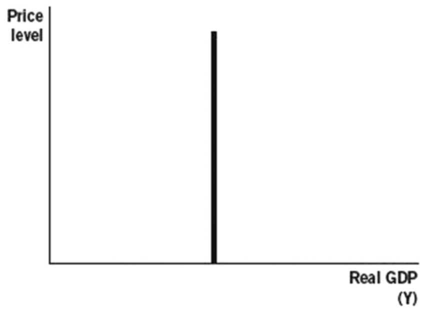
ANS: C DIF: Moderate REF: Marginal Income Tax Rates
OBJ: 16.3 MSC: Analyzing

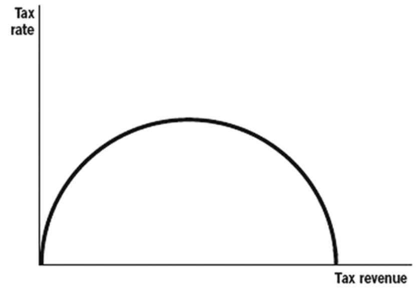
25. According to the figure, which point(s) would see tax revenues decrease if the tax rate decreased?
    a. only A
    b. only B
    c. A and C
    d. A and B
    e. B and C

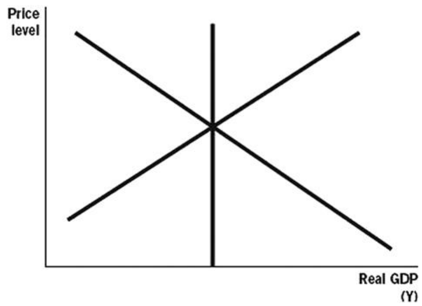
ANS: D DIF: Moderate REF: Marginal Income Tax Rates

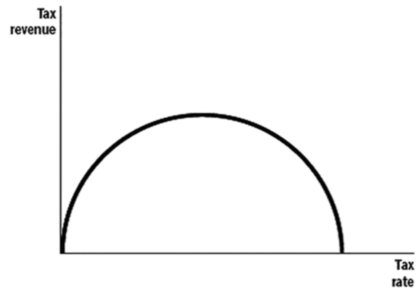
OBJ: 16.3 MSC: Analyzing

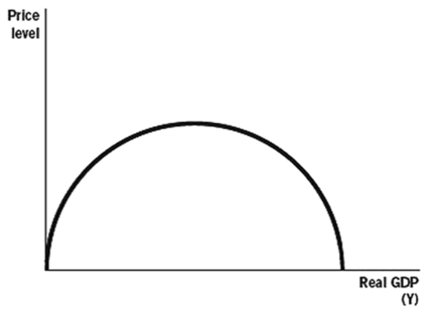
26. Which of the following diagrams represents a Laffer curve?

a. 

d. 

b. 

e. 

c. 

ANS: E DIF: Moderate REF: The Laffer Curve
OBJ: 16.3 MSC: Analyzing

27. The *x* axis for the Laffer curve represents
   a. the tax revenue.
   b. the tax rate.
   c. real gross domestic product (GDP).
   d. the price level.
   e. the inflation rate.

ANS: B DIF: Moderate REF: The Laffer Curve
OBJ: 16.3 MSC: Analyzing

28. The *y* axis for the Laffer curve represents
   a. the tax revenue.
   b. the tax rate.
   c. real gross domestic product (GDP).
   d. the price level.
   e. the inflation rate.

ANS: A DIF: Moderate REF: The Laffer Curve
OBJ: 16.3 MSC: Analyzing

29. Money does NOT function as a(n)
    a. unit of account.
    b. medium of exchange.
    c. means to buy goods and services.
    d. item to barter.
    e. store of value.

ANS: D DIF: Easy REF: Three Functions of Money
OBJ: 17.1 MSC: Remembering

30. For something to be considered money, it must
    a. be of low intrinsic value.
    b. be of high intrinsic value.
    c. have the backing of the government.
    d. not be generally accepted as a medium of exchange.
    e. be generally accepted as a medium of exchange.

ANS: E DIF: Easy REF: Three Functions of Money
OBJ: 17.1 MSC: Understanding

31. Which of the following is NOT a characteristic of fiat money?
    a. generally acceptable as a medium of exchange
    b. provides a way to store wealth over time
    c. serves as a unit of account
    d. changes in value over time as the amount of fiat money changes
    e. always backed by something of high intrinsic value

ANS: E DIF: Moderate REF: Three Functions of Money
OBJ: 17.1 MSC: Understanding

32. A major advantage of money over barter is that it is
    a. a medium of exchange.
    b. fiat money.
    c. a unit of account.
    d. a store of value.
    e. currency.

ANS: A DIF: Moderate REF: Three Functions of Money
OBJ: 17.1 MSC: Understanding

33. When money is acting as a medium of exchange, it
    a. stops you from reselling goods once they are purchased.
    b. allows you to delay the purchase of goods.
    c. allows you to measure the value of goods precisely.
    d. allows you to make exchanges more efficiently.
    e. allows you to make exchanges less efficiently.

ANS: D DIF: Moderate REF: Three Functions of Money
OBJ: 17.1 MSC: Evaluating

34. Money eliminated the need for the double coincidence of wants through its role as
   a. fiat money.
   b. a unit of account.
   c. a store of value.
   d. a medium of exchange.
   e. currency.

ANS: D DIF: Moderate REF: Three Functions of Money
OBJ: 17.1 MSC: Understanding

35. What function of money is highlighted when Sally pays her cell phone bill with cash?
   a. fiat money
   b. medium of exchange
   c. unit of account
   d. store of value
   e. commodity money

ANS: B DIF: Moderate REF: Three Functions of Money
OBJ: 17.1 MSC: Applying

Answer the following question below on a separate sheet of paper.

1. The price of a dozen roses in the United States is about $30. The exchange rate from U.S. ($) to Turkish Lira ($/Lira) is 2.788.

a. Assuming that PPP holds perfectly, what is the price of a dozen roses in Turkey? Express your answer in units of Turkish lira.

b. If the actual price in Turkey costs more lira than the answer you found in part (a), how might you account for the discrepancy?