

**fall 2016 exam 3 2pm class**

*Indicate the answer choice that best completes the statement or answers the question.*

1. Opponents of active stabilization policy
  - a. think the Fed should simply try to fine tune the economy.
  - b. believe some effects of monetary policy may be long-lived.
  - c. generally agree that fiscal policy has no impact in the long run.
  - d. generally don't believe, even in theory, that fiscal policy can stabilize the economy.
  
2. Governments may prefer an inflation tax to some other type of tax because the inflation tax
  - a. reduces the real cost of government expenditure.
  - b. is easier to impose.
  - c. reduces inflation.
  - d. falls mainly on high-income individuals.
  
3. If a bank that desires to hold no excess reserves and has just enough reserves to meet the required reserve ratio of 15 percent receives a deposit of \$600, it has a
  - a. \$510 increase in excess reserves and a \$90 increase in required reserves.
  - b. \$90 increase in excess reserves and a \$510 increase in required reserves.
  - c. \$600 increase in required reserves and no increase in excess reserves.
  - d. \$600 increase in excess reserves and no increase in required reserves.
  
4. The Fed can increase the money supply by conducting open-market
  - a. purchases or by raising the discount rate.
  - b. purchases or by lowering the discount rate.
  - c. sales or by raising the discount rate.
  - d. sales or by lowering the discount rate.
  
5. Which of the following policy actions shifts the aggregate-demand curve?
  - a. an increase in taxes
  - b. an increase in government spending
  - c. an increase in the money supply
  - d. All of the above are correct.
  
6. Suppose there is a tax increase. To stabilize output, the Federal Reserve will
  - a. decrease government spending.
  - b. decrease the money supply.
  - c. increase government spending.
  - d. increase the money supply.
  
7. The existence of money leads to
  - a. greater specialization in production, but not to a higher standard of living.
  - b. a higher standard of living, but not to greater specialization.

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- c. greater specialization and to a higher standard of living.
  - d. neither greater specialization nor to a higher standard of living.
8. Which list ranks assets from most to least liquid?
- a. currency, stocks, fine art
  - b. fine art, currency, stocks
  - c. currency, fine art, stocks
  - d. fine art, stocks, currency
9. Tara deposits money into an account with a nominal interest rate of 6 percent. She expects inflation to be 2 percent. Her tax rate is 20 percent. Tara's after-tax real rate of interest
- a. will be 3.2 percent if inflation turns out to be 2 percent; it will be lower if inflation turns out to be higher than 2 percent.
  - b. will be 3.2 percent if inflation turns out to be 2 percent; it will be higher if inflation turns out to be higher than 2 percent.
  - c. will be 2.8 percent if inflation turns out to be 2 percent; it will be higher if inflation turns out to be higher than 2 percent.
  - d. will be 2.8 percent if inflation turns out to be 2 percent; it will be lower if inflation turns out to be higher than 2 percent.
10. If the reserve ratio is 20 percent, then \$100 of new reserves can generate
- a. \$500 of new money in the economy.
  - b. \$2,000 of new money in the economy.
  - c. \$250 of new money in the economy.
  - d. \$60 of new money in the economy.
11. If people had been expecting prices to rise but in fact prices fell, then who among the following would benefit?
- a. lenders and people holding a lot of currency
  - b. people holding a lot of currency but not lenders
  - c. neither lenders nor people holding a lot of currency
  - d. lenders but not people holding a lot of currency
12. In 1991, the Federal Reserve lowered the reserve requirement from 12 percent to 10 percent. Other things the same this should have
- a. decreased both the money multiplier and the money supply.
  - b. increased the money multiplier and decreased the money supply.
  - c. increased both the money multiplier and the money supply.
  - d. decreased the money multiplier and increased the money supply.
13. If the stock market crashes, then
- a. aggregate demand decreases, which the Fed could offset by purchasing bonds.
  - b. aggregate demand increases, which the Fed could offset by selling bonds.
  - c. aggregate demand decreases, which the Fed could offset by selling bonds.

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- d. aggregate demand increases, which the Fed could offset by purchasing the money supply.
14. If it were not for the automatic stabilizers in the U.S. economy,
- the Federal Reserve would have less reason than it has now to monitor stock prices.
  - output and employment would probably be more volatile than they are now.
  - it would be more desirable than it is now for the Federal Reserve to target an interest rate.
  - a strict balanced-budget rule would be more desirable than it is now.
15. Fiscal policy is determined by
- the president and Congress and involves changing the money supply.
  - the Federal Reserve and involves changing the money supply.
  - the Federal Reserve and involves changing government spending and taxation.
  - the president and Congress and involves changing government spending and taxation.
16. Which of the following statements is correct for the short run?
- Output responds to the aggregate demand for goods and services; the interest rate adjusts to balance the supply and demand for money; the price level is relatively slow to adjust.
  - Output responds to the aggregate demand for goods and services; the interest rate adjusts to balance the supply and demand for loanable funds; the price level adjusts to balance the supply and demand for money.
  - Output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for money; the price level adjusts to balance the supply and demand for loanable funds.
  - Output is determined by the amount of capital, labor, and technology; the interest rate adjusts to balance the supply and demand for loanable funds; the price level adjusts to balance the supply and demand for money.
17. John and Jane decide to go on a vacation. As a result, they withdraw \$2,500 from their savings account to purchase \$2,500 worth of traveler's checks. As a result of these changes,
- M1 decreases by \$2,500 and M2 increases by \$2,500.
  - M1 increases by \$2,500 and M2 stays the same.
  - M1 and M2 stay the same.
  - M1 increases by \$2,500 and M2 decrease by \$2,500.
18. While a television news reporter might state that "Today the Fed raised the federal funds rate from 1 percent to 1.25 percent," a more precise account of the Fed's action would be as follows:
- "Today the Fed raised the discount rate by a quarter of a percentage point, and this action will force the federal funds rate to rise by the same amount."
  - "Today the Fed told its bond traders to conduct open-market operations in such a way that the equilibrium federal funds rate would increase to 1.25 percent."
  - "Today the Fed took a step toward expanding aggregate demand, and this was done by raising the federal funds rate to 1.25 percent."
  - "Today the Fed took steps to increase the money supply by an amount that is sufficient to increase the federal funds rate to 1.25 percent."
19. Suppose the *MPC* is 0.60. Assume there are no crowding out or investment accelerator effects. If the government increases expenditures by \$200 billion, then by how much does aggregate demand shift to the right? If the government