MACROECONOMICS

1. Between 1988 and 1998 the **GDP** of a certain country increased from **$1 trillion to $2 trillion** while the appropriate price index measuring its prices increased from **140 to 210.** Which of the following expresses the **1998 GDP in 1988 prices?**
   A. $ 1.50 trillion. C. $1 trillion. E. $3 trillion.
   B. $ 1.33 trillion. D. $2 trillion.

2. The **money supply** in the United States is controlled by:
   A. Congress (in particular, the Senate Committee on Banking and Finance).
   B. the commercial banking industry.
   C. the U.S. Treasury Department.
   D. the Federal Reserve.
   E. the New York Stock Exchange.

3. Suppose a constitutional amendment is adopted which requires the federal government to **balance its budget annually**. If the budget is currently balanced and now policymakers wish to **increase** the equilibrium level of the national product by **$30 billion**, the federal government:
   A. would be unable to bring about this change through fiscal policy.
   B. should increase both its spending and taxes by $15 billion.
   C. should increase both its spending and taxes by $30 billion.
   D. should reduce both its spending and taxes by $30 billion.
   E. should increase its spending by $15 billion and reduce taxes by $15 billion.

4. If a nation's **depreciation exceeds its gross investment**, we can say that:
   A. net investment is positive.
   B. net investment is zero.
   C. the nation's stock of capital is growing.
   D. the nation's stock of capital is declining.
   E. the nation's GDP will rise.

5. **Supply-side** economics stresses:
   A. an "easy" money policy.
   B. the stimulation of incentives to work, save, invest, and undertake entrepreneurial risk.
   C. the stimulation of consumption spending by households.
   D. the need for expansionary fiscal policy.
   E. the need for increased governmental involvement in the economy.

6. Mindy deposits **$600** in currency in her checking account at the Second National Bank. Later Adam is granted a loan for **$1200** by the same bank. What has happened to the **money supply** due to these two transactions?
   A. Increased by $600.
   B. Increased by $1200.
   C. It has remained unchanged.
   D. Decreased by $600.
   E. Decreased by $1200.

7. Which of the following would most likely result if the federal government **increased its spending without increasing its tax revenues** during a period when the economy is **near full employment?**
   A. A recession.
   B. A fall in interest rates.
   C. Inflation.
   D. A reduction of the national (public) debt.
   E. An increase in the real output of the economy.

8. Which of the following statements about the U.S. **federal (public) debt** is **false**?
   A. The vast majority of this debt is owed to private institutions and individuals within the United States.
   B. If this debt was paid off by simply printing up the amount of money required, inflation would be the likely result.
   C. This debt rises whenever the federal government borrows to cover budgetary deficits.
   D. After expenditures for Social Security/Medicare and national defense, paying interest on this debt is the largest current expenditure of the federal government.
   E. The private debt amassed by households and businesses is only about half the size of the public debt.

9. **Keynesian or demand-side** economists believe how well the economy is doing with respect to employment and growth depends primarily on:
   A. the level of tax rates.
   B. the level of interest rates.
   C. the rate of growth of the money supply.
   D. the amount of saving done by households.
   E. the amount of spending done by households, businesses, the government, and foreigners.

10. The **discount rate** is the interest rate at which:
    A. the Federal Reserve lends to commercial banks.
    B. commercial banks lend to each other.
    C. the public lends to the federal government.
    D. the Federal Reserve lends to the U.S. Treasury.
    E. commercial banks lend to the public.

11. Which of these events would likely **reduce** consumer spending?
    A. A reduction in personal income tax rates.
    B. A general expectation that the rate of inflation will soon begin to rise.
    C. A general decrease in interest rates.
    D. A decrease in stock prices.
    E. A reduction in the rate of unemployment.

12. The practical significance of the Keynesian **multiplier** is:
    A. its stabilizing impact on the economy (that is, downturns are less severe and upturns less explosive).
    B. that even small increases in the money supply may lead to "runaway" inflation.
    C. that small changes in spending lead to much larger changes in the level of economic activity.
    D. that small changes in consumption spending usually lead to much larger changes in investment spending.
    E. it measures the average number of times a dollar is exchanged ("turns-over") in a year.

13. Which of the following is **false** concerning a **national consumption tax?**
    A. It tends to be a regressive tax.
    B. It is similar to a state sales tax.
    C. It would encourage a greater degree of saving.
    D. It would discourage imports without hurting exports.
    E. It would reduce the incentive to generate income.

