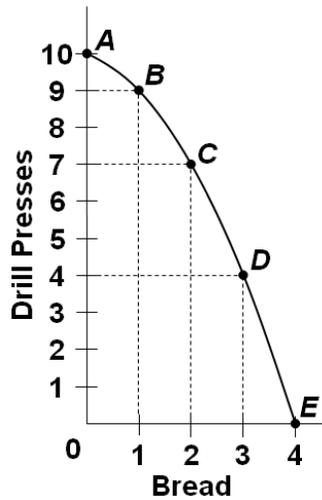
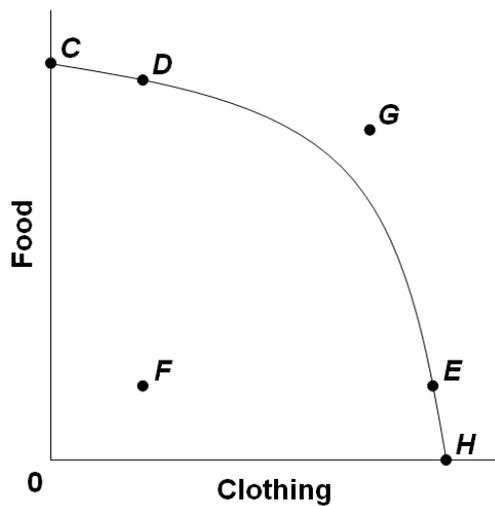


# Final Review

Student: \_\_\_\_\_



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- A. 1 unit of drill presses
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2. The combination of food and clothing shown by point F on the above graph:

- A. Is an efficient use of society's resources because it is below the production possibilities curve
- B. Would be a desirable combination of outputs only if there was no international trade
- C. Is attainable but involves the unemployment and inefficient use of some of society's resources
- D. Is not attainable with current resources and technology

3. The expenditures or output approach to GDP measures it by summing:

- A. Compensation of employees, rents, interest, dividends, undistributed corporate profits, proprietors' income, indirect business taxes paid, consumption of fixed capital, and net foreign factor income earned in the United States
- B. Compensation of employees, rents, interest, dividends, corporate profits, proprietors' income, and indirect business taxes, and subtracting the consumption of fixed capital
- C. The total spending for consumption, investment, net exports, and government purchases
- D. The total spending for consumption and government purchases, but subtracting public and private transfer payments

4. Which would be considered an investment according to economists?

- A. Public transfer payments
- B. The construction of a new plant by Ford
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5. A consumer price index attempts to measure changes in:

- A. The prices of all goods and services produced by the U.S. economy
- B. The price of a select market basket of goods and services
- C. The spending patterns of all consumers in the United States
- D. The spending patterns of consumers worldwide

6. In an economy, the total expenditures for a market basket of goods in year 1 (the base year) was \$5,000 billion. In year 2, the total expenditure for the same market basket of goods was \$5,500 billion. What was the GDP price index for the economy in year 2?

- A. 100
- B. 110
- C. 115
- D. 120

7. Nominal GDP is less than real GDP in an economy in year 1 and year 2. In year 3, nominal GDP is equal to real GDP. In year 4, nominal GDP is slightly greater than real GDP. In year 5, nominal GDP is significantly greater than real GDP. Which year is most likely to be the base year being used to calculate the price index for this economy?

- A. 2
- B. 3
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8. Nominal GDP differs from real GDP because:

- A. Nominal GDP is based on constant prices
- B. Real GDP is based on current prices
- C. Real GDP is adjusted for changes in the price level
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9. Unanticipated inflation tends to penalize:

- A. People who save money in financial institutions
- B. Individuals who borrow money from financial institutions
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- D. Governments which have a progressive personal income tax

10. A worker would be hurt least by inflation when the:

- A. Worker anticipates inflation and increases savings at the bank
- B. Worker is protected by a cost-of-living adjustment clause in an employment contract
- C. Worker is protected by fixed annual increases in wages and benefits in an employment contract
- D. Government increases the level of social security retirement benefits to correct for the effects of anticipated inflation

11. With no inflation, a bank would be willing to lend a business firm \$5 million at an annual interest rate of 6%. But, if the rate of inflation was anticipated to be 4%, the bank would most likely charge the firm an annual interest rate of:

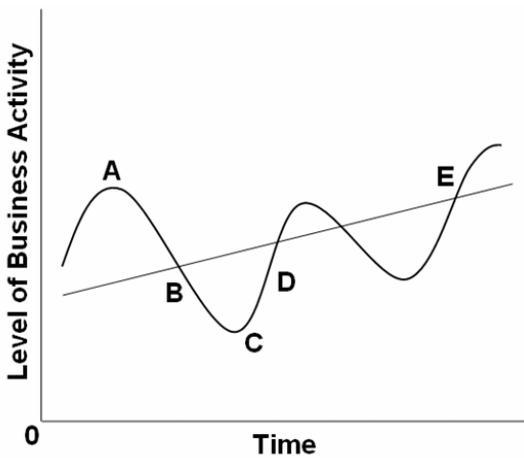
- A. 2 percent
- B. 4 percent
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12. From November 1993 to December 1994, the Democratic Republic of the Congo experienced an inflation rate of 69,502. This economic condition would best be described as:

- A. A cost-of-living adjustment
- B. Anticipated inflation
- C. Cost-push inflation
- D. Hyperinflation

13. The recurrent ups and downs in the level of economic activity extending over several years are a description of:

- A. A recession
- B. A business trough
- C. A business cycle
- D. A noncyclical fluctuation



14. Refer to the above diagram. The phases of the business cycle from points *A* to *D* are, respectively:

- A. Peak, recession, expansion, trough
- B. Trough, recovery, expansion, peak
- C. Expansion, recession, trough, peak
- D. Peak, recession, trough, expansion

15. Which phase of the business cycle would be most closely associated with an economic contraction?

- A. Peak
- B. Recession
- C. Trough
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16. In the expansion phase of a business cycle:

- A. The inflation rate decreases, but productive capacity increases
- B. The inflation rate and productive capacity decrease
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17. Assuming the total population is 200 million, the labor force is 100 million, and 92 million workers are employed, the unemployment rate is:

- A. 4 percent
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18. The best example of a "frictionally unemployed" worker is one who:

- A. Reduces productivity by causing frictions in a business
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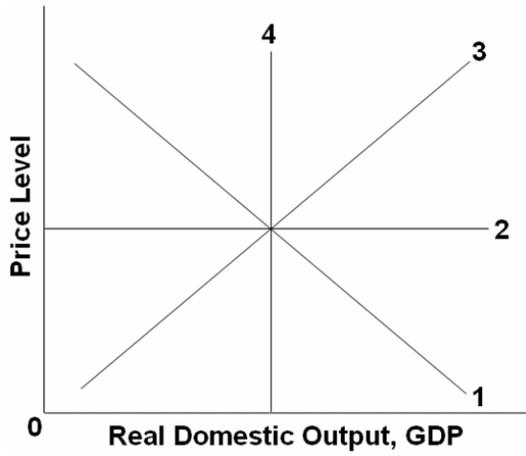
- A. Frictional unemployment
- B. Structural unemployment
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- D. Disguised unemployment

20. Kevin has lost his job in an automobile plant because of the use of robots for welding on the assembly line. Kevin plans to go to technical school to learn how to repair microcomputers. The type of unemployment Kevin is faced with is:

- A. Cyclical
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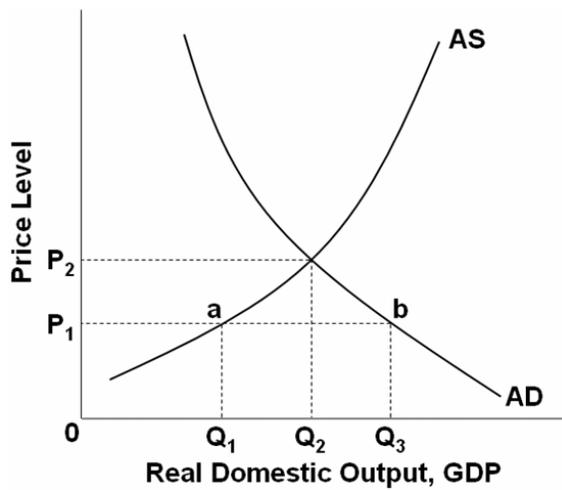
21. A headline states: "Real GDP falls again as the economy slumps." This condition is most likely to produce what type of unemployment?

- A. Structural
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- D. Natural



22. Refer to the above graph. Which line shows the full-employment output for the economy?

- A. 1
- B. 2
- C. 3
- D. 4



23. Refer to the above graph. This economy is at equilibrium:

- A. At point a
- B. At point b
- C. Price level  $P_2$  and output  $Q_2$
- D. Price level  $P_1$  and output  $Q_1$

24. Major increases in oil prices in the mid-1970s, and in the late 1970s created:

- A. An increase in long-run aggregate supply
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- C. Adverse aggregate supply shocks
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25. Disinflation refers to a situation where:

- A. Price level falls, but the rate of inflation does not
- B. Price level rises, but the rate of inflation does not
- C. The rate of inflation falls, but the price level does not
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26. Wage contracts, efficiency wages, and the minimum wage are explanations for why:

- A. Competition results in price wars
- B. Wages tend to be inflexible downward
- C. The aggregate demand curve slopes downward
- D. There is little support for the existence of a real-balances effect

27. When the Federal government uses taxation and spending actions to stimulate the economy it is conducting:

- A. Fiscal policy
- B. Incomes policy
- C. Monetary policy
- D. Employment policy

