

Name: _____ Date: _____

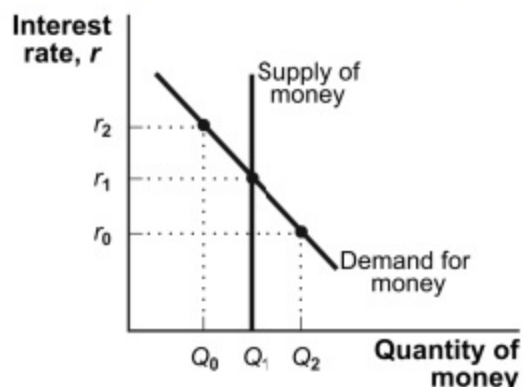
1. A cut in taxes _____, therefore shifting the aggregate demand curve to the _____.
A) decreases government transfers and consumption; right
B) increases disposable income and consumption; right
C) decreases the marginal propensity to save, increasing consumption; left
D) increases corporate profits and investment; left
2. Expansionary fiscal policy includes:
A) increasing taxes.
B) increasing the money supply.
C) decreasing government expenditures.
D) increasing government expenditures.
3. Expansionary fiscal policy includes:
A) decreasing taxes.
B) increasing taxes.
C) increasing the money supply.
D) decreasing government expenditures.
4. Contractionary fiscal policy includes:
A) decreasing taxes.
B) decreasing the money supply.
C) decreasing government expenditures.
D) increasing government expenditures.
5. Contractionary fiscal policy includes:
A) decreasing taxes.
B) increasing taxes.
C) increasing the money supply.
D) increasing government expenditures.
6. An expansionary fiscal policy either _____ government spending or _____ taxes.
A) increases; increases
B) decreases; increases
C) increases; decreases
D) decreases; decreases

7. Policy makers use a contractionary fiscal policy when they want to:
- A) close a recessionary gap.
 - B) close any kind of output gap.
 - C) close an inflationary gap.
 - D) close an open economy.
8. If the marginal propensity to consume is 0.75 and the federal government increases spending by \$100 billion, the income expenditure model would predict that real GDP will increase by:
- A) \$100 billion.
 - B) \$750 billion.
 - C) \$400 billion.
 - D) \$300 billion.
9. If the marginal propensity to consume is 0.9, then the tax multiplier will be:
- A) impossible to determine.
 - B) greater than 10.
 - C) less than 10.
 - D) zero, because there is no multiplier effect from taxes.
10. Assume that marginal propensity to consume is 0.8 and potential output is \$800 billion. The tax multiplier is:
- A) exactly 0.8.
 - B) impossible to determine.
 - C) greater than 5
 - D) less than 5.
11. Government spending and taxation changes that cause fiscal policy to be expansionary when the economy contracts and contractionary when the economy expands are known as:
- A) discretionary fiscal policy.
 - B) automatic stabilizers.
 - C) autonomous spending policies.
 - D) destabilizing fiscal policies.
12. Assume that marginal propensity to consume is 0.8 and potential output is \$800 billion. If the actual real GDP is \$700 billion, which of the following policies would bring the economy to potential output?
- A) Decrease taxes by \$100 billion.
 - B) Increase taxes by \$100 billion.
 - C) Decrease taxes by \$25 billion.
 - D) Decrease government transfers by \$25 billion.

13. The government has a budget deficit if:
- A) its total revenues are equal to its total expenditures.
 - B) its total revenues are less than its total expenditures.
 - C) its total revenues are greater than its total expenditures.
 - D) the money supply is less than total expenditures.
14. The government has a budget surplus if:
- A) its total revenues are equal to its total expenditures.
 - B) its total revenues are less than its total expenditures.
 - C) its total revenues are greater than its total expenditures.
 - D) the money supply is less than total expenditures.
15. If Congress places a \$5 tax on each ATM transaction, the demand for money will likely:
- A) increase.
 - B) decrease.
 - C) fluctuate randomly.
 - D) be unaffected.
16. If Congress places a \$5 tax on each ATM transaction, there will likely be:
- A) a movement up a stationary money demand curve.
 - B) a movement down a stationary money demand curve.
 - C) a shift to the left of the money demand curve.
 - D) a shift to the right of the money demand curve.
17. An increase in real aggregate spending will shift the money:
- A) demand curve rightward.
 - B) demand curve leftward.
 - C) supply curve rightward.
 - D) supply curve leftward.
18. The quantity demanded of money is negatively related to _____, and the demand for money is positively related to _____.
- A) the interest rate; real GDP
 - B) the interest rate; unemployment
 - C) real GDP; the interest rate
 - D) real GDP; the money supply
19. The demand curve for money will shift to the right because of a:
- A) fall in the interest rate.
 - B) rise in real GDP.
 - C) rise in the interest rate.
 - D) fall in real GDP.