14. **Demand-side** economists argue that a policy of balancing the federal budget every year:
    A. is the best economic policy the government could pursue.
    B. tends to be pro-cyclical, that is, makes recessions worse and expansions inflationary.
    C. tends to be counter-cyclical, that is, makes recessions less severe and expansions less inflationary.
    D. is preferable to running surpluses but not as good as running deficits.
    E. is never desirable.

15. If the rate of growth in an economy is **2** percent, inflation is **3** percent, and the nominal rate of interest is **10** percent, what is the **real** rate of interest?
    A. 5%   B. 8%   C. 12%   D. 7%   E. 13%

16. When the government uses policies intended to **increase total spending** (or aggregate demand) in order to reduce unemployment, a possible "by-product" result is:
    A. A lower level of total output in the economy.
    B. A higher price level (that is, inflation).
    C. A fall in aggregate supply.
    D. Lower nominal rates of interest.
    E. A recession.

17. From the data given below (all figures in millions of $), which of the following best estimates this country's **GDP** for 2000 (assume it has no foreign sector)?

Change in Money Supply in 2000	$100
Saving in 2000	800
Change in the Value of Stocks in 2000	200
Government Expenditures in 2000	1000
Gross Investment in 2000	700
Consumption Expenditures in 2000	4000

    A. $6000   B. $5800   C. $5900   D. $6400   E. $5700

18. **Increasing taxes** generally:
    A. Reduces both household saving and spending.
    B. Reduces household spending but leaves saving pretty much the same.
    C. Reduces household saving but leaves spending pretty much the same.
    D. Increases household saving while it reduces spending.
    E. Increases both household saving and spending.

19. Which of the following statements about **investment** is **true**?
    A. Increases in the rate of interest tend to stimulate investment.
    B. Investment tends to be higher than usual in recession periods and lower than usual during expansionary periods.
    C. Investment tends to be the most volatile component of total spending in that the ratio of investment to GDP can vary greatly from one year to the next.
    D. The major component of investment spending is household purchases of corporate stocks and bonds.
    E. Investment is the largest single component of total spending.

20. Which of the following **alone** could lead to **stagflation**?
    A. A supply "shock" (that is, an expected shortage) of a primary resource such as energy.
    B. A sudden increase in the money supply.
    C. An unanticipated decrease in taxes.
    D. A rapid increase in productivity.
    E. Deregulation.

21. The Federal Reserve **controls the money supply** primarily by:
    A. Controlling the amount of Federal Reserve Notes (that is, currency or paper money) in circulation.
    B. Altering the reserve position of banks through sales and purchases of government securities.
    C. Altering the required reserve ratio to control banks' ability to grant loans.
    D. Controlling the production of coins at the U.S. Mint.
    E. Buying and selling gold in international markets.

22. According to Keynesian theory, which combination of policies below is **consistent** (that is, the policies would tend to reinforce instead of offset each other)?
    A. Decrease taxes; increase government spending; increase the money supply.
    B. Decrease taxes; decrease government spending; increase the money supply.
    C. Decrease taxes; increase government spending; decrease the money supply.
    D. Increase taxes; increase government spending; increase the money supply.
    E. Increase taxes; decrease government spending; increase the money supply.

23. Which of the following would **not** be included in this year's **GDP** figure?
    A. Kansas farmers sell a million bushels of wheat to South Africa.
    B. A barber purchases a cash register for use in his shop.
    C. A school district constructs a new high school.
    D. A museum purchases a Rembrandt painting for its collection.
    E. You pay $50 for two tickets to a *NSYNC concert.

24. Classical economists believed that if the **velocity** ("turn-over rate") of money was constant, a **10-percent increase** in the **money supply** would ultimately increase:
    A. real output by 10%.
    B. employment by 10%.
    C. the price level by 10%.
    D. aggregate spending by 10%.
    E. the real interest rate by 10%.

25. Generally the federal government **finances** a **budget deficit** by:
A. reducing the national debt.
B. increasing the money supply.
C. issuing common stock.
D. selling bonds.
E. borrowing from other countries.

26. **Monetarists** believe:
A. fluctuations in the business cycle are the result of changes in the rate of growth of the money supply.
B. inflation primarily results from the monopolistic pricing tactics of large corporations.
C. the Federal Reserve should pursue policies which keep the rate of interest stable.
D. the federal government's taxation policies have the largest impact on the performance of the economy.
E. all transactions should be made in cash only (that is, no checks or credit cards should be allowed).

