

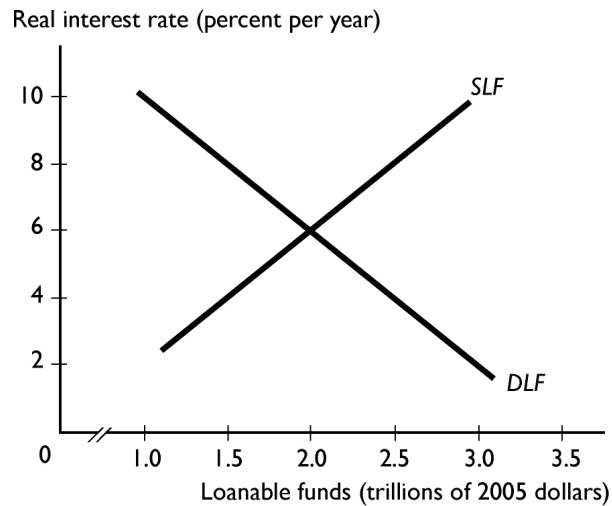
Name \_\_\_\_\_

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

- 1) In the goods market, firms \_\_\_\_\_ and households \_\_\_\_\_. 1) \_\_\_\_\_  
A) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services  
B) supply goods and services; purchase goods and services  
C) hire land, labor, capital, and entrepreneurship services; supply goods and services  
D) purchase goods and services; supply goods and services  
E) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
- 2) Payments to the factors of production are 2) \_\_\_\_\_  
A) rent, interest, bonds, and profit or loss.  
B) rent, mortgage, interest, and bonds.  
C) land, labor, capital, and entrepreneurship.  
D) rent, wages, interest, and profit or loss.  
E) rent, wages, profit or loss, and bonus.
- 3) Moving between two points on a *PPF*, a country gains 6 automobiles and forgoes 3 trucks. The opportunity cost of 1 automobile is 3) \_\_\_\_\_  
A) 3 trucks.  
B) 1/2 of a truck.  
C) 2 trucks.  
D) 6 automobiles - 3 trucks.  
E) 1 automobile.
- 4) If an early frost destroys most of the apple crop, the equilibrium price of an apple \_\_\_\_\_ and the equilibrium quantity \_\_\_\_\_. 4) \_\_\_\_\_  
A) rises; increases  
B) falls; increases  
C) does not change; decreases  
D) falls; decreases  
E) rises; decreases
- 5) Everything else the same, if government expenditure increases by \$400 billion and imports increase by \$400 billion, then GDP 5) \_\_\_\_\_  
A) increases by \$400 billion.  
B) decreases by \$200 billion.  
C) does not change.  
D) decreases by \$400 billion.  
E) increases by \$200 billion.

| Category                             | Number of people<br>(millions) |
|--------------------------------------|--------------------------------|
| Total population                     | 250                            |
| Less than 16 years of age            | 30                             |
| Institutionalized                    | 15                             |
| Part-time workers                    | 20                             |
| Full-time workers                    | 145                            |
| Looking for work in the past 4 weeks | 10                             |
| In U.S. Armed Forces                 | 10                             |

- 6) Using the table above, the unemployment rate is 6) \_\_\_\_\_
- A) 6.45 percent.  
 B) 5.88 percent.  
 C) 5.71 percent.  
 D) 6.90 percent.  
 E) 5.13 percent.
- 7) When we compare the records of the CPI and the PCE price index over time, the 7) \_\_\_\_\_
- A) CPI tends to exceed the PCE price index when inflation is high and the PCE price index tends to exceed the CPI when inflation is low.  
 B) two are very different in magnitude.  
 C) CPI tends to exceed the PCE price index.  
 D) two measures are identical.  
 E) PCE price index tends to exceed the CPI.
- 8) If the government raises income taxes, then the labor 8) \_\_\_\_\_
- A) supply curve shifts leftward.  
 B) demand curve shifts rightward.  
 C) demand curve shifts leftward.  
 D) supply curve shifts rightward.  
 E) Both answers B and D are correct.
- 9) If a country lacks \_\_\_\_\_, economic growth \_\_\_\_\_. 9) \_\_\_\_\_
- A) pure capitalism; will be slower compared to other countries  
 B) a democratic form of government; cannot occur  
 C) economic freedom; will increase at a faster pace  
 D) a proper incentive system; will occur at a pace suggested by the new growth theory  
 E) a proper incentive system; cannot occur



