

## MASSEY UNIVERSITY MANAWATU CAMPUS

### EXAMINATION FOR 178.100 PRINCIPLES OF MACROECONOMICS

Semester One 2015

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Time allowed: **THREE (3)** hours

All students are required to **answer ALL** the questions.

All questions to be answered on the InspiroScan sheet provided separately.

A blue answer book is **not** required for this question paper.

**One (1)** mark per question – total of **ONE HUNDRED (100)** marks.

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#### **InspiroScan Answer sheets**

Ensure that your **name and identification number** are entered onto your InspiroScan Answer Sheet.

Answers should be recorded on the InspiroScan form directly: **Shade-in the entire circle** surrounding the character (A-E) that best represents your chosen answer. If subsequent changes are required, cross through the original answer circle clearly with an X, before selecting an alternative. **Use ballpoint pen** (blue or black); pencil is **NOT** permitted. Follow all instructions carefully, otherwise InspiroScan answer sheets may not read correctly.

**Calculators** are **NOT** permitted.

**Test is Version A**

**All questions are multiple choice.**

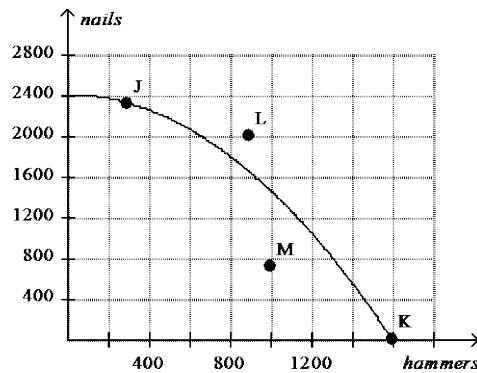
Identify the choice that best completes the statement or answers the question.

### Multiple Choice

*Identify the choice that best completes the statement or answers the question.*

1. A tradeoff exists between a clean environment and a higher level of income in that
  - a. studies show that individuals with higher levels of income pollute less than low-income individuals.
  - b. efforts to reduce pollution typically are not completely successful.
  - c. laws that reduce pollution raise costs of production and reduce incomes.
  - d. employing individuals to clean up pollution causes increases in employment and income.
2. Public policies
  - a. may be able to improve either economic efficiency or equality.
  - b. may be able to improve economic efficiency but cannot improve equality.
  - c. may be able to improve equality but cannot improve economic efficiency.
  - d. cannot improve either equality or economic efficiency.
3. The mainstream view among economists is that
  - a. society faces a tradeoff between unemployment and inflation, but only in the short run.
  - b. society faces a tradeoff between unemployment and inflation, but only in the long run.
  - c. society faces a tradeoff between unemployment and inflation, both in the short run and in the long run.
  - d. no tradeoff exists between unemployment and inflation, either in the short run or in the long run.

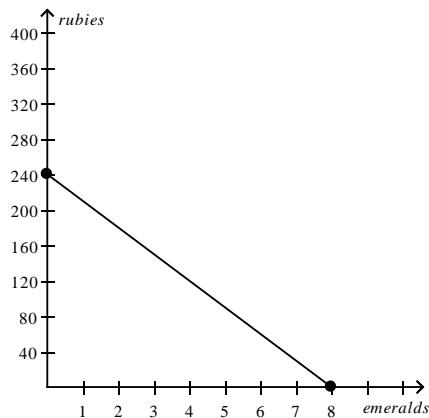
**Figure 1**



4. **Refer to Figure 1.** In order to reach point L, the economy would have to
  - a. acquire more resources or experience a technological advance.
  - b. begin using its available resources more efficiently than it is currently using them.
  - c. shift resources away from the production of nails and toward production of hammers.
  - d. None of the above are correct; the economy will never be able to reach point L.
5. Erma and Wayne are both economists. Erma thinks that taxing consumption, rather than income, would result in higher household saving because income that is saved would not be taxed. Wayne does not think that household saving would respond much to a change in the tax laws. In this example, Erma and Wayne
  - a. have different normative views about tax policy.
  - b. disagree about the validity of a positive theory.
  - c. must both be incorrect because economists always agree on policy issues.
  - d. None of the above is correct.
6. In the early 19th century, the Russian government sent doctors to southern Russian villages to provide assistance during a cholera epidemic. The villagers noticed that wherever doctors appeared, people died. Therefore, many doctors were chased away from villages, and some were even killed. This reaction to the correlation between doctors and deaths is most likely a problem of
  - a. omitted variables.
  - b. reverse causality.
  - c. government propaganda.
  - d. medical incompetence.

**Figure 2**

**Peru's Production Possibilities Frontier**



7. **Refer to Figure 2.** The fact that the line slopes downward reflects the fact that

- for Peru, it is more costly to produce emeralds than it is to produce rubies.
- Peru will produce more emeralds and fewer rubies as time goes by.
- Peru faces a tradeoff between producing emeralds and producing rubies.
- Peru should specialize in producing rubies.