27. A primary reason for the creation of the **FDIC** was to:
A. prevent excessive borrowing by the government from private financial institutions.
B. establish lenders of last resort for financial institutions.
C. enable the Federal Reserve to control the money supply.
D. prevent "bank runs" (panic withdrawing of funds by depositors).
E. deregulate the financial industry.

28. Suppose the amount consumers spend is given by **C=400 + .9Y**, where Y is **after-tax** income. If **pre-tax** income is **$10,000** and there is a proportional ("flat") **tax rate of 20%**, what is the amount that consumers will **save**?
A. $120
B. $400
C. $600
D. $1880
E. $2400

29. If the **Gross Domestic Product** of a country rises by **5%**, you can conclude:
A. living standards (measured by output/person) have improved by 5%.
B. real output has increased by 5%.
C. the market value of all final goods and services produced by the country must have risen by more than 5%.
D. prices have risen by 5% if there has been no change in real output.
E. prices and real output have each increased by 5%.

30. If a bank has **excess reserves**, it:
    A. cannot grant any additional loans.
    B. can grant additional loans in the amount of its excess reserves.
    C. must grant additional loans in the amount of its excess reserves.
    D. is earning excess profits or returns.
    E. is holding too little cash in its vaults and/or in its account at the Federal Reserve.

31. An **increase** in the overall **price level** that is accompanied by a short-run **increase in unemployment** is most likely a result of:
    A. a decrease in aggregate demand.
    B. an increase in aggregate demand.
    C. a decrease in aggregate supply.
    D. an increase in aggregate supply.
    E. simultaneous increases in both aggregate demand and aggregate supply.

32. In a period of sluggish growth the economy can be stimulated by means of a tax cut or an increase in government spending. In the short run a **tax cut** is:
    A. more powerful on a per dollar basis and favors private over public spending.
    B. less powerful on a per dollar basis but favors private over public spending.
    C. equally powerful on a per dollar basis and is neutral between private and public spending.
    D. more powerful on a per dollar basis and favors public over private spending.
    E. less powerful on a per dollar basis but favors public over private spending.

33. Which of the following is a **contractionary** economic policy?
    A. the selling of securities by the Federal Reserve.
    B. reductions in corporate and personal income taxes.
    C. increases in the size of the federal budget deficit.
    D. reductions in interest rates.
    E. increased rate of growth of the money supply.

34. The government transfers funds from the **private** sector to the **public** sector in all the following ways **except**:
    A. by taxing.
    B. by borrowing.
    C. by selling stock.
    D. by selling bonds.
    E. by selling government assets (land, buildings, etc.).

35. Which of the following is very difficult to correct with **demand-side** only policies?
    A. stagflation.
    B. demand-pull inflation.
    C. unemployment.
    D. stagnation.
    E. underconsumption.

36. Which of the following is a **transfer** payment?
    A. Payment of sales taxes at the grocery store.
    B. Cash payments to a babysitter.
    C. Payment for 100 shares of IBM stocks.
    D. Unemployment compensation paid to a laid-off worker.
    E. Payment by the government for Patriot missiles.

37. Most advocates of "**monetary growth rules**" favor:
    A. expanding the money supply rapidly during recessions.
    B. increasing the money supply by a small, fixed percentage each year.
    C. eliminating the Federal Reserve System.
    D. reducing the money supply during inflationary periods.
    E. discontinuing private banks' ability to create money.

38. Which of the following would **expand Aggregate Demand** according to Keynesians (demand-side economists), but **stimulate Aggregate Supply** according to supply-siders?
    A. Increasing government purchases of goods and services.
    B. Increasing transfer payments.
    C. Decreasing the money supply.
    D. Increasing the general level of interest rates.
    E. Decreasing personal and corporate tax rates.

39. Which of the following would be the **most** likely to cause **demand-pull inflation**?
    A. An increase in world oil prices.
    B. A decrease in government spending.
    C. A tax cut.
    D. A decrease in the money supply.
    E. Major labor unions receiving higher wage contracts.

40. A **$600** weekly salary in a year when the **Consumer Price Index** (CPI) was **300** would be the same as what salary in the CPI **base year**?
    A. $200.
    B. $300.
    C. $900.
    D. $1800.
    E. $20.

