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

1) Modern macroeconomics emerged from
   A) the budget and current account deficits.  B) the Great Depression.
   C) the productivity growth slowdown.  D) hyperinflation.

2) Potential GDP
   A) is cyclical.
   B) measures the output that could be produced if the economy was fully employed.
   C) measures the actual production from year to year.
   D) Both answers A and C are correct.

3) In any year, the real GDP of an economy
   A) always equals potential GDP.
   B) must always be less than potential GDP.
   C) will always be greater than potential GDP because of the tendency of developed nations to
      incur inflation.
   D) may be greater or less than potential GDP.

4) The four parts of the business cycle occur in the following order:
   A) recession, trough, peak, expansion.  B) recession, trough, expansion, peak.
   C) expansion, trough, peak, recession.  D) expansion, trough, recession, peak.

5) A recession is a time when
   A) real GDP increases and usually unemployment falls.
   B) real GDP decreases and usually unemployment falls.
   C) real GDP decreases and usually unemployment rises.
   D) real GDP increases and usually unemployment rises.

6) What term is used to describe the lowest point of a business cycle?
   A) expansion  B) recession  C) peak  D) trough

7) The unemployment rate measures the number of unemployed
   A) as a percentage of the labor force.  B) as a percentage of the whole population.
   C) who lost their jobs in the current year.  D) including discouraged workers.

8) Inflation is
   A) indicated by a rise in the price level.
   B) a general increase in the purchasing power of the monetary unit.
   C) an economic condition which results in the waste of resources.
   D) All of the above answers are correct.

9) When the inflation rate is negative, an economy experiences
   A) deflation.  B) stagflation.
   C) an increase in the price level.  D) hyperinflation.
10) By definition, a government budget deficit is the situation that occurs when
   A) the government spends money on things which do not produce revenue, such as schools.
   B) the government miscalculated how much it will receive in taxes.
   C) the economy goes into a recession.
   D) the government spends more than it receives in taxes.

11) What are the challenges for macroeconomic policy?
   A) reduce the international deficit
   B) stabilize the business cycle
   C) reduce unemployment
   D) All of the above answers are correct.

12) Monetary policy is defined as
   A) making changes in tax rates and changing the amount of money in the economy.
   B) changing interest rates and government spending.
   C) making changes in tax rates and government spending.
   D) changing interest rates and changing the amount of money in the economy.

13) Monetary policy is controlled by which of the following?
   A) the Federal Trade Commission
   B) the Interstate Commerce Commission
   C) the U.S. Congress and the president
   D) the U.S. Federal Reserve

14) Gross domestic product (GDP) measures the
   A) number of final goods and services produced in the economy in a given time period.
   B) market value of old and new final goods and services sold in the economy in a given time period.
   C) number of final goods and services sold in the economy in a given time period.
   D) market value of final goods and services produced in the economy in a given time period.

15) Intermediate goods are excluded from GDP because
   A) the premise of the question is incorrect because intermediate goods are directly included in calculating GDP.
   B) their inclusion would involve double counting.
   C) their inclusion would understate GDP
   D) they represent goods that have never been purchased so they cannot be counted.

16) If we import more than we export from the rest of the world we
   A) are running a trade surplus.
   B) must borrow an equal amount from the rest of the world.
   C) are helping to finance investment in the rest of the world.
   D) can lend an equal amount to the rest of the world.

17) U.S. investment is financed from
   A) private saving, government budget deficits and borrowing from the rest of the world.
   B) private saving and borrowing from the rest of the world only.
   C) private borrowing, government budget deficits and lending to the rest of the world.
   D) private saving, government budget surpluses and borrowing from the rest of the world.

18) Economists define investment as the
   A) purchase of stocks and bonds.
   B) purchase of raw land for later resale.
   C) purchase of equipment, plants, and inventories.
   D) difference between people's income and their spending.
19) Net investment is
   A) gross investment plus depreciation.
   B) capital consumption plus depreciation.
   C) depreciation minus the amount of gross investment.
   D) gross investment minus depreciation.

