

Econ 102/100, March 16, 2006

*Answers*

**Part I: Multiple Choice: (26 Questions, 3 pts each=78 pts)**

**Select the best answer among the given choices**

1. Based on the following information, what would be the increase in the unemployment rate be if the discouraged workers were categorized as Unemployed?

Total population 300,000,000

Adult population 200,000,000

Adult population who have given up on finding work 30,000,000

Number employed 140,000,000

Number unemployed 10,000,000

- a) **15.6% higher**
- b) 20.0% higher
- c) 13.3% higher
- d) 16.7% higher
- e) None of the above, the unemployment rate would decrease.

2. Which of the following statements is correct?

A. The natural rate of unemployment includes frictional unemployment, structural unemployment and cyclical unemployment.

B. In order to be considered employed, a person must have worked full time during the previous month.

C. The unemployment rate underestimates the hardship in a weak labor market because of discouraged workers.

D. The labor-force participation rate has been greatly increased over the last 50 years for women, but not for men.

- a) A and C
- b) B and C
- c) **C and D**
- d) A, B, and D
- e) B, C, and D

3. Which of the following would **NOT** cause the price level to rise according to the quantity theory model?

- a) The Fed buys government bonds from the public through open market operations
- b) An increase in the velocity of money
- c) **An increase in real GDP**
- d) The Fed lowers the discount rate
- e) None of the above (that is, all of the above *would* cause the price level to rise)

4. Which of the following statements is true?

- A. The inflation tax affects everyone differently.
- B. Hyperinflation does not have any adverse effects because of money neutrality.
- C. Creditors benefit from unexpected increases in the price level.

- a) **A only**
- b) B only
- c) A and B
- d) B and C
- e) A, B and C

5. Which of the following statements about the functions of the Federal Reserve is **INCORRECT**?

- a) The Fed can increase money supply by purchasing government bonds
- b) The Fed can increase money supply by decreasing the reserve requirement
- c) The Fed can increase money supply by decreasing the discount rate
- d) **The Fed can increase money supply by decreasing the reserve holdings of the commercial banks**
- e) The Fed can increase money supply by decreasing the interest rate on the loans that the Fed makes to banks

Questions 6 and 7 are related:

6. Suppose that the original total value of stone wheels (used as money) on the Island of Yap is 1000 fei. The commercial banking system keeps reserves at exactly 10% of all deposits and no stone wheels are held in the hands of islanders. One day, an islander called Braveman discovers a new rock and chisels 10 more stone wheels, worth a total of 200 fei, out of it and then deposits those wheels in the bank. Based on this information, the original money supply on the island is \_\_\_\_\_ and increases by \_\_\_\_\_ after Braveman's deposit.

- a) **10,000 fei; 2,000 fei**
- b) 1,000 fei; 200 fei
- c) 10,000 fei; 12,000 fei
- d) 9,000 fei; 1,800 fei
- e) 1,000 fei; 2,000 fei

7. After Braveman's deposit, by what amount will the money supply on Yap increase if the reserve ratio is decreased to 8%?

- a) 1,500 fei
- b) 2,000 fei
- c) 2,500 fei
- d) **3,000 fei**
- e) 3,500 fei

8. Which of the following statements about exchange rates is **INCORRECT**?

- a) When purchasing power parity holds, the real exchange rate equals 1
- b) When purchasing power parity holds, the nominal exchange rate equals the ratio of foreign price to domestic price
- c) When purchasing power parity holds, the nominal exchange rate of dollars will be equal to the amount of foreign currency a unit of it can buy
- d) **When purchasing power parity holds, the ratio of the real exchange rate to the nominal exchange rate will be 1**
- e) None of the above (that is, all of the above statements are correct)