16. During the Great Depression in the early 1930s, the actual unemployment rate in Australia ________, and the inflation rate was ________.
    A. increased; smaller
    B. increased; unchanged
    C. decreased; increased
    D. decreased; remained unchanged
    E. increased; negative

17. Suppose there is an increase in the expected future interest rate. This will cause which of the following to occur?
    A. The IS curve to shift right in the current period.
    B. Both the IS and LM curves to shift left in the current period.
    C. The IS curve to shift left in the current period.
    D. The LM curve to shift up in the current period.
    E. The LM curve to shift down in the current period.

18. Assume that an economy experiences both positive population growth and technological progress. An increase in the saving rate will cause in the long run:
    A. no change in capital per effective labour.
    B. a permanent increase in the rate of growth of output per worker.
    C. no change in the rate of growth of output.
    D. no change in output per effective labour.
    E. a permanent increase in the rate of growth of output.

19. Suppose individuals wish to obtain the most accurate comparison of living standards between Australia and China. To do so, one would convert Chinese output into Australian dollars using:
    A. an average of the last five years' exchange rates.
    B. the current real exchange rate.
    C. the current nominal exchange rate.
    D. purchasing power parity methods.
    E. the prior year's real exchange rate.

20. Which of the following is always true after an economy reaches a balanced growth equilibrium?
    A. The growth rate of capital is equal to the growth rate of the effective workforce.
    B. The growth rate of capital is equal to the savings rate.
    C. The growth rate of output equals the rate of depreciation.
    D. Population growth is zero.
    E. The growth rate of output equals the rate of saving.

21. "Convergence" has been occurring among the OECD countries because:
   A. the poorer countries had higher growth rates than the richer ones.
   B. the richer countries give away more of their output than the poorer ones.
   C. the poorer countries had positive growth rates, while the richer ones have had negative growth rates.
   D. the procedures for measuring output per capita have been changing.
   E. the richer countries have had higher growth rates than the poorer ones.

22. Suppose new information leads to people believing that future taxes are expected to decrease. Given this information
   A. Current aggregate demand and output will rise.
   B. There is no effect on current aggregate demand and output.
   C. Current aggregate demand and output will fall.
   D. Current inflation will fall
   E. The current interest rate will fall.

23 Assume that the interest parity holds, the future expected exchange rate is constant, the current nominal exchange rate is 1.2, the one-year foreign interest rate is 3% and the one-year domestic interest rate is 6%. One could conclude that financial market participants expect that the exchange rate will over the coming year:
   A appreciate by 3%.
   B. appreciate by 9%.
   C. depreciate by 9%.
   D. depreciate by 3%.
   E. remain unchanged.

24. In an open economy under flexible exchange rates, expansionary monetary policy will always cause in the short run:
   A. a weaker exchange rate.
   B. a decrease in the interest rate.
   C. a rise in output.
   D. All of the above.
   E. None of the above.

25. Assume that policy makers are pursuing a fixed exchange rate regime and the economy is initially operating at the natural level of output. Which of the following will occur as a result of a revaluation of the nominal exchange rate?
   A. The effects on the real exchange rate will be ambiguous in the medium run.
   B. The real exchange rate will be unchanged in the medium run.
   C. The real exchange rate will be permanently weaker in the medium run.
   D. The real exchange rate will be permanently stronger in the medium run.
   E. The nominal exchange rate will initially get weaker in the short run and then strengthen in the medium run.

26. Suppose a country switches from a flexible to a fixed exchange rate. Which of the following will occur as a result of this change?
    A. Monetary policy will become a more effective tool for changing output.
    B. Both fiscal and monetary policy will become more effective in changing GDP.
    C. A given change in government spending will now have a greater effect on output.
    D. A given change in government spending will now have a smaller effect on output.
    E. Both fiscal and monetary policy will become completely ineffective in changing GDP.

27. Suppose the economy is operating at the long run steady state and that there is no technological progress. Which of the following is true given this information?
    A. The growth of output per worker is equal to the rate of investment.
    B. The growth of output per worker is positive.
    C. The growth of output per worker is equal to the rate of saving.
    D. The growth of output per worker is zero.
    E. The growth of output per worker is equal to the rate of depreciation.

28. Assume that your consumption decisions are made according to the permanent income theory. Which of the following would lead to the largest increase in current consumption?
    A. Winning $10,000 in the lottery.
    B. Inheriting $10,000 from a relative.
    C. Taking a new job with a salary that is $10,000 higher than your current salary.
    D. Obtaining $10,000 by winning a lawsuit.
    E. Getting a one-time $10,000 bonus from your employer.

29. Suppose the economy is initially operating at the natural level of output. Now, suppose the central bank raises the inflation target by 2.5%. Given this information, we would expect that:
    A. the nominal interest rate will fall by less than 2.5% in the medium run.
    B. the nominal interest rate will increase by more than 2.5% in the medium run.
    C. the nominal interest rate will increase by exactly 2.5% in the medium run.
    D. the nominal interest rate will fall by exactly 2.5% in the medium run.
    E. the nominal interest rate will not change in the medium run..

30. Suppose there is a decrease in government spending in a closed economy. Such a fiscal policy action will cause:
    A. the natural real interest rate to fall.
    B. the natural real interest rate to rise.
    C. ambiguous effects on the natural real interest rate.
    D. no effect on the natural real interest rate.
    E. the natural real interest rate rises when the nominal rate falls.