28. Crowding-out is the notion that:

- A. Since tax revenues vary directly with GDP, a rise in the level of GDP will increase the budget surplus and limit expansion
- B. Deficit financing will increase the demand for money, increase the interest rate, and reduce the level of investment spending in the economy
- C. The standardized budget is the best indicator of whether a budget deficit crowds out investment
- D. The actual budget is the best indicator of whether a budget deficit crowds out saving

29. The crowding-out effect suggests that:

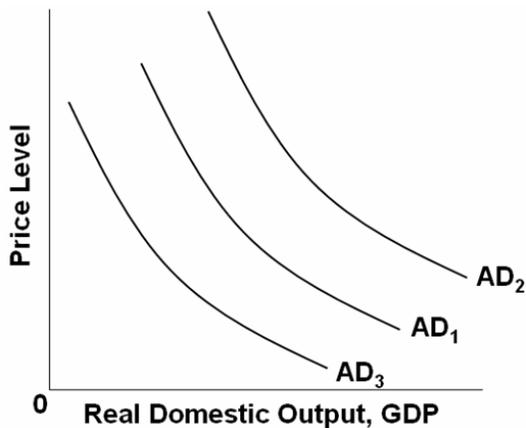
- A. Increases in consumption are always at the expense of saving
- B. Increases in government spending will close a recessionary expenditure gap
- C. Increases in government spending may raise the interest rate and thereby reduce investment
- D. High taxes reduce both consumption and saving

30. Which are contractionary fiscal policies?

- A. Increased taxation and increased government spending
- B. Increased taxation and decreased government spending
- C. Decreased taxation and no change in government spending
- D. No change in taxation and increased government spending

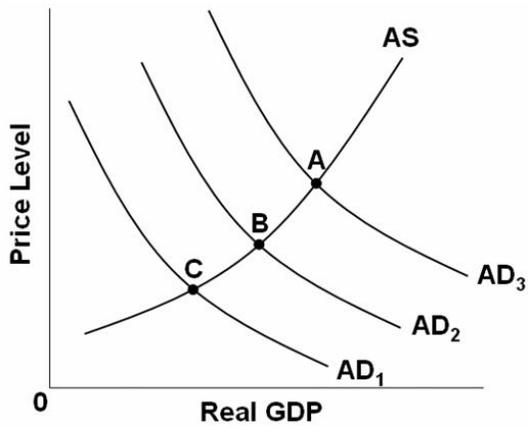
31. If the government wishes to increase the level of real GDP, it might reduce:

- A. Taxes
- B. Transfer payments
- C. The size of the budget deficit
- D. Its purchases of goods and services



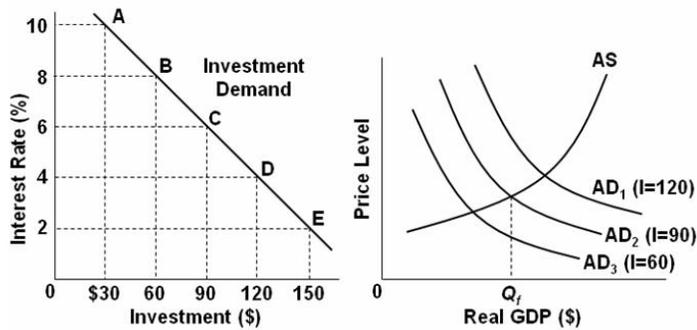
32. Refer to the above graph. What combination would most likely cause a shift from AD<sub>1</sub> to AD<sub>2</sub>?

- A. An increase in taxes and an increase in government spending
- B. A decrease in taxes and an increase in government spending
- C. An increase in taxes and an decrease in government spending
- D. A decrease in taxes and a decrease in government spending



33. Refer to the above graph. The economy is at equilibrium at point A. What fiscal policy would be most appropriate to control demand-pull inflation?

- A. Decrease aggregate demand by increasing taxes
- B. Increase aggregate demand by decreasing taxes
- C. Decrease aggregate supply by increasing taxes
- D. Increase aggregate demand by increasing government spending

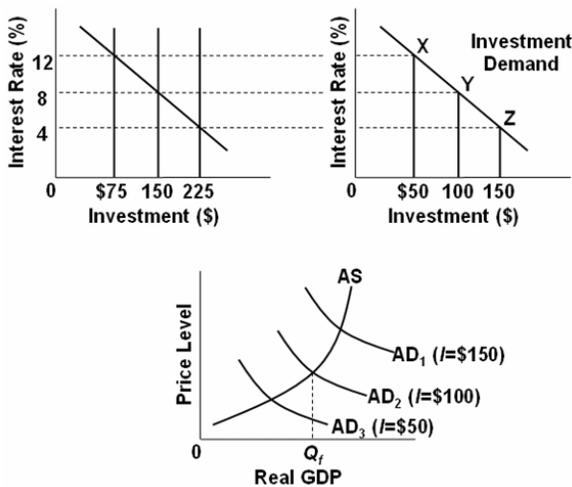


34. The Federal Reserve can increase aggregate demand by:

- A. Increasing taxes
- B. Raising the discount rate
- C. Raising the reserve requirement
- D. Buying government securities in the open market