41. If the Federal Reserve **raises the reserve requirements** for banks this would:
   A. reduce the profitability of banks.
   B. likely lead to an increase in the money supply.
   C. likely lead to an decrease in the general level of interest rates.
   D. improve the safety of banks, but have no effect on the money supply.
   E. None of the above.

42. The word "**Gross**" in Gross Domestic Product indicates that GDP includes:
   A. intermediate as well as final goods.
   B. imported goods as well as domestically-produced goods.
   C. investment to replace worn out capital as well as investment for expanding productive capacity.
   D. "bads" produced (such as pollution and unsafe working conditions) as well as goods.
   E. farm products consumed on the farm as well as those sold.

43. If the government was running a **deficit of $100 billion** while the country had a **trade deficit of $60 billion**, then:
   A. saving must exceed investment by $40.
   B. saving must exceed investment by $160.
   C. investment must exceed saving by $40.
   D. investment must exceed saving by $160.
   E. saving and investment would be equal.

44. The buying and selling of **stocks and bonds**:
   A. involves net additions to the nation's productive capacity.
   B. is the major form of economic investment in the U.S.
   C. transfers ownership of the securities, but does not directly influence the size of the nation's capital stock.
   D. determines the overall level of economic activity.
   E. all of the above.

45. Growth in **output per worker** (labor productivity) of Western nations has been due to all the following **except**:
   A. growth in the quantity of capital.
   B. technological advance (growth in the quality of capital).
   C. growth in the quantity of the labor force.
   D. education and training of the labor force.
   E. the discovery of new ways to utilize various natural resources.

46. Which of the following is **not** a component of **aggregate demand**?
    A. taxes paid by households and businesses.
    B. government spending at all levels (federal, state, and local).
    C. consumption expenditures by households.
    D. net exports (exports minus imports).
    E. investment in real capital by businesses.

47. Which of the following **would** be counted as "unemployed" in the official unemployment statistics?
    A. An economist who drives a bus for a living.
    B. A painter who can't find work because more people are doing their own painting.
    C. A person who prefers to stay at home and raise their family.
    D. A substitute teacher trying to find a full-time position.
    E. A steelworker who, after looking for a job for six months, finally just gives up looking.

48. Which of the following statements is **true**?
    A. The value of a dollar increases when there is inflation.
    B. If the CPI (Consumer Price Index) is 140, consumer prices are 140% higher than they were in the base period.
    C. One measure of the rate of inflation is the percentage change in the CPI.
    D. The CPI measures price changes for all goods in the economy.
    E. All the above statements are true.

49. Monetarists use the **quantity equation of money** to show which of the following?
    A. The money supply and price level move in the same direction.
    B. Increases in the price level are associated with increases in employment.
    C. Increases in the cost of resources result in increased prices.
    D. Increases in aggregate demand are associated with increases in the demand for money.
    E. Increases in the supply of money are associated with decreases in the rate at which it is exchanged.

50. Which of the following would be considered a **supply-side** economic policy?
    A. an increase in tax rates.
    B. a reduction in government regulations.
    C. an increase in government spending.
    D. an increase in government borrowing.
    E. a reduction in the rate of economic growth.

51. **Fiscal policy** refers to the control of:
    A. interest rates by the Federal Reserve System.
    B. business policies to increase competition.
    C. the government budget to influence total spending.
    D. government spending in order to balance the budget.
    E. the growth of the money supply.

52. In the United States the majority of the **money supply** is backed by:
    A. gold, but not silver.
    B. silver, but not gold.
    C. both gold and silver.
    D. government securities.
    E. none of the above.

53. Which of the following statements is **false**?
    A. If the economy is operating at full employment, a reduction in taxes may lead to inflation.
    B. If the economy is experiencing unemployment, increased government spending may help combat the problem.
    C. Deficit spending is desirable only when the economy is experiencing demand-pull inflation.
    D. If we attempt to balance the government's budget during a period of rising unemployment, we will likely make the unemployment problem worse.
    E. Increasing government spending by $10 billion will have a greater impact on the level of equilibrium output than decreasing taxes by the same amount ($10 billion).

54. Which of the following is **not** considered to be **investment** as the term is used by economists?
    A. The piling up of inventories on a grocer's shelf.
    B. The purchase of a drill press by Ajax Manufacturing Co.
    C. The purchase of 100 shares of AT&T by your family.
    D. The construction of a housing complex.
    E. The building of a nursery school.

