

Name: _____ Date: _____

1. An example of structural unemployment is a(n):
 - A) autoworker who is temporarily laid off from an automobile company because of a decline in sales.
 - B) geologist who is permanently laid off from an oil company because of an increase in wages won by labor unions.
 - C) worker at a fast-food restaurant who quits work and attends college.
 - D) real estate agent who leaves a job in Texas and searches for a similar, higher-paying job in California.

2. Which of the following accurately describes what is happening along a typical aggregate production function?
 - A) At some point, increasing the amount of physical capital per worker will reduce productivity.
 - B) Increases in physical capital per worker will always bring about an increase in productivity that is worth the cost of the additional physical capital.
 - C) Due to diminishing returns, increasing the amount of physical capital per worker will eventually bring smaller and smaller increases in productivity.
 - D) Adding workers results in real GDP per worker rising at an increasing rate throughout the function.

3. A country's growth rate depends very highly on how it has invested in its physical capital. Generally, countries that have:
 - A) used foreign direct investment as a source of their capital have exhibited the highest growth rate.
 - B) used domestic saving as a source of their investment on physical capital have exhibited the highest growth rate.
 - C) used foreign portfolio investment as a source of their capital have exhibited the highest growth rate.
 - D) used contracted globalization as a source of their capital have exhibited the highest growth rate.

4. Diminishing returns to physical capital means that as more and more physical capital is combined with a fixed amount of human capital and a fixed technology, eventually:
 - A) aggregate output or real GDP declines.
 - B) aggregate output or real GDP grows.
 - C) additions to aggregate output or real GDP decline.
 - D) additions to aggregate output or real GDP increase.

5. Open-market operations occur when the Federal Reserve:
 - A) buys U.S. Treasury bills from the federal government.
 - B) buys or sells foreign currency.
 - C) buys or sells existing U.S. Treasury bills.
 - D) sells U.S. Treasury bills to the federal government.

Use the following to answer question 6:

Table: Components of the Money System

Components of the Money System (billions of dollars)	
Currency	\$100
Checkable deposits	300
Travelers checks	50
Small-denomination time deposits	700
Savings deposits	75
Money market mutual funds (individuals)	500
Large-denomination time deposits	200

6. (Table: Components of the Money Supply) Refer to the information in the table. The money supply measured by M2 is:
 - A) \$450 billion.
 - B) \$1,425 billion.
 - C) \$1,725 billion.
 - D) \$2,075 billion.

Use the following to answer question 7:

Scenario: Exchange Rates

The value of a euro goes from US\$1.25 to US\$1.50.

7. (Scenario: Exchange Rates) Refer to the information provided in the scenario. In Germany, exports:
 - A) will increase, and imports will decrease.
 - B) and imports will increase.
 - C) will decrease, and imports will increase.
 - D) and imports will decrease.

Use the following to answer question 8:

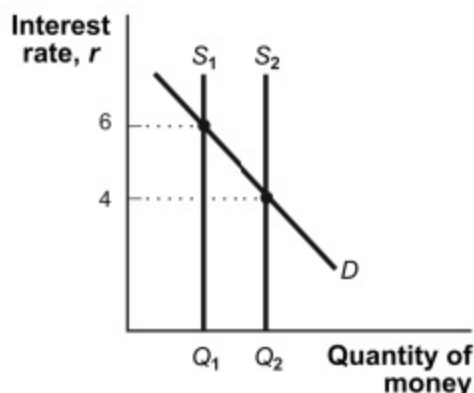
Scenario: Holding Cash

Suppose that the public holds 50% of the money supply in currency and the reserve requirement is 20 percent. Banks hold no excess reserves. A customer deposits \$6,000 in her checkable deposit.

8. (Scenario: Holding Cash) As a result of the deposit, the bank's loans will increase by:
- \$6,000
 - \$1,200
 - \$3,000
 - \$4,800
9. An increase in U.S. interest rates causes a decrease in aggregate demand by:
- increasing investment, appreciating the dollar, and increasing imports.
 - decreasing investment, appreciating the dollar, and increasing imports.
 - increasing investment, depreciating the dollar, and increasing exports.
 - decreasing investment, depreciating the dollar, and decreasing exports.