**Table 1**

Assume that England and Spain can switch between producing cheese and producing bread at a constant rate.

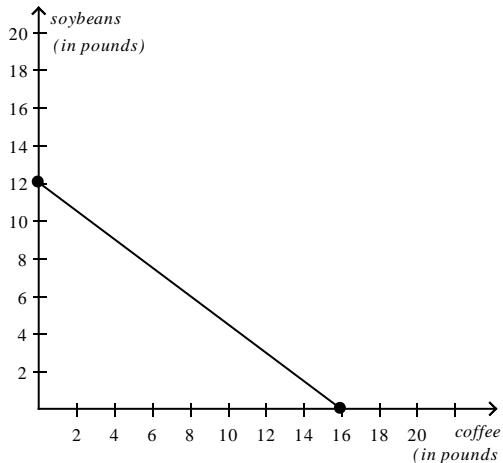
	Labour Hours Needed to Make 1 Unit of		Number of Units Produced in 40 Hours	
	Cheese	Bread	Cheese	Bread
England	1	4	40	10
Spain	4	8	10	5

8. **Refer to Table 1.** If England and Spain each spends all its time producing the good in which it has a comparative advantage and the countries agree to trade 2 units of bread for 6 units of cheese, then England will consume

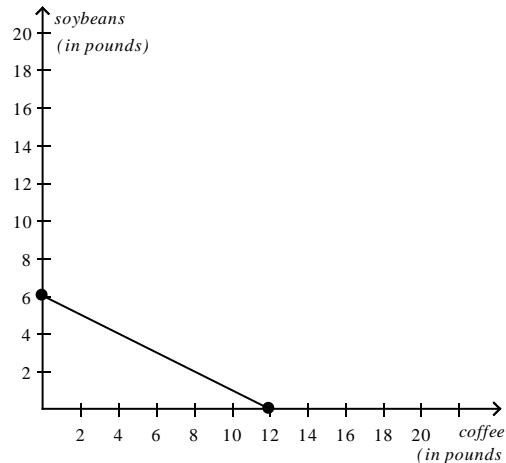
- 34 units of cheese and 2 units of bread and Spain will consume 6 units of cheese and 3 units of bread.
- 34 units of cheese and 2 units of bread and Spain will consume 16 units of cheese and 3 units of bread.
- 34 units of cheese and 12 units of bread and Spain will consume 6 units of cheese and 3 units of bread.
- 34 units of cheese and 12 units of bread and Spain will consume 16 units of cheese and 3 units of bread.

**Figure 3**

**Chile's Production Possibilities Frontier**



**Colombia's Production Possibilities Frontier**



9. **Refer to Figure 3.** Chile should specialize in the production of
  - a. coffee and import soybeans.
  - b. soybeans and import coffee.
  - c. both goods and import neither good.
  - d. neither good and import both goods.
  
10. Which of the following would most likely serve as an example of a monopoly?
  - a. a restaurant in a large city.
  - b. a dry cleaners in a large city.
  - c. a local gas station.
  - d. a local electrical company.
  
11. Suppose there is an increase in the price of steel. We would expect the supply curve for steel beams to
  - a. shift rightward.
  - b. shift leftward.
  - c. become flatter.
  - d. remain unchanged.

12. The law of supply and demand asserts that
  - a. demand curves and supply curves tend to shift to the right as time goes by.
  - b. the price of a good will eventually rise in response to an excess demand for that good.
  - c. when the supply curve for a good shifts, the demand curve for that good shifts in response.
  - d. the equilibrium price of a good will be rising more often than it will be falling.
13. Which of the following is *not* a question that macroeconomists address?
  - a. Why is average income high in some countries while it is low in others?
  - b. Why does the price of oil rise when war erupts in the Middle East?
  - c. Why do production and employment expand in some years and contract in others?
  - d. Why do prices rise rapidly in some periods of time while they are more stable in other periods?
14. For an economy as a whole,
  - a. wages must equal profit.
  - b. consumption must equal saving.
  - c. income must equal expenditure.
  - d. the number of buyers must equal the number of sellers.
15. The residents of country A earn \$500 million of income from abroad. Residents of other countries earn \$200 million in country A. These earnings are accounted for in country A's
  - a. country A's net factor payments from abroad are positive, and its GDP is larger than its GNP.
  - b. country A's net factor payments from abroad are positive, and its GNP is larger than its GDP.
  - c. country A's net factor payments from abroad are negative, and its GDP is larger than its GNP.
  - d. country A's net factor payments from abroad are negative, and its GNP is larger than its GDP.
16. In the economy of Ukzten in 2010, consumption was \$5000, exports were \$100, government purchases were \$900, imports were \$200, and investment was \$1000. What was Ukzten's GDP in 2010?
  - a. \$6700
  - b. \$6800
  - c. \$7000
  - d. \$7200