35. Which would provide the most accurate description of events when monetary authorities increase the size of commercial banks' excess reserves?
- A. A fall in interest rates decreases the money supply, causing an increase in investment spending, output, and employment
  - B. A rise in interest rates increases the money supply, causing a decrease in investment spending, output, and employment
  - C. The money supply is decreased, which increases the interest rate, and causes investment spending, output, and employment to decrease
  - D. The money supply is increased, which decreases the interest rate, and causes investment spending, output, and employment to increase

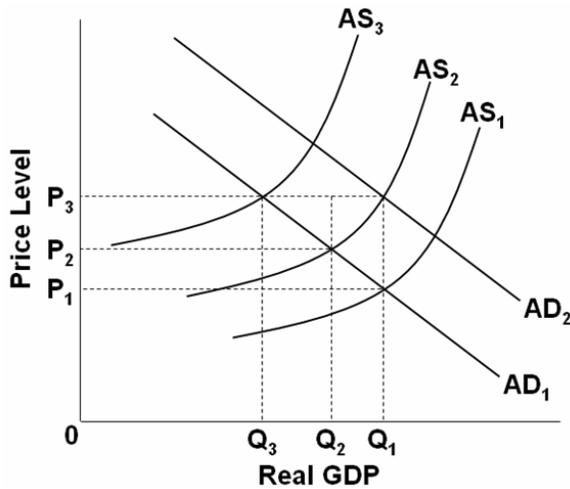
36. Which of the following best describes what occurs when monetary authorities sell government securities?
- A. There is a decrease in the size of commercial banks' excess reserves, the money supply increases, and interest rates fall, thereby causing a decrease in investment spending and real GDP
  - B. There is a decrease in the size of commercial banks' excess reserves, the money supply decreases, and the interest rates rise, thereby causing a decrease in investment spending and real GDP
  - C. There is a decrease in the size of commercial banks' excess reserves, the money supply decreases, and interest rates rise, thereby causing an increase in investment spending and real GDP
  - D. There is an increase in the size of commercial bank reserves, the money supply increases, and interest rates fall, thereby causing an increase in investment spending and real GDP



37. Refer to the above diagrams, in which the numbers in parentheses near the AD<sub>1</sub>, AD<sub>2</sub>, and AD<sub>3</sub> labels indicate the level of investment spending associated with each curve. All figures are in billions. The interest rate in the economy is 4 percent. What should the Fed do to achieve a noninflationary full-employment level of real GDP?
- A. Increase the money supply from \$75 to \$150 billion
  - B. Increase the money supply from \$150 to \$225 billion
  - C. Decrease the money supply from \$225 to \$150 billion
  - D. Make no change in the money supply

38. If Federal Reserve officials attempt to pull the economy out of a recession when the price level is relatively stable, the policies they would most likely use would be to:

- A. Buy government securities and increase the discount rate
- B. Sell government securities and decrease the discount rate
- C. Buy government securities and decrease the discount rate
- D. Sell government securities and increase the discount rate

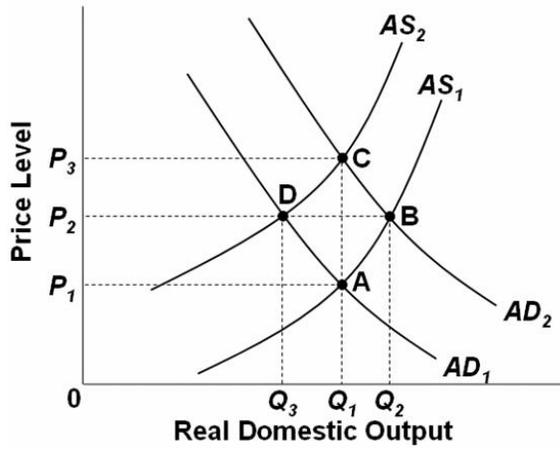


39. Refer to the above graph. Given that the economy is at an initial equilibrium where the  $AD_1$  and  $AS_1$  curves intersect, demand-pull inflation in the short run can best be represented by a shift from:

- A.  $AS_1$  to  $AS_3$
- B.  $AD_1$  to  $AD_2$
- C.  $AS_1$  to  $AS_2$
- D.  $AD_2$  to  $AD_1$

40. Refer to the above graph. The economy is initially at equilibrium when  $AD_1$  and  $AS_1$  intersect. If there is cost-push inflation in the economy so that aggregate supply shifts from  $AS_1$  to  $AS_2$ , then to reduce unemployment the government may increase aggregate demand which in the short run shifts:

- A.  $AD_1$  to  $AD_2$ , increases the price level from  $P_1$  to  $P_2$ , and increases real domestic output from  $Q_1$  to  $Q_2$
- B.  $AD_1$  to  $AD_2$ , increases the price level from  $P_2$  to  $P_3$ , and increases real domestic output from  $Q_1$  to  $Q_2$
- C.  $AD_1$  to  $AD_2$ , increases the price level from  $P_2$  to  $P_3$ , and increases real domestic output from  $Q_2$  to  $Q_1$
- D.  $AD_2$  to  $AD_1$ , decreases the price level from  $P_3$  to  $P_2$ , and decreases real domestic output from  $Q_1$  to  $Q_2$

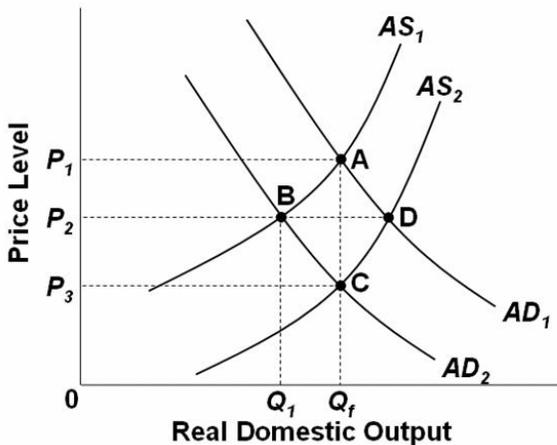


41. Refer to the above graph. Assume that the economy is initially at equilibrium at point A. If there is cost-push inflation in this economy such that  $AS_1$  shifts to  $AS_2$  and government does not take any corrective actions, then in the long run the equilibrium will be at point:

- A. A
- B. B
- C. C
- D. D

42. If prices and wages are flexible, a recession arising from a decrease in aggregate demand will:

- A. Decrease the price level
- B. Increase the price level
- C. Increase the interest rate
- D. Increase net exports



43. Refer to the above graph. Assume that the economy is initially at equilibrium at point A. If there is a recession in the economy such that  $AD_1$  shifts to  $AD_2$ , and wages and prices are flexible, then in the long run the price level will be:

- A.  $P_2$ , and real output will be  $Q_f$
- B.  $P_3$ , and real output will be  $Q_f$
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44. Consider the currency market for Japanese yen and U.S. dollars. An increase in the demand for Japanese yen results in:

- A. An appreciation of the yen and a depreciation of the dollar
- B. A depreciation of the yen and a depreciation of the dollar
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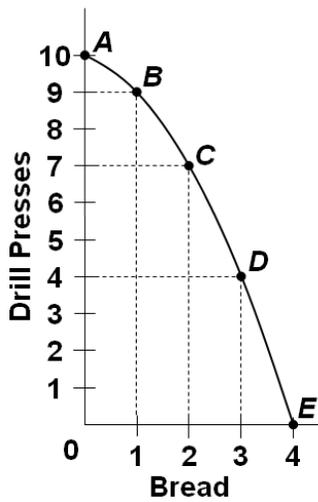
46. When real interest rates fall in the United States as compared to other nations, other things being equal, we would expect the dollar to experience:

- A. Appreciation
- B. Depreciation
- C. Inflation
- D. Deflation

47. If Japanese autos increase in popularity in the United States, then this event is most likely to cause the Japanese yen to:

