

Exam 3 UB

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

1. At one time, people in a certain country had no access to banks; they relied exclusively on currency. Then, a fractional-reserve banking system was created. As a result, the money supply
 - a. increased. The central bank could have reduced the size of this increase by buying bonds.
 - b. decreased. The central bank could have reduced the size of this decrease by selling bonds.
 - c. increased. The central bank could have reduced the size of this increase by selling bonds.
 - d. decreased. The central bank could have reduced the size of this decrease by buying bonds.

2. What actions could be taken to stabilize output in response to a large decrease in U.S. net exports?
 - a. increase taxes or increase the money supply
 - b. increase taxes or decrease the money supply
 - c. decrease taxes or increase the money supply
 - d. decrease taxes or decrease the money supply

3. If the federal funds rate were above the level the Federal Reserve had targeted, the Fed could move the rate back towards its target by
 - a. buying bonds. This buying would reduce the money supply.
 - b. buying bonds. This buying would increase the money supply.
 - c. selling bonds. This selling would increase the money supply.
 - d. selling bonds. This selling would reduce the money supply.

4. Which of the following shifts aggregate demand to the left?
 - a. an increase in the price level
 - b. an increase in the money supply
 - c. a decrease in the price level
 - d. a decrease in the money supply

5. An increase in government spending initially and primarily shifts
 - a. aggregate demand to the right.
 - b. aggregate demand to the left.
 - c. neither aggregate demand nor aggregate supply in either direction.
 - d. aggregate supply to the right.

6. According to the classical dichotomy, which of the following is influenced by monetary factors?
 - a. real GDP
 - b. nominal wages
 - c. unemployment
 - d. All of the above are correct.

7. Which of the following combinations of nominal interest rates and inflation implies a real interest rate of 7 percent?

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- a. a nominal interest rate of 14 percent and an inflation rate of 2 percent.
 - b. a nominal interest rate of 4 percent and an inflation rate of 3 percent.
 - c. a nominal interest rate of 5 percent and an inflation rate of 4 percent.
 - d. a nominal interest rate of 8 percent and an inflation rate of 1 percent.
8. If it were not for the automatic stabilizers in the U.S. economy,
- a. output and employment would probably be more volatile than they are now.
 - b. a strict balanced-budget rule would be more desirable than it is now.
 - c. the Federal Reserve would have less reason than it has now to monitor stock prices.
 - d. it would be more desirable than it is now for the Federal Reserve to target an interest rate.
9. An important function of the U.S. Federal Reserve is to
- a. mint coins.
 - b. control the supply of money.
 - c. fund Congressional spending.
 - d. set the debt ceiling.
10. Suppose each good costs \$5 per unit and Megan holds \$40. What is the real value of the money she holds?
- a. \$40. If the price of goods rises, to maintain the real value of her money holdings she needs to hold more dollars.
 - b. 8 units of goods. If the price of goods rises, to maintain the real value of her money holdings she needs to hold more dollars.
 - c. \$40. If the price of goods rises, to maintain the real value of her money holdings she needs to hold fewer dollars.
 - d. 8 units of goods. If the price of goods rises, to maintain the real value of her money holdings she needs to hold fewer dollars.
11. Assume the MPC is 0.8. Assuming only the multiplier effect matters, an increase in government purchases of \$100 billion will shift the aggregate demand curve to the
- a. right by more than a decrease in taxes of \$100.
 - b. left by the same as an increase in taxes of \$100.
 - c. left by more than an increase in taxes of \$100.
 - d. right by the same as a decrease in taxes of \$100.
12. To increase the money supply, the Fed could
- a. increase the reserve requirement.
 - b. decrease the discount rate.
 - c. sell government bonds.
 - d. None of the above is correct.
13. If the reserve ratio is 12.5 percent, then \$1,000 of additional reserves can create up to
- a. \$8,000 of new money.
 - b. \$7,000 of new money.

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- c. \$11,500 of new money.
- d. \$12,500 of new money.

14. Assuming a multiplier effect, but no crowding-out or investment-accelerator effects, a \$100 billion increase in government expenditures shifts aggregate

- a. demand rightward by more than \$100 billion.
- b. supply leftward by less than \$100 billion.
- c. demand rightward by less than \$100 billion.
- d. supply leftward by more than \$100 billion.

15. Suppose that the MPC is 0.7, there is no investment accelerator, and there are no crowding-out effects. If government expenditures increase by \$30 billion, then aggregate demand

- a. shifts rightward by \$100 billion.
- b. shifts rightward by \$170 billion.
- c. shifts rightward by \$51 billion.
- d. shifts rightward by \$72.8 billion.

16. High and unexpected inflation has a greater cost

- a. for those whose wages increase by as much as inflation than those who are paid a fixed nominal wage.
- b. for savers in low income tax brackets than for savers in high income tax brackets.
- c. for those who save than for those who borrow.
- d. for those who hold a little money than for those who hold a lot of money.

17. The primary argument against active monetary and fiscal policy is that

- a. attempts to stabilize the economy do not constitute a proper role for government in a democratic society.
- b. these policies affect the economy too quickly and with too much impact.
- c. history demonstrates that interest rates respond unpredictably to active policies, leading to unpredictable effects on income.
- d. these policies affect the economy with a long lag.

18. An example of an automatic stabilizer is

- a. a decrease in tax rates in response to a recession.
- b. unemployment benefits.
- c. a decrease in money demand.
- d. a lowering of interest rates by the Fed.

19. When the price level rises, the number of dollars needed to buy a representative basket of goods

- a. increases, and so the value of money rises.
- b. decreases, and so the value of money falls
- c. increases, and so the value of money falls.
- d. decreases, and so the value of money rises.