17. If in some year nominal GDP was \$10 trillion and real GDP was \$4 trillion, what was the GDP deflator?
  - a. 25
  - b. 40
  - c. 250
  - d. 400
18. Otherwise legal transactions that go unreported or unrecorded are called
  - a. the underground economy.
  - b. the shadow economy.
  - c. the informal economy.
  - d. All of the above are correct.
19. When the consumer price index (CPI) rises, the typical family
  - a. has to spend more dollars to maintain the same standard of living.
  - b. can spend fewer dollars to maintain the same standard of living.
  - c. finds that its standard of living is not affected.
  - d. can offset the effects of rising prices by saving more.
20. Which of the following is correct?
  - a. The GDP deflator is better than the CPI at reflecting the goods and services bought by consumers.
  - b. The CPI is better than the GDP deflator at reflecting the goods and services bought by consumers.
  - c. The GDP deflator and the CPI are equally good at reflecting the goods and services bought by consumers.
  - d. The GDP deflator is more commonly used as a gauge of inflation than the CPI is.
21. The steps involved in calculating the consumer price index and the inflation rate, in order, are as follows:
  - a. Choose a base year, update the basket, find the prices, estimate the basket's cost, compute the index, and compute the inflation rate.
  - b. Choose a base year, fix the basket, find the prices, compute the inflation rate, compute the basket's cost, and compute the index.
  - c. Fix the basket, find the prices, compute the basket's cost, choose a base year and compute the index, and compute the inflation rate.
  - d. Fix the basket, find the prices, compute the inflation rate, compute the basket's cost, and choose a base year and compute the index.

22. When new goods are introduced, consumers have more variety from which to choose. As a result, each dollar is worth

- more, and the cost of living increases.
- more, and the cost of living decreases.
- less, and the cost of living increases.
- less, and the cost of living decreases.

23. Iggie took a university teaching job as an assistant professor in 1974 at a salary of \$10,000. By 2003, she had been promoted to full professor, with a salary of \$50,000. If the price index was 50 in 1974 and 180 in 2003, then what is Iggie's 1974 salary in 2003 dollars?

- \$2,777.78
- \$18,000
- \$26,000
- \$36,000

24. When looking at a graph of nominal and real interest rates you notice that nominal rates always lie above real rates. From this you conclude

- there were serious episodes of deflation in the time frame represented on the graph.
- consumer prices were always rising in the time frame represented on the graph.
- the economy never experienced a recession in the time frame represented on the graph.
- GDP was always increasing for the time frame represented on the graph.

25. Productivity is the amount of goods and services

- an economy produces. It is not linked to a nation's economic policies.
- an economy produces. It is linked to a nation's economic policies.
- produced for each hour of a worker's time. It is not linked to a nation's economic policies.
- produced for each hour of a worker's time. It is linked to a nation's economic policies.

26. Which of the following is *not* correct?

- Across countries there are large differences in the average income per person. These differences are reflected in large differences in the quality of life.
- With a growth rate of about 2 percent per year, average income per person doubles about every 35 years.
- The ranking of countries by average income changes very little over time.
- In some countries real income per person has changed very little over many years.

27. For a given year, productivity in a particular country is most closely matched with that country's

- level of real GDP over that year.
- level of real GDP divided by hours worked over that year.
- growth rate of real GDP divided by hours worked over that year.
- growth rate of real GDP per person over that year.

28. Alexis and Tara both mine salt. Alexis mines 400 pounds in 40 hours. Tara mines 300 pounds in 20 hours. Which of the following is correct?

- Alexis's productivity is greater than Tara's. This difference could be explained by Alexis having more physical capital than Tara.
- Alexis's productivity is greater than Tara's. This difference cannot be explained by a difference in the physical capital each has.
- Tara's productivity is greater than Alexis's. This difference could be explained by Tara having more physical capital than Alexis.
- Tara's productivity is greater than Alexis's. This difference cannot be explained by a difference in the physical capital each has.

29. Investment in

- physical capital, unlike investment in human capital, has an opportunity cost.
- physical capital, like investment in human capital, has an opportunity cost.
- human capital is particularly attractive because it involves no externalities.
- human capital has been shown to be relatively unimportant, relative to investment in physical capital, for a country's long-run economic success.

30. Which of the following statements is *not* correct?

- The catch-up effect is based on the assumption of diminishing returns to capital.
- Investment in poor countries by citizens of rich countries is one way poor countries can learn new technologies.
- Malthus argued that charity and government aid was an effective way to reduce poverty.
- Peace and justice are keys to growth.

