Macroeconomic theory 2^{nd} quiz   September 25^{th} (in class)

Name:

1. A production function is a technological relationship between:
   A) factor prices and the marginal product of factors.
   B) factors of production and factor prices.
   C) factors of production and the quantity of output produced.
   D) factor prices and the quantity of output produced.

2. If the production function describing an economy is $Y=100K^{.25}L^{.75}$,then the share of output going to labor:

   A) is 25 percent
   B) is 75 percent.
   C) depends on the quantities of labor and capital.
   D) depends on the state of technology.

3. Consumption depends ______on disposable income, and investment depends______on the real interest rate.

A) positively; positively

B) positively; negatively

C) negatively; negatively

D) negatively; positively

4. If the consumption function is given by $C = 150 + 0.85Y$ and Y increases by 1 unit, then C increases by:

   A) 0.15 units.
   B) 0.5 units
   C) 0.85 units
   D) 1 unit

5. If currency held by the public equals $100billion, reserves held by banks equal $50 billion, and bank deposits equal $500 billion, then the monetary base equals:

A) $50billion.
B) $100billion.
C) $150billion.
D) $600billion.

6. The reserve–deposit ratio is determined by:

A) the Federal Reserve.
B) business policies of banks and the laws regulatingbanks.

C) preferences of households about the form of money they wish to hold.
D) the Federal Deposit Insurance Corporation (FDIC).

7. If the currency–deposit ratio equals 0.5 and the reserve–deposit ratio equals 0.1, then the money multiplier equals:

A) 0.6.
B) 1.67.
C) 2.0.
D) 2.5.

8. Open-market operations are:

A) Commerce Department efforts to open foreign markets to international trade.
B) Federal Reserve purchases and sales of government bonds.
C) Securities and Exchange Commission rules requiring open disclosure of market trades.
D) Treasury Department purchases and sales of the U.S. gold stock.

9. The Federal Reserve's tools to control the money supply include: open-market operations, the discount rate, and interest payments on reserves.
   a. How should each instrument be changed if the Fed wishes to decrease the money supply?
   b. Will the change affect the monetary base and the money multiplier?

10. The monetary base of Moneyland is $500million. The current-deposit ratio (*cr*) is 0.2 and reserve-deposit ratio (*rr*) is 0.2. Calculate the money multiplier and money supply.