- 10) The figure above shows the loanable funds market. If the real interest rate is 10 percent, then 10) \_\_\_\_\_
- A) the interest rate must increase.
  - B) the government must intervene in order to prevent a credit crisis.
  - C) there is a surplus in the loanable funds market.
  - D) there is a shortage in the loanable funds market.
  - E) savers will exit the market because of the high opportunity cost of saving.
- 11) The Citizens First Bank sells \$100,000 of government securities to the Fed. This sale immediately 11) \_\_\_\_\_
- A) decreases the quantity of money.
  - B) increases the bank's reserves.
  - C) decreases the bank's checkable deposits.
  - D) increases the bank's required reserves.
  - E) decreases the bank's assets.
- 12) The long-run money demand curve shows 12) \_\_\_\_\_
- A) the relationship between real GDP and money demand.
  - B) the relationship between potential GDP and money demand.
  - C) that the value of money influences the quantity of money that households and firms plan to hold.
  - D) how the Fed determines the appropriate interest rate.
  - E) that the value of money is directly related to the quantity of money demanded.
- 13) If the money wage rate does not change, a decrease in the price level will \_\_\_\_\_ the real wage rate and \_\_\_\_\_ firms' profit. 13) \_\_\_\_\_
- A) lower; not change
  - B) lower; increase
  - C) raise; decrease
  - D) lower; decrease
  - E) raise; increase

- 14) When planned aggregate expenditure is larger than real GDP, actual inventories \_\_\_\_\_ planned inventories and real GDP \_\_\_\_\_. 14) \_\_\_\_\_
- A) are more than; decreases
  - B) are less than; decreases
  - C) are more than; increases
  - D) are not related to; increases
  - E) are less than; increases
- 15) When the natural unemployment rate increases, 15) \_\_\_\_\_
- A) both the long-run Phillips curve and the short-run Phillips curve shift rightward.
  - B) there are no shifts of either the long-run Phillips curve or the short-run Phillips curve.
  - C) the long-run Phillips curve shifts rightward and the short-run Phillips curve shifts leftward.
  - D) the long-run Phillips curve shifts leftward and the short-run Phillips curve shifts rightward.
  - E) both the long-run Phillips curve and the short-run Phillips curve shift leftward.
- 16) Needs-tested spending is best described as 16) \_\_\_\_\_
- A) spending on programs that entitle qualified persons and businesses to receive benefits.
  - B) spending on programs that are considered necessities (needed) according to surveys of the public.
  - C) spending on programs that have been tested in some manner.
  - D) spending on programs that have proven over time to be sound investments.
  - E) not spending at all but a reference to the reliability of budget.
- 17) If there is a national debt, we can conclude that the federal government has 17) \_\_\_\_\_
- A) purchased more goods and services than were needed.
  - B) borrowed in the past.
  - C) loaned funds to other nations in the past.
  - D) spent money foolishly.
  - E) loaned funds to U.S. taxpayers in the past.
- 18) A point on the production possibilities frontier reflects an 18) \_\_\_\_\_
- A) unattainable point without full employment of all resources.
  - B) attainable point with full employment of all resources.
  - C) attainable point without full employment of all resources.
  - D) unattainable point with full employment of all resources.
  - E) None of the above answers are correct.
- 19) Suppose over the next several years the productivity of firms producing electric cars improves dramatically. The advance in productivity leads to 19) \_\_\_\_\_
- A) a decrease in the supply of electric cars so that the supply curve shifts leftward.
  - B) an increase in the supply electric cars so that the supply curve shifts rightward.
  - C) no change in the supply of electric cars, only a change in the quantity supplied of electric cars.
  - D) a decrease in the supply of electric cars so that the supply curve shifts rightward.
  - E) an increase in the supply of electric cars so that the supply curve shifts leftward.

