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Section No.: _____
UM ID No.: _____
GSI: _____
Form : _____

**Economics 102
Introduction to Macroeconomics
Prof. Alan Deardorff
Midterm Exam 2
March 20, 2002**

INSTRUCTIONS: READ CAREFULLY!!!

1. Please do not open the exam book until you are told to do so.
2. **PLACE YOUR NAME, FORM NUMBER (A OR B), 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 75 minutes to complete the test. Check that you have all 10 pages of the exam.
4. **Section A** consists of 26 multiple choice questions worth 3 points each. 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 1 part 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!

| GSI | Section Number(s) | Days and Times |
|-------------------|-------------------|---------------------|
| Chris Kurz | 201 | Thu 10-11:30 |
| Andrew Wogman | 202, 203 | Thu 11:30-1, 1-2:30 |
| Ed Knotek | 205, 213 | Thu 2:30-4, 11:30-1 |
| Waldery Rodrigues | 208,210 | Fri 11:30-1, 1-2:30 |

Part A: Multiple Choice(78 points)

1. Alan, the chairman of the Fed Board of Governors, lives in a world that adheres to the idea that money is neutral. Which of the following will **not** be affected in the long run if Alan decides to double the amount of the money supply?
 - a. The price of a DVD player.
 - b. The amount of dollars that it takes to purchase wheat.
 - c. Commodity prices.
 - d. The cost, in terms of reading the Wall Street Journal, of your time when taking this exam.
 - e. Nominal GDP.

2. Which of the following **best** illustrates frictional unemployment?
 - a. Chris is unable to find work as a GSI because fewer and fewer people want to watch stand up comedy.
 - b. Andrew refuses to look for a job, preferring to watch pro-wrestling.
 - c. Waldery loses his job at the bank after the bank president replaces him with an ATM.
 - d. Ed is laid off from NASCAR driving for several incidents with curbs.
 - e. Upon finishing his grading for the final exam, Alan quits his job as a Professor at the University of Michigan and actively looks for a job as an extra in action movies.

3. Which of the following is **true** for unexpectedly low inflation?
 - a. Shoe leather costs are higher.
 - b. Lenders gain and borrowers lose.
 - c. The real purchasing power of the country's income rises.
 - d. After tax stock returns are higher.
 - e. Menu costs are higher than expected.

4. Which of the following is most likely to cause a real appreciation of the U.S. dollar relative to the yen (Japan's currency).
 - a. The bank of Japan raises real interest rates.
 - b. US college students all stop going to Florida and start visiting Japan instead.
 - c. Japanese banks begin to invest heavily in US real estate.
 - d. A recession in Japan forces the million-member Ben Afflick Fan Club to postpone a vacation to Hawaii.
 - e. American investors decide that the Japanese stock market is undervalued and begin to buy up Japanese stocks.

5. In the country of Boblandia, the velocity of money is constant. Real GDP grows by 5% per year, the money stock grows by 14% per year, and the nominal interest rate is 11%. What is the real interest rate?
- 2%
 - 3%
 - 3%
 - 6%
 - 9%
6. If the nominal exchange rate is .333 dollars per pound, the U.S. price level is 110, and the British price level is 220, what is the real exchange rate(defined as amount of British goods per unit US goods)?
- 6.00
 - 1.50
 - .47
 - .50
 - .333
7. Because he is a smooth talker, Ed is able to convince the mayor of Stuckeyville to raise the minimum wage in the town from \$7.50 to \$12 and average wages rise. As a result, we would expect the change in the unemployment rate to be...
- positive, because of additional structural unemployment.
 - positive, because of unemployment insurance.
 - negative, because discouraged workers will reenter the labor force.
 - positive, because of additional frictional unemployment.
 - negative, because of the people that would want to work in Stuckeyville.
8. After graduating from the University of Michigan, you take a job at First Waldery Bank in the lending department and you're in desperate need of impressing your boss. On Thursday night, you call up your best friend who works at the Fed and he/she tells you that the Fed just secretly decided to start dropping money out of helicopters. At your meeting on Friday to decide what the bank will do with its nominal interest rates for the next year, you should:
- vote to leave interest rates unchanged, because the Fed's decision doesn't affect interest rates.
 - vote to lower interest rates, because of the coming inflation.
 - vote to lower interest rates, because of the coming deflation.
 - vote to raise interest rates, because of the coming inflation.
 - vote to raise interest rates, because of the coming deflation.