55. If a **bank sells government securities** to the “Fed”, then:
    A. the bank will be able to make more loans.
    B. the bank will not be able to make as many loans as it could before the sale.
    C. the bank's reserves will decrease.
    D. the bank's reserves will not be effected.
    E. none of the above.

56. If the **Consumer Price Index** is 143, how much is a dollar in the base period worth today?
    A. $1.43   C. $0.57   E. $1.14
    B. $0.43   D. $0.70

57. **Output and prices are both higher** than they were a year ago. Given this, which of the following is **true**?
    A. Real GDP declined from last year.
    B. GDP declined from last year.
    C. GDP increased from last year, but real GDP declined.
    D. Both GDP and real GDP increased from last year.
    E. Per capita GDP increased from last year.

58. Which of the following is **true** about the federal government’s **debt**?
    A. The majority of it is owed to foreign banks and other foreign investors.
    B. It must be paid-off in total in the next ten years.
    C. The majority of it is interest-free.
    D. More than 75% of it has been added since 1980.
    E. The combined debt of households, businesses, and state and local governments is less than that of the federal government.

59. Which of the following is considered part of the **M2** ("near" money) definition of money but **not** the **M1** ("medium of exchange") definition?
    A. Currency.
    B. Checkable accounts.
    C. Large (more than $100,000) time deposit accounts.
    D. Savings accounts.
    E. Real estate.

60. Assuming a **reserve requirement of 10%**, how much additional money can the bank represented below create? (All figures are in millions.)

Assets		**Liabilities**	
Reserves	$10	Demand Deposits	$80
Securities	40	Owner Equity	10
Loans	30		
Property	10		

A. None. B. $2 C. $5 D. $10 E. $20

61. When the Federal Reserve **sells government securities** on the open market:
A. the lending ability of commercial banks tends to decline, the money supply contracts, and interest rates fall.
B. the lending ability of commercial banks tends to decline, the money supply expands, and interest rates fall.
C. the lending ability of commercial banks increases, the money supply expands, and interest rates fall.
D. the lending ability of commercial banks increases, the money supply contracts, and interest rates fall.
E. the lending ability of commercial banks tends to decline, the money supply contracts, and interest rates rise.

62. According to the **real balance** effect:
A. a reduction in the price level stimulates spending by lowering interest rates.
B. an increase in the money supply will increase aggregate demand.
C. an increase in the price level reduces spending by lowering the real value of society's financial assets.
D. the aggregate demand curve must be upward-sloping.
E. the aggregate supply curve must be upward-sloping.

63. Which of the following would lead to a **decrease in aggregate demand**?
A. an increase in government spending.
B. a decrease in labor productivity.
C. an increase in personal income taxes.
D. an increase in society's total wealth.
E. technological advancements.

64. The largest component of GDP (Gross Domestic Product) is:
    A. government purchases of goods and services.
    B. business purchases of capital goods.
    C. foreign purchases of U.S. exports.
    D. consumer purchases of goods and services.
    E. gross private domestic investment.

65. Keynesians believe the economy is **inherently unstable** due to:
    A. the instability created by government fiscal policy.
    B. the instability created by the Federal Reserve's monetary policy.
    C. the volatility of investment spending.
    D. the volatility of consumption spending.
    E. the instability of interest rates.

66. Which of the following is **not** a general **supply-side** policy?
    A. the use of tax credits to encourage investment.
    B. general reduction in tax rates.
    C. elimination of unnecessary government regulations.
    D. taxing interest income to discourage saving and stimulate spending.
    E. replacing the income tax with a national "value-added" or sales tax.

67. If **people believe the economy is strong**, they are likely to:
    A. begin saving because they have more money than they need to spend.
    B. begin saving because they fear the good times will not last.
    C. spend money and use credit because they fear that inflation will soon be high.
    D. spend money and use credit because they are more secure and confident about their economic situation.
    E. pay-off past debts and avoid new debt.

68. Which of the following would be the most likely to cause cost-push inflation?
    A. a reduction in federal income tax rates.
    B. a decrease in the general level of interest rates.
    C. an increase in world oil prices.
    D. wage concessions by large labor unions.
    E. an increase in the growth of the money supply.

69. The following price and output data are for a economy which produces only one product. Assume year 2 is the base period. The economy's real GDP for year 5 is:

A. $30
B. $40
C. $60
D. $90
E. $120

Year	Output	Price
1	8	$2
2	10	3
3	15	4
4	18	5
5	20	6

70. Who is most likely to be harmed by unanticipated inflation?
A. people or businesses which borrow money.
B. governments which have a progressive personal income tax.
C. workers with COLA clauses in their employment contracts.
D. lenders or creditors.
E. everybody fairly equally.

