
QUESTION 1

In general, treating other macro variables as given, as the aggregate real income of an economy rises temporarily in the short run,

- ☐ a. real net exports rise by more than the income increase.
- ☐ b. real net exports rise by the same amount as the income increase.
- ☐ c. real consumption demand rises by less than the income increase.
- ☐ d. real consumption demand rises by more than the income increase.
- ☐ e. real consumption demand rises by the same amount as the income increase.

QUESTION 2

Suppose $i, i^*, P, P^*, Y, Y^*, n^e, T,$ and G are exogenously given and the interest parity condition holds. Then, if the economic circumstances in future years are expected to remain unchanged, aggregate preferred expenditure, D , rises when

- ☐ a. net taxes collected by the government rise.
- ☐ b. the domestic aggregate price level rises.
- ☐ c. the foreign aggregate price level rises.
- ☐ d. the nominal interest rate rises.
- ☐ e. all of the above.

QUESTION 3

Suppose in an economy, $i, i^*, P, P^*, Y, Y^*, n^e, T,$ and G are all exogenously given. Also, suppose that the product market is in a short run equilibrium, the interest parity condition holds, prices are sticky, and the long-term prospects of the economy and parameters of the aggregate preferred expenditure are all given. In this situation, if the government reduces net taxes, T , total savings (both domestic and foreign) available to the economy

- ☐ a. will rise.
- ☐ b. will decline.
- ☐ c. will not change.
- ☐ d. may rise or decline, depending on the situation.

QUESTION 4

In the short run, when the long-term prospects of the economy, parameters of the aggregate preferred expenditure are given, prices are sticky, the interest parity condition holds, and the product market is in equilibrium, as the interest rate declines equilibrium income rises because

- ☐ a. exports rise.
- ☐ b. imports decline.
- ☐ c. investment expenditure rises.
- ☐ d. all of the above.
- ☐ e. none of the above.

QUESTION 5

During 2005, the U.S. aggregate real income, Y , increased sharply. We want to figure out what factors may have contributed to that income increase. Suppose that we know that the LM curve did not shift during that year and that the markets for money and for goods and services were both in equilibrium at all times. Which one of the following factors could have caused the increase in income in this situation?

- ☐ a. A temporary decrease in the domestic nominal interest rate.
- ☐ b. An increase in the expected return on investment.
- ☐ c. A temporary increase in the domestic price level.
- ☐ d. A temporary increase in net taxes.
- ☐ e. All of the above.

QUESTION 6

ITS, Inc., has established a subsidiary in Thailand and is contemplating an expansion of its operations there, but the company is concerned about the macroeconomic conditions in the country. The managers learn that a couple of large Thai banks with influential owners are facing cash flow problems and the Central Bank of Thailand has decided to lower the discount rate temporarily and help out those banks. In the short-run when prices are sticky, but the exchange rate is allowed to vary in a flexible way, this policy will

- ☐ a. cause a depreciation of the nominal exchange rate in Thailand.
- ☐ b. raise the equilibrium aggregate real income in Thailand.
- ☐ c. cause a decline in the interest rates in Thailand.
- ☐ d. all of the above.
- ☐ e. only a and c.

QUESTION 7

In 2009, the U.S. aggregate real income, Y , dropped sharply. We want to figure out what factors may have caused the decline. Assume that the markets for money and for goods and services were both in equilibrium at all times. We know that the LM curve shifted downward due to a large increase in money supply. Which one of the following factors could have caused the decrease in income in that situation?

- ☐ a. A temporary decrease in net taxes.
- ☐ b. An increase in the expected return on investment.
- ☐ c. A temporary decrease in the domestic price level.
- ☐ d. A temporary increase in the domestic nominal interest rate.
- ☐ e. A temporary decline in private consumption due to the decline in real wealth.