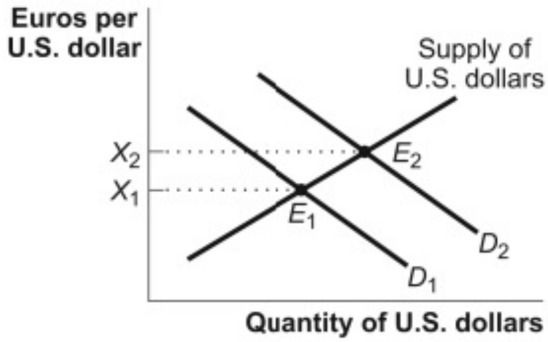
Name: ___________________________ Date: _____________

Use the following to answer questions 1-3:

Figure: Change in the Demand for U.S. Dollars



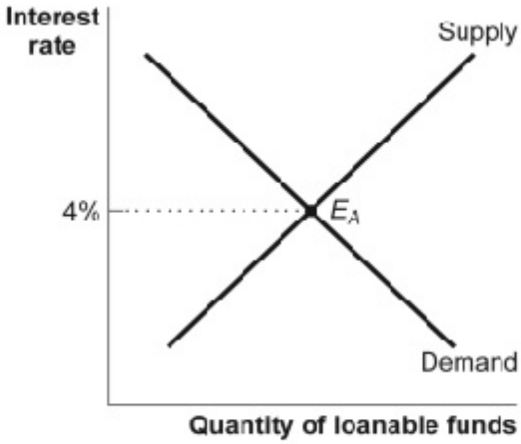
1. (Figure: Change in the Demand for U.S. Dollars) Refer to the information in the figure. The change from D_1 to D_2 will occur, all other things being equal, if the:
   A) supply of euros decreases.
   B) demand for euros increases.
   C) demand for euros decreases.
   D) demand for dollars increases.

2. (Figure: Change in the Demand for U.S. Dollars) Refer to the information in the figure. The change from D_1 to D_2 will occur, all other things being equal, if:
   A) interest rates are higher in Europe.
   B) interest rates are higher in the United States.
   C) interest rates in the United States and Europe are equal.
   D) inflation is higher in Europe.

3. (Figure: Change in the Demand for U.S. Dollars) Refer to the information in the figure. A movement from E_1 to E_2 in this foreign exchange market would cause Americans to purchase ______ goods and services from Europe.
   A) the same amount of
   B) fewer
   C) more
   D) The answer cannot be determined from the information provided.

Use the following to answer questions 4-6:

Figure: The Loanable Funds Model in the U.S. Market



4. (Figure: The Loanable Funds Model in the U.S. Market) Refer to the information in the figure. If the actual interest rate is less than 4% in the U.S. market, then the quantity supplied of loanable funds will be ______ the quantity of loanable funds demanded.
   A) greater than
   B) less than
   C) equal to
   D) unrelated to

5. (Figure: The Loanable Funds Model in the U.S. Market) Refer to the information in the figure. If the actual interest rate is equal to 4% in the U.S. market, then the quantity supplied of loanable funds will be ______ the quantity of loanable funds demanded.
   A) greater than
   B) less than
   C) equal to
   D) unrelated to

6. (Figure: The Loanable Funds Model in the U.S. Market) Refer to the information in the figure. If the actual interest rate is higher than 4% in the U.S. market, then the quantity supplied of loanable funds will be ______ the quantity of loanable funds demanded.
   A) greater than
   B) less than
   C) equal to
   D) unrelated to

7. When a country's currency undergoes a real appreciation:
   A) exports fall, and imports rise.
   B) exports rise, and imports fall.
   C) the merchandise trade balance becomes positive.
   D) exports and imports do not change.

8. Holding everything else constant, if the U.S. dollar falls against the Mexican peso:
   A) U.S. goods will look cheaper to Mexico.
   B) U.S. goods will look more expensive to Mexico.
   C) Mexico's goods will look cheaper to the United States
   D) one peso buys fewer U.S. dollars.

9. When a country's currency depreciates:
   A) foreigners find the country's goods to be relatively cheaper.
   B) the country's exports fall.
   C) the country's imports rise.
   D) foreign goods become cheaper.

10. Holding everything else constant, a decrease in political risk in a country will MOST likely cause:
    A) capital inflows into that country to increase.
    B) capital inflows into that country to decrease.
    C) the supply of loanable funds in that country to decrease.
    D) the country to become a politically riskier place to invest.

11. 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.