71. Investment would most likely decrease by the greatest amount in which of the following scenarios?

	Interest rates	Business taxes	Profit Expectations
A.	falling	falling	poor
B.	falling	rising	poor
C.	rising	rising	good
D.	rising	rising	poor
E.	rising	falling	good

72. Consumption spending is $100 million, planned investment is $60 million, and saving is $40 million in a private, closed economy (that is, an economy with no government or foreign trade sector). At these levels:
A. the economy is in equilibrium.
B. there will be unintended increases in business inventories.
C. there will be unintended decreases in business inventories.
D. production exceeds total planned expenditures.
E. total income generated in the economy is $200 million.

73. Which of the following relationships is not generally expected to be the case (everything else held constant)?
   A. increases in the growth of the money supply lead to decreases in interest rates.
   B. increases in the price level lead to decreases in the purchasing power (or value) of money.
   C. increases in interest rates lead to increases in bond prices.
   D. increases in Federal Reserve sales of government securities lead to decreases in the growth of the money supply.
   E. increases in lending by commercial banks leads to increases in the money supply.

74. Which of the following would tend to slow the growth of productivity in an economy?
   A. greater capital investment.
   B. higher rate of saving.
   C. higher rate of technical progress.
   D. greater amount of business regulation.
   E. lower rate of taxation.

75. If the Federal Reserve wishes to increase interest rates it generally would do what with respect to government securities and the discount rate?

	Government Securities	Discount Rate
A.	buy	raise
B.	buy	lower
C.	sell	raise
D.	sell	lower
E.	nothing	raise

76. If the aggregate supply curve is fairly flat it implies:
   A. an increase in aggregate demand will lead to large increases in the price level.
   B. an increase in aggregate demand will lead to decreases in overall production.
   C. nearly all of the economy's resources are fully employed.
   D. changes in aggregate demand will have little to no influence on prices or employment in the economy.
   E. Prices are likely to be fairly stable despite changes in aggregate demand.

77. In calculating the official unemployment rate which of the following is false?
   A. "discouraged" workers who are not actively seeking employment are excluded.
   B. part-time workers who are seeking full-time jobs are counted simply as "employed."
   C. students are generally excluded.
   D. the number of unemployed people is based on claims made for unemployment benefits.
   E. it is found by dividing the number of unemployed by the labor force.

78. The debt of the federal government (the public debt) has surpassed five trillion dollars. Who holds the majority of the "I.O.U.s" (the Treasury bonds, bills, and notes) of the U.S. government?
   A. Individuals, banks, and companies in foreign countries.
   B. Foreign governments.
   C. The World Bank.
   D. Federal Reserve banks.
   E. Individuals, banks, and companies in the United States.

79. Which of the following is an example of fiscal policy?
   A. Increasing the growth rate of the money supply.
   B. Increasing income tax rates.
   C. Increasing the general level of interest rates.
   D. Increasing the availability of credit.
   E. None of the above.

80. Which of the following could represent an equilibrium situation for an economy with no foreign trade (figures are in billions of dollars)?

	Consumption	Saving	Investment	Taxes	Govt. Spending
A.	300	100	50	100	50
B.	400	100	150	75	75
C.	400	100	100	100	50
D.	300	50	75	100	125
E.	400	50	75	100	75

81. A country's capital stock was valued at $300 billion at the start of the year and $350 billion at the end. Consumption of fixed capital during the year was $25 billion. Assuming no changes in prices, gross investment during the year was ______ while net investment was ______.

	Gross Investment	Net Investment
A.	$25 billion	$50 billion
B.	$50 billion	$25 billion
C.	$75 billion	$25 billion
D.	$75 billion	$50 billion
E.	$50 billion	$75 billion

82. If interest rates rise, what is likely to happen to the prices of stocks and bonds?

	Stock Prices	Bond Prices
A.	fall	rise
B.	fall	fall
C.	rise	fall
D.	rise	rise
E.	rise	stay the same

83. Some economists worry when unemployment rates fall to what they call very low levels. What is their main concern?
    A. Falling wages.
    B. Larger budget deficits.
    C. Slower economic growth.
    D. Inflation.
    E. Not enough saving.