31. Most entrepreneurs do not have enough money of their own to start their businesses. When they acquire the necessary funds from someone else,

- their consumption expenditures are being financed by someone else's saving.
- their consumption expenditures are being financed by someone else's investment.
- their investments are being financed by someone else's saving.
- their saving is being financed by someone else's investment.

32. A national chain of grocery stores wants to finance the construction of several new stores. The firm has limited internal funds, so it likely will

- demand the required funds by buying bonds.
- demand the required funds by selling bonds.
- supply the required funds by buying bonds.
- supply the required funds by selling bonds.

33. Suppose the government finds a major defect in one of a public listed company's products and demands that the product be taken off the market. We would expect that the

- supply of existing shares of the stock and the price will both rise.
- supply of existing shares of the stock and the price will both fall.
- demand for existing shares of the stock and the price will both rise.
- demand for existing shares of the stock and the price will both fall.

34. If national saving in a closed economy is greater than zero, which of the following must be true?

- Either public saving or private saving must be greater than zero.
- Investment is positive.
- $Y - C - G > 0$
- All of the above are correct.

**Scenario 1. Assume the following information for an imaginary, open economy.**

Consumption = \$1,000; investment = \$300; net exports = \$100; taxes = \$230; private saving = \$200; and national saving = \$150.

35. **Refer to Scenario 1.** This economy's government is running a

- budget deficit of \$50.
- budget deficit of \$80.
- budget surplus of \$50.
- budget surplus of \$80.

36. In 2002 mortgage rates fell and mortgage lending increased. Which of the following could explain both of these changes?

- The demand for loanable funds shifted rightward.
- The demand for loanable funds shifted leftward.
- The supply of loanable funds shifted rightward.
- The supply of loanable funds shifted leftward.

**Table 2**

2009 Labour Data for Baltivia

Number of adults	20,000
Number of adults who are paid employees	8,000
Number of adults who work in their own businesses	1,600
Number of adults who are unpaid workers in a family member's business	1,000
Number of adults who were temporarily absent from their jobs because of an earthquake	400
Number of adults who were waiting to be recalled to a job from which they had been laid off	200
Number of adults who do not have a job, are available for work, and have tried to find a job within the past four weeks	1,400
Number of adults who do not have a job, are available for work, but have not tried to find a job within the past four weeks	780
Number of adults who are full-time students	3,000
Number of adults who are homemakers or retirees	3,620

37. **Refer to Table 2.** How many people were employed in Baltivia in 2009?

- 9,600
- 10,600
- 11,000
- 11,200

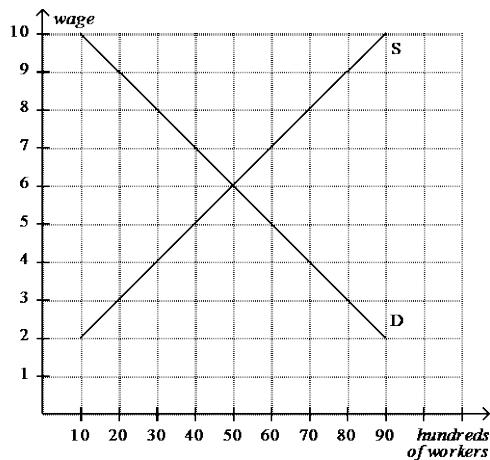
38. A person who is not employed and claims to be trying hard to find a job but really is not trying hard to find a job

- is counted as out of the labour force but should be counted as unemployed.
- is counted as unemployed but should be counted as out of the labour force.
- is correctly counted as out of the labour force.
- is correctly counted as unemployed.

39. Frictional unemployment is

- not inevitable; rather, it can be reduced to zero by well-designed public policies.
- not inevitable; rather, it could be reduced to zero if by the elimination of unemployment insurance.
- inevitable, because at any given time, jobs are being created in some firms and destroyed in other firms.
- inevitable, because in some industries, wages are always set above the level that brings supply and demand into equilibrium.

**Figure 4**



40. **Refer to Figure 4.** If the government imposes a minimum wage of \$8, then how many workers will be unemployed?

- 0
- 3000
- 4000
- 7000

41. If unions were formed in more industries, the supply of labour in other industries would

- increase, causing employment in other industries to rise.
- increase, causing employment in other industries to fall.
- decrease, causing employment in other industries to rise.
- decrease, causing employment in other industries to fall.

42. Minimum-wage laws, unions, and efficiency wages contribute to

- both structural unemployment and the natural rate of unemployment.
- neither structural unemployment nor the natural rate of unemployment.
- structural unemployment, but not the natural rate of unemployment.
- the natural rate of unemployment, but not structural unemployment.

43. A double coincidence of wants

- is required when there is no item in an economy that is widely accepted in exchange for goods and services.
- is required in an economy that relies on barter.
- is a hindrance to the allocation of resources when it is required for trade.
- All of the above are correct.