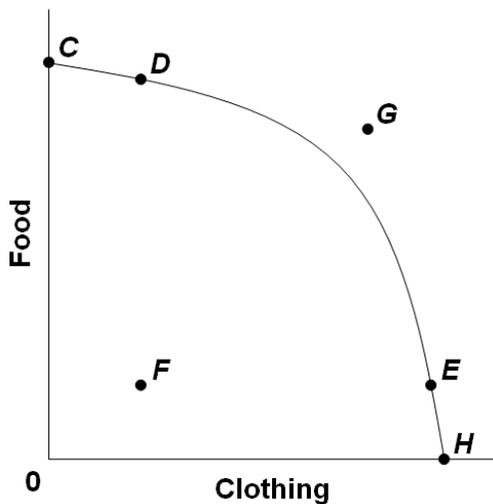
- A. Appreciate and the U.S. dollar to depreciate
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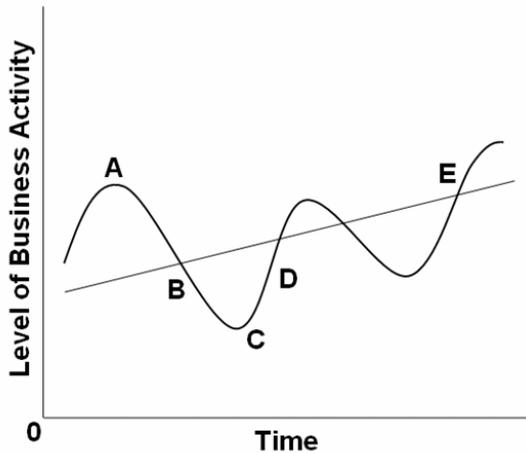
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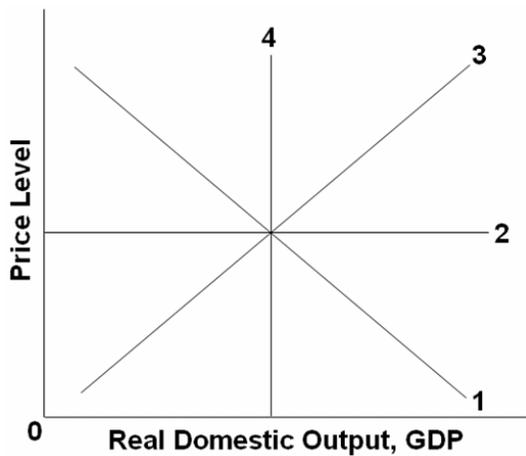
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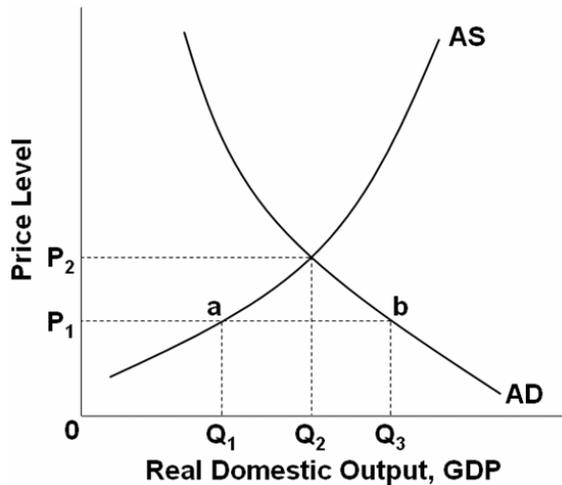
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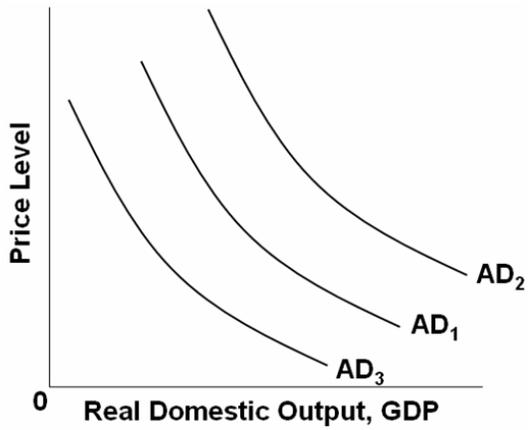
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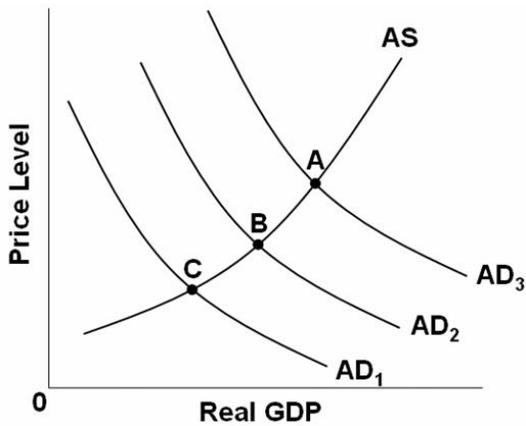
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- C. The size of the budget deficit
- D. Its purchases of goods and services



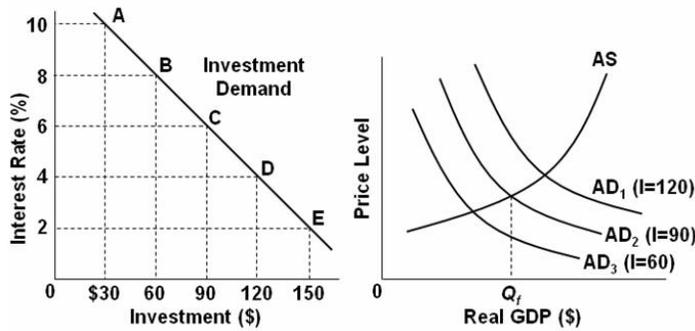
32. Refer to the above graph. What combination would most likely cause a shift from  $AD_1$  to  $AD_2$ ?

- A. An increase in taxes and an increase in government spending
- B.** A decrease in taxes and an increase in government spending
- C. An increase in taxes and an decrease in government spending
- D. A decrease in taxes and a decrease in government spending



33. Refer to the above graph. The economy is at equilibrium at point A. What fiscal policy would be most appropriate to control demand-pull inflation?