20) Depreciation is
    A) the part of investment that is equal to all the existing capital stock.
    B) equivalent to the value of factors purchased by producers.
    C) included in net interest in the income approach to calculating GDP.
    D) the decrease in the value of capital from wear and tear.

21) Which, if any, of the following causes reported GDP to be less than total economic production?
    A) the exclusion of household production
    B) the inclusion of government purchases
    C) the exclusion of government transfers
    D) All of the above cause reported GDP to be less than total production.

22) Which population category includes only the sum of employed and unemployed people?
    A) young and institutionalized
    B) working-age population
    C) labor force
    D) not in the labor force

23) Including discouraged workers in the calculation of the unemployment rate would
    A) lower the reported rate.
    B) increase the reported rate.
    C) not change the reported rate.
    D) change the reported rate, but in an unpredictable manner.

24) Unemployment can arise from
    A) people losing their jobs.
    B) people entering or reentering the labor force.
    C) people voluntarily quitting their jobs.
    D) All of the above answers are correct.

25) The three types of unemployment are
    A) frictional, part-time, and involuntary.
    B) voluntary, part-time, and cyclical.
    C) voluntary, involuntary, and structural.
    D) frictional, structural, and cyclical.

26) An individual is structurally unemployed if
    A) the individual quits a job in order to search for a better one.
    B) the individual wants to work just during certain months of the year.
    C) the individual lacks marketable job skills because technology has changed.
    D) there is a recession and the individual is laid off.

27) Full employment means that
    A) there is no cyclical or frictional unemployment.
    B) no one is unemployed.
    C) there is no cyclical unemployment.
    D) there is no structural or frictional unemployment.
28) The quantity of real GDP supplied at different price levels is reflected by the
   A) total expenditures.   B) aggregate demand curve.
   C) real wealth effect.   D) aggregate supply curve.

29) The long-run aggregate supply curve is vertical because
   A) at full employment prices are stable.
   B) the money wage rate increases faster than the price level.
   C) potential GDP is independent of the price level.
   D) there is no cyclical inflation.

30) With an increase in the capital stock, the short-run aggregate supply curve
   A) becomes steeper.   B) shifts leftward.
   C) shifts rightward.   D) remains as it is.

31) An increase in the price level causes
   A) consumption expenditures to decrease.
   B) a movement along the aggregate demand curve.
   C) a wealth effect.
   D) All of the above answers are correct.

32) Which of the following changes would NOT shift the aggregate demand curve?
   A) a change in expectations about future income
   B) a change in fiscal policy
   C) a change in monetary policy
   D) an increase in technology

33) Which of the following shifts the aggregate demand curve rightward?
   A) an increase in the quantity of money
   B) an increase in the exchange rate
   C) an increase in the tax rate
   D) a decrease in the price level

34) If the economy is in short run equilibrium then
   A) real GDP equals potential GDP.
   B) real GDP cannot be equal to potential GDP.
   C) real GDP can be greater than, less than, or equal to potential GDP.
   D) nominal GDP equals potential GDP.

35) A short-run macroeconomic equilibrium occurs
   A) when the rate at which prices increase equals the rate at which resource prices increase.
   B) at the intersection of the short-run aggregate supply curve, the long-run aggregate supply curve, and the aggregate demand curve.
   C) at the intersection of the short-run aggregate supply curve and the aggregate demand curve.
   D) at the intersection of the short-run aggregate supply curve and the long-run aggregate supply curve.

36) A recessionary gap occurs when
   A) nominal GDP is less than potential GDP.   B) high rates of inflation occur.
   C) real GDP is below potential GDP.   D) nominal GDP is above potential GDP.
37) An above full-employment equilibrium is
   A) the equilibrium in which the economy is in most of the time.
   B) the period of time when prices are falling.
   C) the short-term period when real GDP exceeds potential GDP.
   D) theoretical possibility but cannot happen in reality.

38) Assume the economy is at long run equilibrium and oil prices rise. As a result, the _______ shifts _______.
   A) SAS; rightward   B) AD; rightward   C) SAS; leftward   D) AD; leftward

39) A nominal variable is
   A) the same as a real variable.
   B) always measured by subtracting the inflation rate from the real variable.
   C) a variable which measures the standard of living.
   D) a variable that has not been adjusted for changes in inflation.