44. Paper dollars

- are commodity money and gold coins are fiat money.
- are fiat money and gold coins are commodity money.
- and gold coins are both commodity monies.
- and gold coins are both fiat monies.

45. The set of items that serve as media of exchange clearly includes

- balances that lie behind debit cards.
- demand deposits.
- other checkable deposits.
- All of the above are correct.

46. Monetary policy affects employment

- only in the long run.
- only in the short run.
- in both the long run and the short run.
- in neither the long run nor the short run.

47. In a system of 100-percent-reserve banking, the purpose of a bank is to

- make loans to households.
- influence the money supply.
- give depositors a safe place to keep their money.
- buy and sell gold.

48. If the money multiplier is 2 and the Reserve Bank buys \$50,000 worth of bonds, what happens to the money supply?

- it increases by \$100,000
- it increases by \$150,000
- it decreases by \$100,000
- it decreases by \$150,000

49. The term *hyperinflation* refers to

- the spread of inflation from one country to others.
- a decrease in the inflation rate.
- a period of very high inflation.
- inflation accompanied by a recession.

50. The supply of money increases when

- the value of money increases.
- the interest rate increases.
- the Fed makes open-market purchases.
- None of the above is correct.

51. The payments you make on your automobile loan are given in terms of dollars. As prices rise you notice you give up fewer goods to make your payments.

- The dollar amount you pay is a nominal value. The number of goods you give up is a real value.
- The dollar amount you pay is a real value. The number of goods you give up is a nominal value.
- Both the dollar amount you pay and the goods you give up are nominal values.
- Both the dollar amount you pay and the goods you give up are real values.

52. The money supply in Muckland is \$100 billion. Nominal GDP is \$800 billion and real GDP is \$400 billion. What are the price level and velocity in Muckland?

- The price level and velocity are both 8.
- The price level is 2 and velocity is 8.
- The price level and velocity are both 4.
- The price level is 4 and velocity is 8.

53. When inflation causes relative-price variability,

- consumer decisions are distorted and the ability of markets to efficiently allocate factors of production is impaired.
- consumer decisions are distorted, but markets are still able to efficiently allocate factors of production.
- consumer decisions are not distorted, but the ability of markets to efficiently allocate factors of production is impaired.
- consumer decisions are not distorted and markets are still able to efficiently allocate factors of production.

54. Which of the following is accurate?

- Monetary policy is neutral in both the short run and the long run.
- Though monetary policy is neutral in the long run, it may have effects on real variables in the short run.
- Monetary policy has profound effects on real variables in both the short run and the long run.
- Monetary policy has profound effects on real variables in the long run, but is neutral in the short run.

55. One year a country has negative net exports. The next year it still has negative net exports and imports have risen more than exports. This means that:
  - a. its trade surplus fell.
  - b. its trade surplus rose.
  - c. its trade deficit fell.
  - d. its trade deficit rose
56. When the Sykes Corporation (an American company) buys shares of Audi stock (a German company) for its pension fund, U.S. net capital outflow
  - a. increases because an American company makes a portfolio investment in Germany.
  - b. declines because an American company makes a portfolio investment in Germany.
  - c. increases because an American company makes a direct investment in Germany.
  - d. declines because an American company makes a direct investment in Germany.
57. You are planning a graduation trip to Nepal. Other things the same, if the dollar appreciates relative to the Nepalese rupee, then
  - a. the dollar buys fewer rupees. Your purchases in Nepal will require fewer dollars.
  - b. the dollar buys fewer rupees. Your purchases in Nepal will require more dollars.
  - c. the dollar buys more rupees. Your purchases in Nepal will require fewer dollars.
  - d. the dollar buys more rupees. Your purchases in Nepal will require more dollars.
58. Consider an identical basket of goods in both the U.S. and India. For a given nominal exchange rate, in which case is it certain that the U.S. real exchange rate with India falls?
  - a. the price of the basket of goods rises in the U.S. and India.
  - b. the price of the basket of goods rises in the U.S. and falls in India.
  - c. the price of the basket of goods falls in the U.S. and rises in India.
  - d. the price of the basket of goods falls in both India and the U.S..
59. If purchasing-power parity holds, a dollar will buy
  - a. one unit of each foreign currency.
  - b. foreign currency equal to the U.S. price level divided by the foreign country's price level.
  - c. enough foreign currency to buy as many goods as it does in the United States.
  - d. None of the above is implied by purchasing-power parity.

60. According to purchasing power parity which of the following would happen if a country raised its money supply growth rate?

- its nominal exchange rate would fall.
- its real exchange rate would fall.
- its real net exports would rise.
- All of the above would happen.

61. The open-economy macroeconomic model takes

- GDP, but not the price level as given.
- the price level, but not GDP as given.
- both the price level and GDP as given.
- the price level and GDP as variables to be determined by the model.