- A.** Decrease aggregate demand by increasing taxes
- B. Increase aggregate demand by decreasing taxes
- C. Decrease aggregate supply by increasing taxes
- D. Increase aggregate demand by increasing government spending



34. The Federal Reserve can increase aggregate demand by:

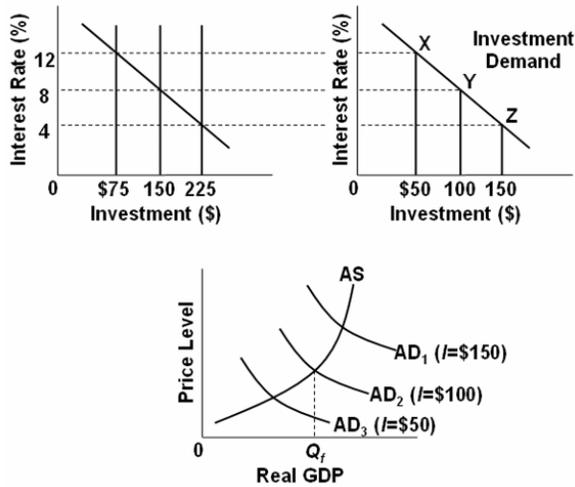
- A. Increasing taxes
- B. Raising the discount rate
- C. Raising the reserve requirement
- D. Buying government securities in the open market**

35. Which would provide the most accurate description of events when monetary authorities increase the size of commercial banks' excess reserves?

- A. A fall in interest rates decreases the money supply, causing an increase in investment spending, output, and employment
- B. A rise in interest rates increases the money supply, causing a decrease in investment spending, output, and employment
- C. The money supply is decreased, which increases the interest rate, and causes investment spending, output, and employment to decrease
- D. The money supply is increased, which decreases the interest rate, and causes investment spending, output, and employment to increase**

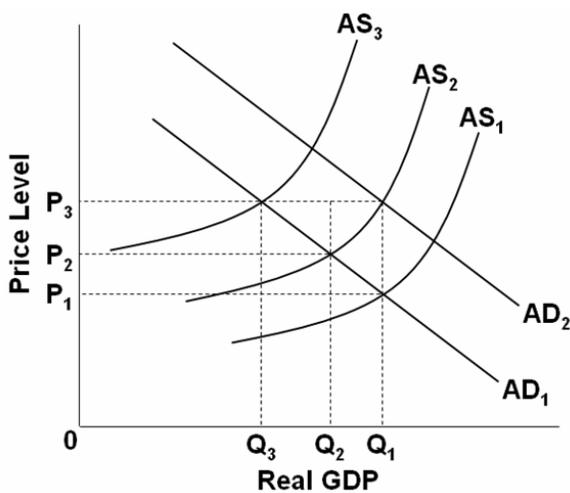
36. Which of the following best describes what occurs when monetary authorities sell government securities?

- A. There is a decrease in the size of commercial banks' excess reserves, the money supply increases, and interest rates fall, thereby causing a decrease in investment spending and real GDP
- B. There is a decrease in the size of commercial banks' excess reserves, the money supply decreases, and the interest rates rise, thereby causing a decrease in investment spending and real GDP**
- C. There is a decrease in the size of commercial banks' excess reserves, the money supply decreases, and interest rates rise, thereby causing an increase in investment spending and real GDP
- D. There is an increase in the size of commercial bank reserves, the money supply increases, and interest rates fall, thereby causing an increase in investment spending and real GDP



37. Refer to the above diagrams, in which the numbers in parentheses near the  $AD_1$ ,  $AD_2$ , and  $AD_3$  labels indicate the level of investment spending associated with each curve. All figures are in billions. The interest rate in the economy is 4 percent. What should the Fed do to achieve a noninflationary full-employment level of real GDP?
- A. Increase the money supply from \$75 to \$150 billion
  - B. Increase the money supply from \$150 to \$225 billion
  - C. Decrease the money supply from \$225 to \$150 billion**
  - D. Make no change in the money supply

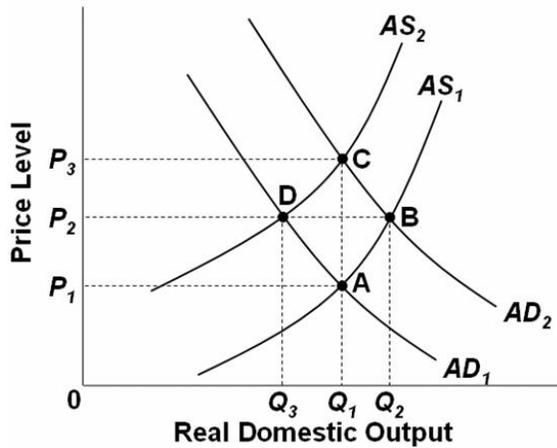
38. If Federal Reserve officials attempt to pull the economy out of a recession when the price level is relatively stable, the policies they would most likely use would be to:
- A. Buy government securities and increase the discount rate
  - B. Sell government securities and decrease the discount rate
  - C. Buy government securities and decrease the discount rate**
  - D. Sell government securities and increase the discount rate