84. Economic growth tends to be promoted by a reduction in all of the following except:
    A. trade barriers.
    B. regulatory requirements.
    C. tax rates.
    D. saving.
    E. interest rates.

85. If the average price level rose by 2% and the real output of goods and services produced rose by 3% from last year to this year, then nominal GDP:
    A. decreased by 1%.
    B. increased by 1%.
    C. increased by 3%.
    D. increased by 5%.
    E. increased by 6%.

86. Which of the following is an example of structural unemployment?
    A. a computer programmer who quits her job to search for one in a warmer climate.
    B. a construction worker who loses his job in the winter.
    C. a mine worker who loses his job during a recession.
    D. an economics teacher who decides to retire early.
    E. a bank teller who is replaced by an ATM machine.

87. If the primary goal is to reduce inflation, which of the following policy actions would not be appropriate?
    A. reduce government expenditures on defense.
    B. increase personal income taxes.
    C. decrease the rate of growth of the money supply.
    D. decrease interest rates.
    E. all of the above would be appropriate.

88. Production and employment in which of the following industries would be the least affected by a major recession?
A. furniture and refrigerators.
B. oil and steel.
C. bread and milk.
D. computers and copy machines.
E. housing and cars.

89. To push interest rates down, the Federal Reserve could:
A. lower the discount rate.
B. lower the required reserve ratio.
C. lower its holdings of government securities.
D. only A and B.
E. A, B, or C.

90. Which of the following are considered leakages out of the circular flow?
A. savings and imports.
B. imports and exports.
C. investment and taxes.
D. consumption expenditures and investment.
E. government spending and taxes.

91. A large multiplier:
A. is always preferred to a smaller one.
B. is never preferred to a smaller one.
C. leads to a less stable economy.
D. makes fiscal policy less effective.
E. helps reduce the impact of a decline in investment on equilibrium GDP.

92. Under which of the following conditions would you prefer to be a borrower?

	Nominal rate of interest	Inflation rate
A.	8%	10%
B.	5%	5%
C.	5%	3%
D.	8%	5%
E.	10%	8%

93. Which of the following is true about the required reserves of a bank?
A. They equal the sum of the bank's cash on hand plus any deposit they have at the Federal Reserve.
B. They are a fixed percentage of the bank's assets.
C. They equal 25% of the bank's total deposits.
D. Changing the amount of them is the Federal Reserve's main monetary tool.
E. None of the above.

94. In the long run, inflation is caused by:
    A. banks that have market power and refuse to lend money.
    B. governments that raise taxes so high it increases the cost of doing business and, hence, raises prices.
    C. central banks that print too much money.
    D. increases in the price of inputs, such as labor and oil.
    E. insufficient demand for goods and services.

95. In the market for real output, the primary effect of an increase in the government spending is to shift:
    A. aggregate demand to the left.
    B. aggregate demand to the right.
    C. aggregate supply to the left.
    D. aggregate supply to the right.
    E. neither aggregate demand nor aggregate supply.

96. Which of the following changes to tax laws would encourage more saving but also increase relative the tax burden on low-income people?
    A. Reduce taxes on the return from saving (i.e. interest).
    B. Reduce the capital gains tax.
    C. Reduce inheritance taxes.
    D. Replace the income tax with a consumption (sales) tax.
    E. All of the above.

97. Budget surpluses:
    A. place the burden of current government spending on future taxpayers.
    B. increase national saving.
    C. reduce capital investment and hence, slow growth.
    D. occur when government spending exceeds its tax receipts.
    E. have occurred every year since the early 1980's for the federal government.

98. An economy is experiencing low rates of unemployment with high inflation. An appropriate mix of government policies might be to:

	Taxes	Government Spending	Interest Rates
A.	increase	decrease	increase
B.	decrease	increase	decrease
C.	decrease	decrease	decrease
D.	increase	decrease	decrease
E.	decrease	increase	increase

99. Which of the following tends to retard the growth of an economy?
    A. political stability
    B. investments in human capital
    C. decreases in the rate of saving
    D. productivity increases due to new technology
    E. relaxing government regulations

100. Productivity increases as the result of technological advances tend to shift an economy's aggregate:
    A. demand curve to the left and put downward pressure on the price level.
    B. supply curve to the left and put upward pressure on the price level.
    C. supply curve to the left and put downward pressure on the price level.
    D. demand curve to the right and put upward pressure on the price level.
    E. supply curve to the right and put downward pressure on the price level.