Use the following to answer question 10:

Figure: Changes in the Money Supply

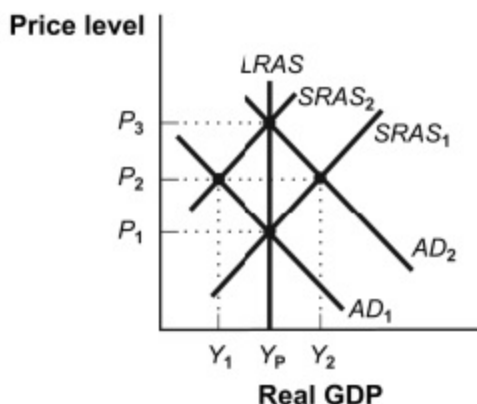


10. (Figure: Changes in the Money Supply) Refer to the information in the figure Changes in the Money Supply. If the supply of money shifts from S_1 to S_2 , the Federal Reserve must have _____ bonds in the open market.
- sold
 - bought
 - issued new
 - borrowed

11. A natural disaster that destroys part of a country's infrastructure is a type of _____ and therefore shifts the _____ to the _____.
- negative demand shock; aggregate demand curve; right
 - negative supply shock; aggregate demand curve; left
 - negative supply shock; short-run aggregate supply curve; left
 - negative demand shock; long-run aggregate supply curve; left

Use the following to answer question 12:

Figure: An Increase in Aggregate Demand

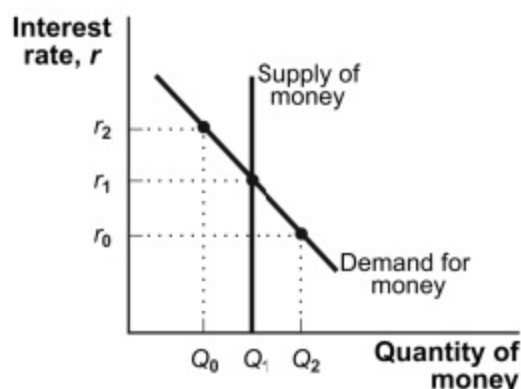


12. (Figure: An Increase in Aggregate Demand) Assume that the economy is initially in long-run equilibrium at Y_p and P_1 . Now suppose that there is an increase in the level of government purchases at each price level. This will:
- shift the aggregate demand curve from AD_2 to AD_1 .
 - shift the aggregate demand curve from AD_1 to AD_2 .
 - lead to increased output and a decrease in the price level.
 - lead to decreased output and price level.
13. Which of the following represent the three consequences of the decline in demand during the Great Depression?
- falling prices, declining output, and a surge in unemployment
 - falling prices, increasing output, and a surge in unemployment
 - rising prices, increasing output, and a surge in unemployment
 - rising prices, declining output, and a surge in unemployment
14. Expansionary fiscal policy includes:
- increasing taxes.
 - increasing the money supply.
 - decreasing government expenditures.
 - increasing government expenditures.

15. 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:
- \$100 billion.
 - \$750 billion.
 - \$400 billion.
 - \$300 billion.
16. If the marginal propensity to consume is 0.9, then the tax multiplier will be:
- impossible to determine.
 - greater than 10.
 - less than 10.
 - zero, because there is no multiplier effect from taxes.
17. Assume that marginal propensity to consume is 0.8 and potential output is \$800 billion. The tax multiplier is:
- exactly 0.8.
 - impossible to determine.
 - greater than 5
 - less than 5.
18. 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?
- Decrease taxes by \$100 billion.
 - Increase taxes by \$100 billion.
 - Decrease taxes by \$25 billion.
 - Decrease government transfers by \$25 billion.

Use the following to answer questions 19-20:

Figure: Equilibrium in the Money Market



19. (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 _____.
- excess demand for; rise
 - excess supply of; fall
 - excess demand for; fall
 - excess supply of; rise
20. (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 _____.
- $r_2; Q_0$
 - $r_0; Q_2$
 - $r_1; Q_1$
 - $r_1; Q_2$
21. Contractionary fiscal policy includes:
- decreasing taxes.
 - decreasing the money supply.
 - decreasing government expenditures.
 - increasing government expenditures.
22. A cut in taxes _____, therefore shifting the aggregate demand curve to the _____.
- decreases government transfers and consumption; right
 - increases disposable income and consumption; right
 - decreases the marginal propensity to save, increasing consumption; left
 - increases corporate profits and investment; left
23. If Congress places a \$5 tax on each ATM transaction, there will likely be:
- a movement up a stationary money demand curve.
 - a movement down a stationary money demand curve.
 - a shift to the left of the money demand curve.
 - a shift to the right of the money demand curve.
24. The quantity demanded of money is negatively related to _____, and the demand for money is positively related to _____.
- the interest rate; real GDP
 - the interest rate; unemployment
 - real GDP; the interest rate
 - real GDP; the money supply