12. If a country's loanable funds market is initially in equilibrium and then there are capital outflows, this will result in a(n):
    A) a fall in the equilibrium interest rate, while the equilibrium quantity of loanable funds will increase.
    B) a rise in the equilibrium interest rate, while the equilibrium quantity of loanable funds will decrease.
    C) a fall in the equilibrium interest rate, while the equilibrium quantity of loanable funds will decrease.
    D) a rise in the equilibrium interest rate, while the equilibrium quantity of loanable funds will increase.

13. China has fixed the exchange rate between the yuan and the U.S. dollar. Therefore, a recession in China ________ American ________ to China more than would happen under a floating exchange rate regime.
   A) raises; exports
   B) reduces; imports
   C) raises; imports
   D) reduces; exports

14. China's exchange rate policy:
   A) led to current account deficits in the early 2000s.
   B) led to the supply of yuan exceeding the demand for yuan.
   C) is a floating exchange rate policy.
   D) is a fixed exchange rate policy.

15. Money flows into the United States from other countries as a result of:
   A) foreign purchases of U.S. goods and services.
   B) U.S. purchases of foreign goods and services.
   C) U.S. investment in foreign companies.
   D) U.S. purchases of foreign assets.

16. Why did China buy $450 billion in foreign exchange reserves?
   A) to encourage free trade between all nations
   B) to keep the yuan from depreciating
   C) to keep the yuan from appreciating
   D) to slow down the growth of the Chinese economy

17. To determine the real exchange rate, one needs to know:
   A) the nominal exchange rate and the aggregate price level in both countries.
   B) the amount of exports and imports.
   C) the balance of payments.
   D) the purchasing power parity.

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1. Stagflation is a combination of:
   A) increasing unemployment and increasing inflation.
   B) decreasing unemployment and decreasing inflation.
   C) increasing unemployment and decreasing inflation.
   D) decreasing unemployment and increasing inflation.

2. Which of the following represent the three consequences of the decline in demand during the Great Depression?
   A) falling prices, declining output, and a surge in unemployment
   B) falling prices, increasing output, and a surge in unemployment
   C) rising prices, increasing output, and a surge in unemployment
   D) rising prices, declining output, and a surge in unemployment

Use the following to answer question 3:

Figure: Aggregate Demand

3. (Figure: Aggregate Demand) Using the accompanying figure, the quantity of output demanded if the price level is 120 is:
   A) $9 trillion.
   B) $10 trillion.
   C) $11 trillion.
   D) $12 trillion.

4. The aggregate demand curve shows the relationship between the aggregate price level and:
   A) aggregate productivity.
   B) the aggregate unemployment rate.
   C) the aggregate quantity of output demanded by households, businesses, the government, and the rest of the world.
   D) the aggregate quantity of output demanded by businesses only.

5. The components of aggregate demand are:
   A) C (consumption) and I (investment) expenditures.
   B) C (consumption), I (investment), and G (government) expenditures.
   C) C (consumption), I (investment) expenditures, and X ? IM (net exports).
   D) C (consumption), I (investment), G (government) expenditures, and X ? IM (net exports).

6. The wealth effect suggests:
   A) a positive relationship between the price level and consumption spending.
   B) that price level changes do not affect real wealth.
   C) a negative relationship between the price level and consumption spending.
   D) that when the price level increases, the real value of money increases also.

7. An increase in aggregate demand is seen as a(n):
   A) shift to the right in the aggregate demand curve.
   B) downward movement along the aggregate demand curve.
   C) upward movement along the aggregate demand curve.
   D) shift to the left in the aggregate demand curve.

8. A decrease in aggregate demand is seen as a(n):
   A) downward movement along the aggregate demand curve.
   B) upward movement along the aggregate demand curve.
   C) shift to the left in the aggregate demand curve.
   D) shift to the right in the aggregate demand curve.

9. If government increases income tax rates, the aggregate demand curve is likely to:
   A) shift to the right.
   B) shift to the left.
   C) remain constant.
   D) become positively sloped.

10. An increase in government spending, all other things unchanged, will cause the aggregate demand curve to:
    A) become positively sloped.
    B) remain constant.
    C) shift to the right.
    D) shift to the left.

11. Aggregate demand will increase in all of the following cases except if:
    A) household wealth rises, but prices are constant.
    B) government purchases of goods rise.
    C) the quantity of money increases.
    D) interest rates increase.

12. Aggregate demand will decrease if:
    A) the aggregate price level falls.
    B) the government raises the tax rate.
    C) productivity declines.
    D) the money supply increases.

13. Aggregate demand will increase if:
    A) the public becomes more optimistic about future income.
    B) the aggregate price level falls.
    C) government spending is reduced.
    D) household wealth decreases.