62. The explanation for the slope of

- the supply of loanable funds curve is based on the logic that a higher real interest rate leads to higher saving.
- the demand for loanable funds curve is based on the logic that a higher interest rate leads to higher saving.
- the supply of loanable funds curve is based on the logic that a higher real interest rate leads to lower saving.
- the demand for loanable funds curve is based on the logic that a higher interest rate leads to lower saving.

63. A country has national saving of \$80 billion, government expenditures of \$40 billion, domestic investment of \$60 billion, and net capital outflow of \$20 billion. What is its demand for loanable funds?

- \$40 billion
- \$60 billion
- \$80 billion
- \$120 billion

64. In the open-economy macroeconomic model, as the exchange rate rises,

- desired net exports fall, so the quantity of dollars supplied rises.
- desired net exports fall, so the quantity of dollars demanded falls.
- desired net exports rise, so the quantity of dollars supplied falls.
- desired net exports rise, so the quantity of dollars demanded rises.

65. In the open-economy macroeconomic model, the key determinant of net capital outflow is

- the real exchange rate. When the real exchange rate rises, net capital outflow rises.
- the real exchange rate. When the real exchange rate rises, net capital outflow falls.
- the real interest rate. When the real interest rate rises, net capital outflow rises.
- the real interest rate. When the real interest rate rises, net capital outflow falls.

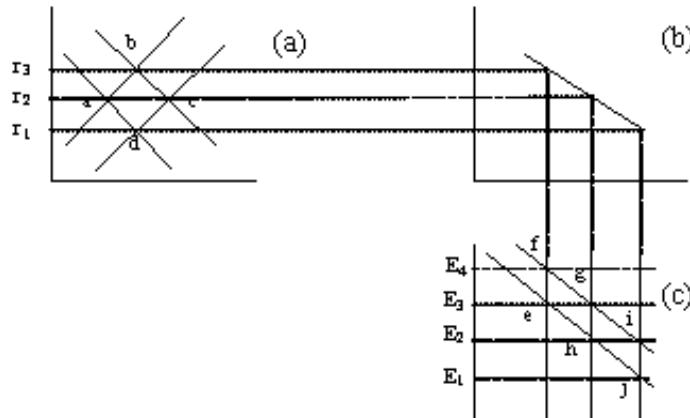
66. In the open-economy macroeconomic model, if the supply of loanable funds shifts right, then

- net capital outflow increases so the demand for dollars in the market for foreign-currency exchange shifts right.
- net capital outflow increases so the supply of dollars in the market for foreign-currency exchange shifts right.
- net capital outflow decreases so the demand for dollars in the market for foreign-currency exchange shifts left.
- net capital outflow decreases so the supply of dollars in the market for foreign-currency exchange shifts right.

67. A government budget deficit

- increases both net capital outflow and net exports.
- decreases both net capital outflow and net exports.
- increases net capital outflow and decreases net exports.
- decreases net capital outflow and increases net exports.

**Figure 5**



68. **Refer to Figure 5.** If the economy were initially in equilibrium at  $r_2$  and  $E_3$  and the government removed import quotas, the exchange rate would

- appreciate to  $E_4$ .
- appreciate to  $E_2$ .
- depreciate to  $E_1$ .
- depreciate to  $E_2$ .

69. When a country experiences capital flight, which of the following rise?
  - a. its real interest rate and its real exchange rate.
  - b. its real interest rate but not its real exchange rate.
  - c. its real exchange rate but not its real interest rate.
  - d. neither its real interest rate nor its foreign exchange rate.
70. Most economists use the aggregate demand and aggregate supply model primarily to analyze
  - a. short-run fluctuations in the economy.
  - b. the effects of macroeconomic policy on the prices of individual goods.
  - c. the long-run effects of international trade policies.
  - d. productivity and economic growth.
71. The investment component of GDP measures spending on
  - a. financial assets such as stocks and bonds. During recessions it declines by a relatively large amount.
  - b. residential construction, business equipment, business structures, and changes in inventory. During recessions it declines by a relatively large amount.
  - c. financial assets such as stocks and bonds. During recessions it declines by a relatively small amount.
  - d. residential construction, business equipment, business structures, and changes in inventory. During recessions it declines by a relatively large amount.
72. According to Mankiw, which of the following accounts for about two-thirds of the decline in US output during a recession?
  - a. the decline in consumption expenditures on consumer durables alone
  - b. the decline in total consumption spending alone
  - c. the decline in investment spending alone
  - d. the combined decline in consumption and investment spending
73. The aggregate quantity of goods and services demanded changes as the price level falls because
  - a. real wealth falls, interest rates rise, and the dollar appreciates.
  - b. real wealth falls, interest rates rise, and the dollar depreciates.
  - c. real wealth rises, interest rates fall, and the dollar appreciates.
  - d. real wealth rises, interest rates fall, and the dollar depreciates.