Use the following to answer questions 20-21:

Figure: Equilibrium in the Money Market

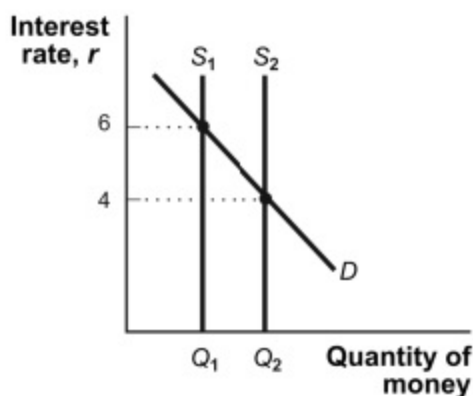


20. (Figure: Equilibrium in the Money Market) Refer to the information in the figure Equilibrium in the Money Market. If the interest rate is above the equilibrium rate, there will be an _____ money and the interest rate will _____.
- A) excess demand for; rise
 - B) excess supply of; fall
 - C) excess demand for; fall
 - D) excess supply of; rise
21. (Figure: Equilibrium in the Money Market) Refer to the information in the figure Equilibrium in the Money Market. If the rate of interest is below the equilibrium rate, there will be an _____ money and the interest rate will _____.
- A) excess demand for; rise
 - B) excess supply of; fall
 - C) excess demand for; fall
 - D) excess supply of; rise
22. The Federal Reserve's Open Market Committee has decided that the federal funds rate should be 2% rather than the current rate of 1.5%. The appropriate open market action is to _____ Treasury bills to _____ money _____.
- A) sell; decrease; demand
 - B) sell; decrease; supply
 - C) buy; decrease; supply
 - D) buy; increase; demand

23. The Federal Reserve's Open Market Committee has decided that the federal funds rate should be 0.5% rather than the current rate of 1.25%. The appropriate open market action is to _____ Treasury bills to _____ money _____.
- A) buy; decrease; demand
 - B) buy; decrease; supply
 - C) sell; decrease; demand
 - D) buy; increase; supply

Use the following to answer question 24:

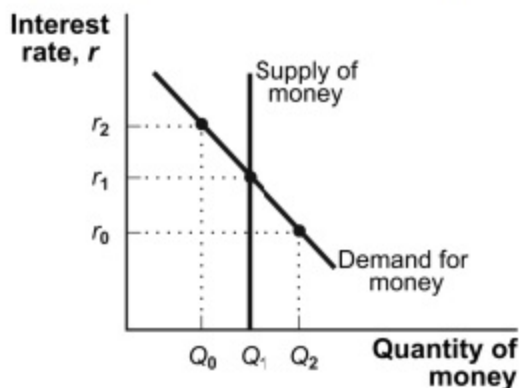
Figure: Changes in the Money Supply



24. (Figure: Changes in the Money Supply) Refer to the information in the figure Changes in the Money Supply. If the supply of money shifts from S_1 to S_2 , the Federal Reserve must have _____ bonds in the open market.
- A) sold
 - B) bought
 - C) issued new
 - D) borrowed

Use the following to answer question 25:

Figure: Equilibrium in the Money Market



25. (Figure: Equilibrium in the Money Market) Refer to the information in the figure Equilibrium in the Money Market. Equilibrium in this money market will occur at interest rate _____ and quantity of money _____.
- A) r_2 ; Q_0
 - B) r_0 ; Q_2
 - C) r_1 ; Q_1
 - D) r_1 ; Q_2
26. Assume that marginal propensity to consume is 0.8 and potential output is \$800 billion. If the actual real GDP is \$700 billion, which of the following policies would bring the economy to potential output?
- A) Increase government spending by \$25 billion.
 - B) Increase government spending by \$100 billion.
 - C) Increase government spending by \$20 billion.
 - D) Decrease government spending by \$100 billion.