40) Full employment corresponds to
   A) being at the point where the marginal product of labor equals zero.
   B) labor demand being higher than labor supply and real GDP being equal to potential GDP.
   C) equilibrium in the labor market, and real GDP exceeding potential GDP.
   D) equilibrium in the labor market, with real GDP being equal to potential GDP.

41) Which of the following approximately equals the real interest rate?
   A) the rate paid when the best customers of banks borrow money
   B) the nominal interest rate plus the inflation rate
   C) the nominal interest rate minus the inflation rate
   D) the nominal interest rate minus the growth rate of GDP

42) Which of the following is money?
   A) credit cards       B) checks in the checkbook
   C) checking deposits  D) All of the above are money.

43) The major difference between M1 and M2 is that
   A) M2 is a stock variable while M1 is a flow variable.
   B) M1 is a stock variable while M2 is a flow variable.
   C) traveler's checks are part of M1.
   D) time deposits and savings deposits are included in M2.

44) Which of the following is true regarding the required reserve ratio?
   A) The ratio is only enforced against banks that are operating in a risky manner.
   B) The ratio determines the amount of excess reserves a bank must hold.
   C) The ratio determines the legally required amount of reserves a bank must hold.
   D) None of the above answers is correct.

45) Suppose that a bank begins with $500 million in deposits and $100 million in reserves and is just meeting its required reserve ratio. Now suppose that the required reserve ratio is lowered to 10 percent. After the fall in the required reserve ratio but before the bank makes any changes, the bank's excess reserves are
   A) 0.       B) $400 million.   C) $50 million.   D) $450 million.
46) Given a required reserve ratio of 20 percent, a commercial bank that has received a new deposit of $100 can make additional loans of 
   A) $80.  B) $0.  C) $400.  D) $20.

47) Control of the nation's quantity of money is handled by  
   A) all commercial banks.  
   B) Congress, the Federal Reserve System, and all member commercial banks.  
   C) the Federal Reserve System.  
   D) Congress.

48) Monetary policy has several tools and the one used more frequently is 
   A) open market operations.  
   B) changing borrowing at commercial banks.  
   C) changing required reserve ratios.  
   D) changing the discount rate.

49) To increase commercial bank lending the Fed can 
   A) raise the required reserve ratio, raise the discount rate, or sell government securities.  
   B) raise the required reserve ratio, lower the discount rate, or sell government securities.  
   C) lower the required reserve ratio, lower the discount rate, or buy government securities.  
   D) lower the required reserve ratio, raise the discount rate, or buy government securities.

50) If the Fed wants to increase the quantity of money, it can 
   A) raise the Federal funds rate.  
   B) raise the discount rate.  
   C) purchase U.S. government securities.  
   D) raise the required reserve ratio.

51) The quantity of money people want to hold increases if 
   A) the interest rate rises.  
   B) the price level falls.  
   C) real GDP increases.  
   D) All of the above answers are correct.

52) The opportunity cost of holding money is 
   A) the interest rate.  
   B) real GDP.  
   C) the price level.  
   D) the inverse of the price level multiplied by the interest rate.

53) When bond prices rise, 
   A) interest rates rise.  
   B) the required reserve ratio rises.  
   C) the required reserve ratio falls.  
   D) interest rates fall.

54) If you buy a bond for $750 that pays 10 percent and the interest rate falls to 8 percent, then the price of the bond 
   A) has risen.  
   B) has fallen.  
   C) might rise or fall depending on whether the federal funds rate changed.  
   D) is still $750.
55) When the current interest rate is above the equilibrium interest rate there is an  
   A) excess quantity of money and people will sell bonds.  
   B) excess demand for money and people will sell bonds.  
   C) excess demand for money and people will buy bonds.  
   D) excess quantity of money and people will buy bonds.