74. Other things the same, as the price level rises, the real value of a dollar

- rises, and interest rates rise.
- rises, and interest rates fall.
- falls, and interest rates rise.
- falls, and interest rates fall.

75. The long-run aggregate supply curve shows that by itself a permanent change in aggregate demand would lead to a long-run change

- in the price level and output.
- in the price level, but not output.
- in output, but not the price level.
- in neither the price level nor output.

76. When the price level rises more than expected, a firm with a sticky price will sell its output at a price that is

- less than it desires and increase its production.
- less than it desires and decrease its production.
- more than it desires and increase its production.
- less than it desires and decrease its production.

77. If the economy is initially at long-run equilibrium and aggregate demand declines, then in the long run the price level

- and output are higher than in the original long-run equilibrium.
- and output are lower than in the original long-run equilibrium.
- is lower and output is the same as the original long-run equilibrium.
- is the same and output is lower than in the original long-run equilibrium.

78. Suppose the economy is in long-run equilibrium. In a short span of time, there is a sharp decline in the stock market, a tax cut, an increase in the money supply and a decline in the value of the dollar. In the short run

- the price level and real GDP will both rise.
- the price level and real GDP will both fall.
- neither the price level nor real GDP will change.
- All of the above are possible.

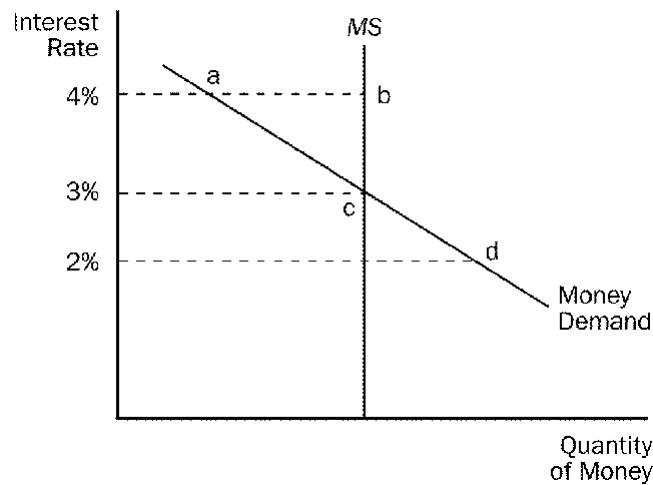
79. Shifts in aggregate demand affect the price level in

- the short run but not in the long run.
- the long run but not in the short run.
- both the short and long run.
- neither the short nor long run.

80. In the graph of the money market, the money supply curve is

- vertical. It shifts rightward if the Reserve Bank buys bonds.
- vertical. It shifts rightward if the Reserve Bank sells bonds.
- upward sloping. It shifts rightward if the Reserve Bank buys bonds.
- upward sloping. It shifts rightward if the Reserve Bank sells bonds.

**Figure 6**



81. **Refer to Figure 6.** Which of the following is correct?

- If the interest rate is 4 percent, there is excess money demand, and the interest rate will fall.
- If the interest rate is 3 percent, there is excess money supply, and the interest rate will rise.
- Starting with an interest rate of 4 percent, the demand for goods and services will increase until the money market reaches a new equilibrium.
- None of the above is correct.

82. Suppose the multiplier has a value that exceeds 1, and there are no crowding out or investment accelerator effects. Which of the following would shift aggregate demand to the right by more than the increase in expenditures?

- an increase in government expenditures
- an increase in net exports
- an increase in investment spending
- All of the above are correct.

83. If households view a tax cut as temporary, then the tax cut

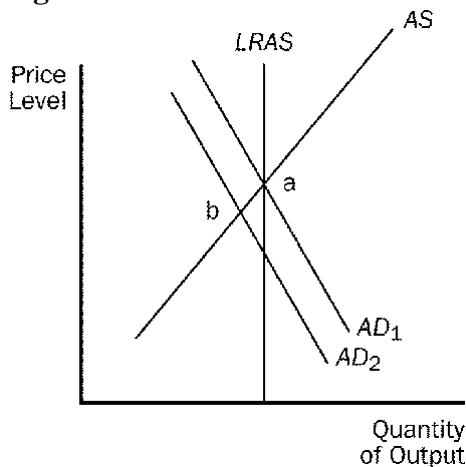
- has no affect on aggregate demand.
- has more of an affect on aggregate demand than if households view it as permanent.
- has the same affect as when households view the cut as permanent.
- has less of an affect on aggregate demand than if households view it as permanent.

84. Which of the following policies would be advocated by proponents of stabilization policy when the economy is experiencing severe unemployment?

- a decrease in the money supply
- a reduction in tax rates
- a decrease in government purchases
- None of the above is correct.