39. Refer to the above graph. Given that the economy is at an initial equilibrium where the  $AD_1$  and  $AS_1$  curves intersect, demand-pull inflation in the short run can best be represented by a shift from:
- A.  $AS_1$  to  $AS_3$
  - B.  $AD_1$  to  $AD_2$**
  - C.  $AS_1$  to  $AS_2$
  - D.  $AD_2$  to  $AD_1$

40. Refer to the above graph. The economy is initially at equilibrium when  $AD_1$  and  $AS_1$  intersect. If there is cost-push inflation in the economy so that aggregate supply shifts from  $AS_1$  to  $AS_2$ , then to reduce unemployment the government may increase aggregate demand which in the short run shifts:

- A.  $AD_1$  to  $AD_2$ , increases the price level from  $P_1$  to  $P_2$ , and increases real domestic output from  $Q_1$  to  $Q_2$
- B.  $AD_1$  to  $AD_2$ , increases the price level from  $P_2$  to  $P_3$ , and increases real domestic output from  $Q_1$  to  $Q_2$
- C.  $AD_1$  to  $AD_2$ , increases the price level from  $P_2$  to  $P_3$ , and increases real domestic output from  $Q_2$  to  $Q_1$
- D.  $AD_2$  to  $AD_1$ , decreases the price level from  $P_3$  to  $P_2$ , and decreases real domestic output from  $Q_1$  to  $Q_2$

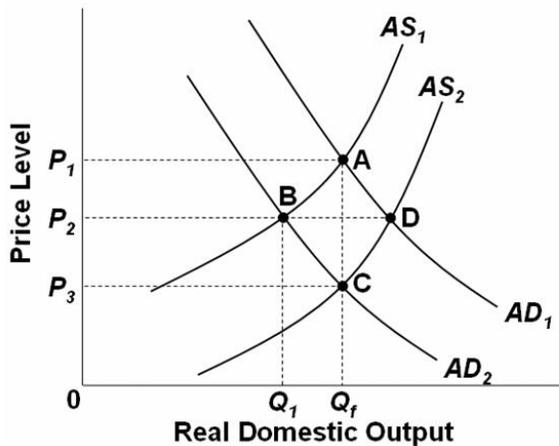


41. Refer to the above graph. Assume that the economy is initially at equilibrium at point A. If there is cost-push inflation in this economy such that  $AS_1$  shifts to  $AS_2$  and government does not take any corrective actions, then in the long run the equilibrium will be at point:

- A. A
- B. B
- C. C
- D. D

42. If prices and wages are flexible, a recession arising from a decrease in aggregate demand will:

- A. Decrease the price level
- B. Increase the price level
- C. Increase the interest rate
- D. Increase net exports



43. Refer to the above graph. Assume that the economy is initially at equilibrium at point A. If there is a recession in the economy such that  $AD_1$  shifts to  $AD_2$ , and wages and prices are flexible, then in the long run the price level will be:

- A.  $P_2$ , and real output will be  $Q_f$
- B.  $P_3$ , and real output will be  $Q_f$
- C.  $P_1$ , and real output will be  $Q_f$
- D.  $P_2$ , and real output will be  $Q_1$

44. Consider the currency market for Japanese yen and U.S. dollars. An increase in the demand for Japanese yen results in:

- A. An appreciation of the yen and a depreciation of the dollar
- B. A depreciation of the yen and a depreciation of the dollar
- C. An appreciation of the yen and an appreciation of the dollar
- D. A depreciation of the yen and an appreciation of the dollar

45. Consider the currency market for Japanese yen and U.S. dollars. An increase in the supply of Japanese yen results in:

- A. An appreciation of the yen and a depreciation of the dollar
- B. A depreciation of the yen and a depreciation of the dollar
- C. An appreciation of the yen and an appreciation of the dollar
- D. A depreciation of the yen and an appreciation of the dollar

46. When real interest rates fall in the United States as compared to other nations, other things being equal, we would expect the dollar to experience:

- A. Appreciation
- B.** Depreciation
- C. Inflation
- D. Deflation

47. If Japanese autos increase in popularity in the United States, then this event is most likely to cause the Japanese yen to:

- A.** Appreciate and the U.S. dollar to depreciate
- B. Depreciate and the U.S. dollar to appreciate
- C. Appreciate and the U.S. dollar to appreciate
- D. Depreciate and the U.S. dollar to depreciate