56) If there is an excess quantity of money then  
   A) people buy bonds and the interest rate falls.  
   B) people sell bonds and the interest rate falls.  
   C) people buy bonds and the interest rate rises.  
   D) people sell bonds and the interest rate rises.

57) If the Fed wants to raise interest rates it will  
   A) buy bonds in order to increase the quantity of money.  
   B) sell bonds in order to decrease the quantity of money.  
   C) sell bonds in order to increase the quantity of money.  
   D) buy bonds in order to decrease the quantity of money.

58) The Fed increases the quantity of money. A mechanism through which aggregate demand  
   increases is that an increase in the quantity of money  
   A) raises the value of the dollar on foreign exchange markets so that net exports decrease,  
       which increases investment demand, thereby increasing aggregate demand.  
   B) increases the interest rate, which decreases investment demand, thereby increasing  
      aggregate demand.  
   C) decreases the interest rate, which decreases investment demand, thereby increasing  
      aggregate demand.  
   D) decreases the interest rate, which increases investment demand, thereby increasing  
      aggregate demand.

59) If \( M = $100, \ Y = $500 \) and \( P = $2 \), then \( V \) is equal to  
   A) 10.  
   B) .10.  
   C) 50.  
   D) 1.0.

60) The quantity theory asserts that real GDP is  
   A) not influenced by the quantity of money.  
   B) equal to nominal GDP multiplied by the quantity of money.  
   C) never different from potential GDP.  
   D) equal to nominal GDP divided by the quantity of money.

61) Cost-push inflation starts with  
   A) a decrease in short-run aggregate supply.  
   B) an increase in short-run aggregate supply.  
   C) an increase in aggregate demand.  
   D) a decrease in aggregate demand.

62) Stagflation is the result of  
   A) a decrease in short-run aggregate supply.  
   B) an increase in short-run aggregate supply.  
   C) a decrease in aggregate demand.  
   D) an increase in aggregate demand.
63) Unanticipated inflation ________ in a redistribution of income between employers and workers 63) ______
and ________ in a redistribution of income between borrowers and lenders.
A) does not result; does not result B) results; does not result
C) does not result; results D) results; results

64) Suppose that borrowers and lenders believe the inflation rate will be 4 percent this year. Instead 64)
the inflation rate during the year turns out to be 2 percent. Which of the following occurs?
A) Borrowers wish they had borrowed more money.
B) Too few loans will be made.
C) Lenders wish they had made fewer loans.
D) The real interest rate is higher than expected.

65) Phillips curves describe the relationship between 65)
A) aggregate expenditures and aggregate demand.
B) the quantity of money and interest rates.
C) aggregate demand and the price level.
D) unemployment and inflation.

66) The inflation rate has been 3 percent per year for several years, and the unemployment rate has 66)
been stable at 5 percent. Unanticipated changes in monetary policy cause the inflation rate to
increase to 6 percent. In the short run, the unemployment rate will
A) remain constant.
B) decrease.
C) increase to 8 percent.
D) increase, but the exact amount cannot be known for sure.

67) Which of the following correctly describes the relationship between nominal interest rates and 67)
inflation?
A) When there are high nominal interest rates, there are low inflation rates.
B) When there are high nominal interest rates, there are high inflation rates.
C) There is no relationship between the nominal interest rate and the inflation rate.
D) None of the above is correct.

68) The Keynesian explanation of the business cycle is based on 68)
A) volatile expectations about future sales and profits.
B) unstable inflationary expectations.
C) the inability of government policy–makers to predict the future course of the economy.
D) shifts in monetary policy undertaken by the Federal Reserve.

69) Monetarists believe that the money wage rate is 69)
A) irrelevant because workers focus on their real wage rate and intertemporal substitution.
B) sticky in the short run.
C) sticky for an extended period of time.
D) fully flexible.

70) Both the new classical and new Keynesian business cycle theories agree that 70)
A) the long-term nature of wage contracts allow anticipated changes in the price level to
cause business cycles.
B) unanticipated changes in aggregate demand cannot result in a business cycle.
C) the money wage rate is influenced by rational expectations of the price level.
D) anticipated changes in aggregate demand lead to the business cycle.
71) According to the new classical theory, business cycles are caused by
   A) changes in the growth rate of the money supply.
   B) unanticipated changes in aggregate demand.
   C) anticipated changes in aggregate demand.
   D) changes in investment.