For the following questions, use the diagram below:

**Figure 7.**



85. **Refer to Figure 7.** Which of the following is correct?

- Unemployment rises as the economy moves from point a to point b.
- Either fiscal or monetary policy could be used to move the economy from point b to point a.
- If the economy is left alone, then as the economy moves from point b to long-run equilibrium, the price level will fall farther.
- All of the above are correct.

86. It is likely that a constitutional amendment that required the government always to run a balanced budget would
  - a. contribute to a more stable level of output.
  - b. mitigate the crowding-out effect.
  - c. eliminate the economy's automatic stabilizers.
  - d. All of the above are correct.
87. In the long run, the level of output
  - a. depends on the money supply.
  - b. depends on the price level.
  - c. is determined by supply-side factors.
  - d. All of the above are correct.
88. The misery index is calculated as the
  - a. inflation rate plus the unemployment rate.
  - b. unemployment rate minus the inflation rate.
  - c. actual inflation rate minus the expected inflation rate.
  - d. natural unemployment rate times the inflation rate
89. In the long run, inflation
  - a. and unemployment are primarily determined by labor market factors.
  - b. and unemployment are primarily determined by the rate of money supply growth.
  - c. is primarily determined by the rate of money supply growth while unemployment is primarily determined by labor market factors.
  - d. is primarily determined by labor market factors while unemployment is primarily determined by the rate of money supply growth.
90. The short-run Phillips curve shows the combinations of
  - a. unemployment and inflation that arise in the short run as aggregate demand shifts the economy along the short-run aggregate supply curve.
  - b. unemployment and inflation that arise in the short run as short-run aggregate supply shifts the economy along the aggregate demand curve.
  - c. real GDP and the price level that arise in the short run as short-run aggregate supply shifts the economy along the aggregate demand curve.
  - d. None of the above is correct.
91. As the aggregate demand curve shifts leftward along a given aggregate supply curve,
  - a. unemployment and inflation are higher.
  - b. unemployment and inflation are lower.
  - c. unemployment is higher and inflation is lower.
  - d. unemployment is lower and inflation is higher.

92. Which of the following would reduce the natural rate of unemployment?

- both an increase in the rate of money growth and increased unemployment compensation
- an increase in the rate of money growth but not increased unemployment compensation
- an increase in unemployment compensation but not an increase in the rate of money growth.
- neither an increase in unemployment compensation nor an increase in the rate of money growth.

93. Suppose expected inflation and actual inflation are both relatively high, and unemployment is at its natural rate. If the Reserve Bank then pursues a contractionary monetary policy, which of the following results would be expected in the short run?

- Expected inflation would exceed actual inflation, and unemployment would exceed its natural rate.
- Expected inflation would exceed actual inflation, and unemployment would be below its natural rate.
- Actual inflation would exceed expected inflation, and unemployment would exceed its natural rate.
- Actual inflation would exceed expected inflation, and unemployment would be below its natural rate.

94. An adverse supply shock will cause output

- and prices to rise.
- and prices to fall.
- to rise and prices to fall.
- to fall and prices to rise.

95. A central bank that accommodates an aggregate supply shock

- increases the money supply, making the inflation rate rise.
- increases the money supply, making the inflation rate fall.
- decreases the money supply, making the inflation rate rise.
- decreases the money supply, making the inflation rate fall.

96. Typical estimates of the sacrifice ratio suggest that a one-percentage-point reduction in the inflation rate requires

- a sacrifice of 5 percent of annual output.
- a sacrifice of 5 percent of government spending.
- an increase in the unemployment rate of 5 percentage points.
- a 5 percent increase in the government budget deficit.

97. If firms were faced with greater uncertainty because of concern that oil prices might rise, they might decrease expenditures on capital. In response to this change, someone who advocated "lean against the wind" policies might advocate

- decreasing the money supply.
- increasing taxes.
- increasing government expenditures.
- decreasing government expenditures.

98. The argument that an increase in government expenditures will have a larger impact on aggregate demand than tax cuts is based on the idea that

- tax cuts have no multiplier effect.
- people will save part of a tax cut.
- an increase in consumption expenditures has a smaller effect on real GDP than an equal increase in government expenditures.
- None of the above is correct.

99. If a central bank were required to target inflation at zero, then when there was a negative aggregate supply shock the central bank

- would have to increase the money supply. This would move unemployment closer to the natural rate.
- would have to increase the money supply. This would move unemployment further from the natural rate.
- would have to decrease the money supply. This would move unemployment closer to the natural rate.
- would have to decrease the money supply. This would move unemployment further from the natural rate.

100. Which of the following two effects of a decrease in the tax rate on saving would raise savings?

- the income effect and the substitution effect.
- the income effect but not the substitution effect.
- the substitution effect but not the income effect.
- neither the substitution effect nor the income effect.

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