

Name:  
Section No.:  
UM ID No.:  
GSI:

**Economics 102**  
**Introduction to Macroeconomics**  
**Prof. Alan Deardorff**  
**Midterm Exam 1**  
October 16, 2000

**INSTRUCTIONS: READ CAREFULLY!!!**

1. Please do not open the exam book until you are told to do so.
2. **PLACE YOUR NAME, STUDENT UM ID NO. (ON THE FRONT OF YOUR MCARD, ALL EIGHT DIGITS, DO NOT WRITE SSN), SECTION NUMBER AND FORM NUMBER ON THE EXAM AND ON THE SCANTRON SHEET. THIS IS WORTH TWO POINTS ON THE EXAM.**
3. This exam has 100 points and is designed to take about 60 minutes to complete. However, you have approximately 80 minutes to complete the test. Check that you have all 11 pages of the exam.
4. **Section A** consists of 25 multiple choice questions worth 3 points each, followed by 5 true-false questions. Answers to all of the questions in Section A should be marked on the scantron sheet using a #2 pencil. There are no penalties for guessing.
5. **Section B** consists of 2 parts for which you must provide written answers on these sheets. Point values for questions in Section B are indicated in parentheses. Please try to fit your answer into the space provided.
6. Good luck!

<u>GSI</u>	<u>Sections</u>	
Tom Bishop	112, Thu 10-11:30	113, Thu 8:30-10
Brahima Coulibaly	102, Wed 1-2:30	103, Wed 2:30-4
Herman Kamil	101, Thu 4-5:30	109, Thu 1-2:30
Yener Kandogan	111, Thu 2:30-4	
George Li	105, Thu 4-5:30	115, Wed 1-2:30
Byung-ho Suh	107, Thu 10:11:30	108, Thu 1-2:30
Hui-chen Wang	110, Thu 2:30-4	114, Thu 10:11:30
Yingbin Xiao	104, Wed 2:30-4	116, Thu 4-5:30

**PART A:**

**Multiple Choice (3 points each; 75 points total)**

*Select the one best answer and mark it on the SCANTRON sheet.*

**A1.** Which of the following policies will lead to an INCREASE in the equilibrium real interest rate in the market for loanable funds?

- I. A decrease in investment tax credit
- II. An increase in tax rate on savings
- III. An increase in government spending

- (a) Only I
- (b) Only II
- (c) I and II
- (d) II and III
- (e) I, II and III

**A.2.** Which of the following policies could the Federal Reserve use to INCREASE the money supply?

- I. Selling bonds
- II. Increasing the minimum reserve requirement
- III. Decreasing the discount rate

- (a) I and II
- (b) I and III
- (c) II and III
- (d) Only III
- (e) None of I, II or III

**A.3.** Assume that the minimum reserve ratio is 10%, that banks do not hold excess reserves, and that the public does not hold cash. The amount of loans made by banks totals to \$900 million. What will be the money supply if the Federal Reserve now buys bonds amounting to \$5 million?

- (a) \$1,100 million
- (b) \$1,050 million
- (c) \$995 million
- (d) \$950 million
- (e) \$905 million

**A.4.** Fill in the blanks.

“ \_\_\_\_\_ represent indebtedness, whereas \_\_\_\_\_ represent ownership. \_\_\_\_\_ is a type of bond that never matures. \_\_\_\_\_ are offered by shaky corporations.”

- (a) Bonds, stocks, Default, Perpetuities
- (b) Stocks, bonds, Perpetuity, Mutual funds
- (c) Bonds, stocks, Junk bonds, Defaults
- (d) Stocks, bonds, Default, Junk bonds
- (e) Bonds, stocks, Perpetuity, Junk bonds

**A.5.** In measuring GDP, which of the following is classified as investment?

- (a) purchase of a US government bond
- (b) purchase of newly constructed housing by individuals
- (c) purchase of a public company's stock
- (d) (b) and (c)
- (e) (a), (b) and (c)

**A.6.** Which of the following are reasons why the CPI tends to overstate the increase in the cost of living:

- (a) people are able to substitute goods and services when their relative prices change.
- (b) improvements in quality are under-estimated by government agencies.
- (c) the introduction of new goods gives people less purchasing power because they have to buy more to maintain the same standard of living.
- (d) (a) and (b)
- (e) (a) and (c)

**A.7.** Which of the following is TRUE?

- (a) Desired national savings is the total amount of savings deposits in national banks.
- (b) Desired national savings is equal to private savings minus investment.
- (c) Desired national savings is equal to desired investment at the equilibrium interest rate.
- (d) National savings is equal to private savings minus public savings.
- (e) National savings reflects the national output that remains after government purchases have been paid for.