72) The new Keynesian theory of the business cycle asserts that _______ generate changes in _______.
   A) anticipated events only; aggregate supply
   B) both anticipated and unanticipated events; aggregate supply
   C) both anticipated and unanticipated events; aggregate demand
   D) anticipated events only; aggregate demand

73) Which business cycle theory claims that increases and decreases in the pace of technological development will trigger a business cycle?
   A) the real business cycle model
   B) the Keynesian model
   C) the new Keynesian model
   D) the monetarist model

74) Fiscal policy can be defined as
   A) government policy with respect to transfer payments such as unemployment compensation and welfare.
   B) use of the federal budget to reach macroeconomic objectives.
   C) government spending and tax decisions accomplished using automatic stabilizers.
   D) government policy to retire the federal government debt.

75) The crowding out effect refers to
   A) private investment crowding out government saving.
   B) government spending crowding out private spending.
   C) government investment crowding out private investment.
   D) private saving crowding out government saving.

76) The term "expansionary fiscal policy" refers to the government’s attempts to stimulate the economy by
   A) increasing taxes so that people work harder.
   B) decreasing government purchases so that the private economy has more money to spend.
   C) increasing government purchases or decreasing taxes.
   D) None of the above answers is correct.

77) The Fed’s instruments include
   A) the monetary base.
   B) open market operations.
   C) full employment.
   D) price level stability.

78) Open market operations are _______ of the Fed.
   A) a technique
   B) an instrument
   C) a goal
   D) an intermediate target
79) Which of the following are instruments available to the Fed as it tries to achieve its macroeconomic goals?
   I. government purchases and taxes
   II. international trade
   III. changes in the quantity of money
   A) I and III  B) III only  C) I, II and III  D) I and II

80) Monetary policy includes adjustments in ________ so as to change ________.  
   A) interest rates; long-run aggregate supply  
   B) interest rates; short-run aggregate supply  
   C) the quantity of money; short-run aggregate supply  
   D) the quantity of money; aggregate demand

81) The Fed’s goals include  
   A) price level stability.  
   B) open market operations.  
   C) the federal funds rate.  
   D) the monetary base.

82) Which of the following is a potential intermediate target of the Fed?  
   A) federal funds rate  
   B) profit rates  
   C) tax rates  
   D) benefit rates

83) If the inflation rate is ________ than expected, the real interest rate is ________ than expected, which ________ borrowers and ________ lenders.  
   A) lower; lower; helps; hurts  
   B) lower; higher; helps; hurts  
   C) higher; lower; helps; hurts  
   D) higher; higher; helps; hurts

84) Alan Greenspan and others have defined price stability as occurring when inflation is  
   A) exactly 0 percent.  
   B) less than 10 percent.  
   C) used in wage-setting contracts.  
   D) between 0 and 3 percent.

85) The nominal federal funds rate ________ be negative and the real federal funds rate ________ be negative.  
   A) can; cannot  
   B) cannot; cannot  
   C) can; can  
   D) cannot; can

86) A monetary policy that specifies action independent of the state of the economy is called  
   A) a discretionary policy.  
   B) a fixed-rule policy.  
   C) an automatic policy.  
   D) a feedback-rule policy.

87) A policy of maintaining a constant growth rate for quantity of money is an example of a  
   A) automatic stabilizing policy.  
   B) feedback-rule policy.  
   C) fixed-rule policy.  
   D) discretionary policy.

88) Which of the following statements are TRUE regarding feedback-rule policies?  
   I. The actions from a feedback-rule policy depend on the behavior of the economy.  
   II. Monetarists generally support the use of feedback-rule policies.  
   A) neither I nor II  
   B) only II  
   C) only I  
   D) both I and II

89) Keynesians generally favor  
   A) feedback-rule monetary policy.  
   B) automatic monetary policy.  
   C) no monetary policy.  
   D) fixed-rule monetary policy.
90) Feedback rule monetary policy works by shifting the
  A) AD curve.                       B) LAS curve.
  C) SAS curve.                      D) AD and SAS curves.