25. The long-run Phillips curve is:
- A) the same as the short-run Phillips curve.
 - B) negatively sloped, showing an inverse relationship between unemployment and inflation.
 - C) vertical at the nonaccelerating-inflation rate of unemployment (NAIRU).
 - D) unrelated to the NAIRU.
26. The short-run Phillips curve:
- A) is upward sloping because inflation and unemployment rates have a positive relationship in the short run.
 - B) is vertical because there is no trade-off between inflation and unemployment rates in the short run.
 - C) is downward sloping because there is a trade-off between inflation and unemployment rates in the short run.
 - D) is horizontal because there is no trade-off between inflation and unemployment rates in the short run.
27. The long-run Phillips curve shows that:
- A) there is a trade-off between unemployment and inflation.
 - B) an expansionary policy could lead to lower unemployment temporarily.
 - C) the natural rate of unemployment occurs when the actual inflation rate equals the expected inflation rate.
 - D) lower unemployment can be sustained indefinitely with continuous expansionary policies.
28. A decrease in the supply of money will lead to a(n) _____ in equilibrium real GDP and a(n) _____ in equilibrium price level.
- A) increase; increase
 - B) increase; decrease
 - C) decrease; increase
 - D) decrease; decrease
29. Fast-growing economies often have a greater demand for loanable funds than do slower-growing economies because:
- A) fast-growing economies also have high private savings rates.
 - B) fast-growing economies have more investment opportunities.
 - C) they tend to have high public savings rates.
 - D) their balance of payments tends to be in surplus most of the time.

30. If the Fed increases the quantity of money in circulation:
- A) interest rates decrease, investment increases, and the aggregate demand curve shifts to the right.
 - B) interest rates increase, investment increases, and the aggregate demand curve shifts to the right.
 - C) interest rates decrease, investment increases, and the aggregate demand curve shifts to the left.
 - D) interest rates increase, investment decreases, and the aggregate demand curve shifts to the left.
31. If assets owners in Japan and the United States consider Japanese and U.S. assets as good substitutes for each other and if the U.S. interest rate is 5% and the Japanese interest rate is 2%, then all of the following will occur EXCEPT that:
- A) financial inflows will reduce the U.S. interest rate.
 - B) financial outflows will increase the Japanese interest rate.
 - C) the interest rate gap between the United States and Japan will be eliminated.
 - D) loanable funds will be exported from the United States to Japan.
32. The interest rate effect of an aggregate price level change causes:
- A) the long-run aggregate supply curve to be vertical.
 - B) the aggregate demand curve to be negatively sloped.
 - C) the short-run aggregate supply curve to be positively sloped.
 - D) the aggregate demand curve to be positively sloped.

Use the following to answer questions 33-34:

Table: Population Data for Estill County

Demographic Group	Number of Residents
Employed	5,000
Unemployed and looking for work	1,000
Not working due to disability	200
Not working due to retirement	700
Unemployed and not looking for work due to discouragement over job prospects	500
Under the age of 16	2,000
Total Population	9,400

33. (Table: Population Data for Estill County) Use the accompanying table, which summarizes the labor market status of the residents of Estill County. What is the unemployment rate in the county?

34. (Table: Population Data for Estill County) Use the accompanying table, which summarizes the labor market status of the residents of Estill County. What is the labor force participation rate in the county?

Use the following to answer question 35:

Table: CPI

Product	2008		2012	
	Quantity	Price	Quantity	Price
Bread	2,000	\$1.00	1,500	\$1.50
Laptops	100	2,000.00	150	1,500.00
Movies	50	5.00	40	7.00

35. (Table: CPI) Suppose only three goods are produced in this economy: bread, laptops, and movies. Calculate the CPI of 2012, using 2008 as the base year. (show all your work. without equation, no point)

36. Draw the AD-SRAS-LRAS diagram for the U.S. economy starting in a long-run equilibrium. Oil prices rise (Oil shock!). Use your diagram to determine the SR and LR effects on U.S. GDP, the price level, and unemployment. (Description 5 Point + diagram 5 point)

37. For the events below, determine the short-run effects on output & determine how the Fed should adjust the money supply and interest rates to stabilize output. Congress tries to balance the budget by cutting government spending. (Description 5 Point + diagram 5 point)