- 20) Total expenditure in the United States is equal to consumption expenditure plus investment 20) \_\_\_\_\_  
A) plus government expenditure on goods and services plus exports of goods and services.  
B) plus government expenditure on goods and services plus exports of goods and services plus imports of goods and services.  
C) plus government expenditure on goods and services plus exports of goods and services minus imports of goods and services.  
D) minus government expenditure on goods and services minus imports of goods and services.  
E) plus government expenditure on goods and services plus imports of goods and services.
- 21) Over the past 50 years, the U.S. labor force participation rate has decreased for 21) \_\_\_\_\_  
i. men.  
ii. women.  
iii. the over-all labor force.  
A) i and iii      B) i, ii, and iii      C) ii and iii      D) i only      E) ii only
- 22) If you have a mortgage on your house at 6 percent and the inflation rate when the mortgage was 22) \_\_\_\_\_  
acquired was 3 percent but has since increased and is now 8 percent per year; the *current* real interest rate is  
A) 8 percent per year.  
B) 0 percent per year.  
C) 6 percent per year.  
D) 14 percent per year.  
E) -2 percent per year.
- 23) Job rationing occurs if 23) \_\_\_\_\_  
A) the minimum wage is set below the equilibrium wage rate.  
B) a union wage is set below the equilibrium wage rate.  
C) an efficiency wage is set below the equilibrium wage rate.  
D) the Lucas wedge is positive.  
E) the real wage rate is pushed above the equilibrium wage rate.
- 24) If capital per hour of labor decreases, real GDP per hour of labor 24) \_\_\_\_\_  
A) decreases for a given level of technology.  
B) increases because the level of technology increases.  
C) changes only if technology also advances.  
D) increases for a given level of technology.  
E) decreases because the level of technology decreases.
- 25) If there is no Ricardo-Barro effect, an increase in the government budget deficit 25) \_\_\_\_\_  
A) raises the equilibrium real interest rate.  
B) decreases the demand for loanable funds.  
C) lowers the equilibrium real interest rate.  
D) increases the supply of loanable funds.  
E) decreases the supply of loanable funds.

- 26)  $C/D$  is the currency drain ratio and  $R/D$  is the desired reserve ratio. The money multiplier equals 26) \_\_\_\_\_
- A)  $\frac{1 + C/D}{R/D + C/D}$ .
- B)  $\frac{1 + R/D}{1 + C/D}$ .
- C)  $\frac{R/D - C/D}{1 + R/D}$ .
- D)  $\frac{1 + R/D}{R/D + C/D}$ .
- E)  $\frac{R/D + C/D}{1 + C/D}$ .
- 27) If real GDP is \$200, the price level is 2.5, and velocity is 5, then the quantity of money is 27) \_\_\_\_\_
- A) \$1,000. B) \$200. C) \$100. D) \$500. E) \$750.
- 28) When the domestic price level increases, exports decrease and imports increase. Other things the same, this change is illustrated by a 28) \_\_\_\_\_
- A) movement downward along the aggregate demand curve.
- B) leftward shift of the aggregate demand curve.
- C) rightward shift of the aggregate demand curve.
- D) movement upward along the aggregate demand curve.
- E) rightward shift of the aggregate supply curve.
- 29) A country reports that unplanned inventories increased during 2012. The increase in unplanned inventories leads to 29) \_\_\_\_\_
- A) firms increasing production, which increases GDP.
- B) the government decreasing production, which decreases GDP.
- C) firms decreasing production, which decreases GDP.
- D) consumers increasing their consumption expenditure, which increases GDP.
- E) actual aggregate expenditure being different than real GDP.
- 30) Suppose an economy experiences a permanent increase in its expected inflation rate. As a result, there is 30) \_\_\_\_\_
- A) an upward shift of the short-run Phillips curve.
- B) a downward movement along the short-run Phillips curve.
- C) an upward movement along the short-run Phillips curve.
- D) no change at all to the short-run Phillips curve.
- E) a downward shift of the short-run Phillips curve.