91) Suppose the United States is in a recession. If the Fed decreases interest rates because of this
  fact, the Fed is conducting a
  A) feedback-rule policy.            B) fixed-rule policy.
  C) nondiscretionary policy.         D) flexible-rule policy.

92) Which answer accurately describes the two policies described below?
  I. a constant growth rate of the quantity of money
  II. the Fed raising the interest rate an economic expansion and lowering the economic
      recession
  A) I is a feedback-rule policy and II is a fixed-rule policy.
  B) I and II are both fixed-rule policies.
  C) I and II are both feedback-rule policies.
  D) I is a fixed-rule policy and II is a feedback-rule policy.

93) Consumer confidence in the economy falls, and as a result, aggregate demand decreases. As
    real GDP falls below potential GDP, a monetarist using a fixed rule would recommend
    A) increasing government purchases.  B) doing nothing.
    C) increasing the quantity of money. D) Both answers A and B are correct.

94) Consumer confidence in the economy rises, and as a result, real GDP increases above potential
    GDP. A feedback rule would recommend
    A) lowering the interest rate.       B) decreasing the quantity of money.
    C) increasing the quantity of money. D) keeping the quantity of money constant.

95) In response to a productivity slowdown, a feedback rule that stabilizes real GDP creates a
    A) leftward shift of the AD curve.    B) strategy of not responding.
    C) leftward shift of the LAS curve.   D) rightward shift of the AD curve.
96) In the above figure, suppose the economy is at point A when the country experiences an increase in energy costs. If the central bank has a feedback-rule policy that targets real GDP, the effect of the energy price hike and feedback rule
A) keeps the economy at point A.  
B) moves the economy to point B.  
C) moves the economy to point C.  
D) moves the economy to point D.

97) In the above figure, suppose the economy is at point A when the country experiences an increase in energy costs that shifts the short-run aggregate supply curve to SAS1. If the central bank has a feedback-rule policy that targets the price level, the effect of the energy price hike and feedback rule is that real GDP equals
A) $8 trillion.  
B) $10 trillion.  
C) $12 trillion.  
D) an amount less than $8 trillion.

98) Monetary feedback rules that target real GDP can
A) shift the LAS curve rightward.  
B) create demand-pull inflation.  
C) cause cost-push inflation.  
D) All of the above are correct.

99) The Fed's credible announced intention of lowering inflation results in
A) a higher unemployment rate.  
B) possible higher inflation.  
C) a decrease in real GDP.  
D) lower inflation.

100) If the Fed adopted an anticipated rule to slow the inflation rate, then the
A) long-run Phillips Curve shifts leftward.  
B) short-run Phillips Curve shifts upward.  
C) short-run Phillips Curve shifts downward.  
D) long-run Phillips Curve shifts rightward.
Answer Key
Testname: MACRO FINAL

1) B
2) B
3) D
4) B
5) C
6) D
7) A
8) A
9) A
10) D
11) D
12) D
13) D
14) D
15) B
16) B
17) D
18) C
19) D
20) D
21) A
22) C
23) B
24) D
25) D
26) C
27) C
28) D
29) C
30) C
31) D
32) D
33) A
34) C
35) C
36) C
37) C
38) C
39) D
40) D
41) C
42) C
43) D
44) C
45) C
46) A
47) C
48) A
Answer Key
Testname: MACRO FINAL

49) C
50) C
51) C
52) A
53) D
54) A
55) D
56) A
57) B
58) D
59) A
60) A
61) A
62) A
63) D
64) D
65) D
66) B
67) B
68) A
69) B
70) C
71) B
72) C
73) A
74) B
75) C
76) C
77) B
78) B
79) B
80) D
81) A
82) A
83) C
84) D
85) D
86) B
87) C
88) C
89) A
90) A
91) A
92) D
93) B
94) D
95) D
96) C
Answer Key
Testname: MACRO FINAL

97) C
98) C
99) D
100) C