14. The long-run supply curve illustrates how the aggregate output supplied is:
    A) positively related to the aggregate price level.
    B) negatively related to the aggregate price level.
    C) unrelated to the aggregate price level.
    D) a one-to-one correspondence with the aggregate price level.

15. Changes in short-run aggregate supply can be caused by changes in:
    A) wealth.
    B) commodity prices.
    C) government spending.
    D) the price level.

16. Changes in short-run aggregate supply can be caused by changes in:
    A) wages.
    B) wealth.
    C) government spending.
    D) consumption spending.

17. A positive demand shock will:
    A) increase the aggregate price level and aggregate output.
    B) decrease the aggregate price level and increase aggregate output.
    C) increase the aggregate price level and decrease aggregate output.
    D) decrease both the aggregate price level and aggregate output.

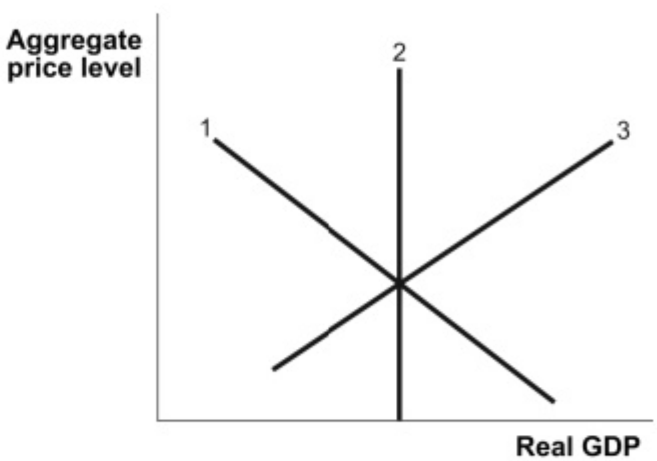
18. A positive demand shock leads to:
    A) higher prices and higher employment.
    B) higher prices and higher unemployment.
    C) higher prices and lower output.
    D) lower prices and lower output.

19. Suppose that political instability in the Middle East temporarily interrupts the supply of oil to the United States. Which of the following is most likely to occur?
    A) The short-run aggregate supply curve shifts right, output increases, and prices decrease.
    B) The short-run aggregate supply curve shifts left, output decreases, and prices increase.
    C) The aggregate demand curve shifts left, output decreases, and prices decrease.
    D) The aggregate demand curve shifts right, output increases, and prices increase.

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

Use the following to answer question 21:

Figure: Macroeconomics Equilibrium



21. (Figure: Macroeconomic Equilibrium) Refer to the accompanying figure called Macroeconomic Equilibrium. Curve 1 refers to _____, curve 2 refers to _____, and curve 3 refers to _____.
    A) long-run aggregate supply; short-run aggregate supply; aggregate demand
    B) aggregate demand; short-run aggregate supply; long-run aggregate supply
    C) short-run aggregate supply; long-run aggregate supply; aggregate demand
    D) aggregate demand; long-run aggregate supply; short-run aggregate supply

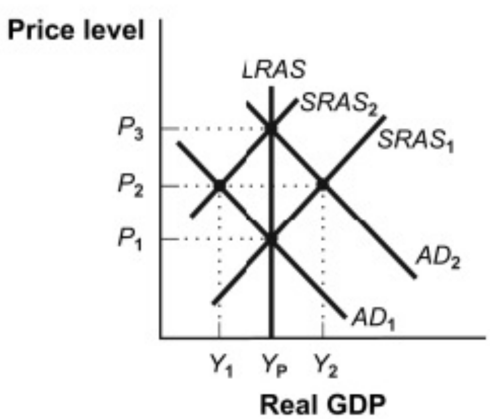
22. In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:
    A) *LRAS* and *SRAS*.
    B) *LRAS* and aggregate demand.
    C) *SRAS* and aggregate demand.
    D) potential output and *LRAS*.

23. An increase in investment leads to _______ in the price level and _______ in real GDP in the short run.
    A) an increase; no change
    B) a decrease; no change
    C) no change; no change
    D) an increase; an increase

24. The intersection of an economy's aggregate demand and long-run aggregate supply curves:
    A) determines its equilibrium real GDP in both the long run and the short run.
    B) determines its equilibrium price level in both the long run and the short run.
    C) occurs at the economy's potential output.
    D) occurs at high levels of cyclical unemployment.

Use the following to answer question 25:

Figure: An Increase in Aggregate Demand



25. (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:
   A) shift the aggregate demand curve from AD_2 to AD_1.
   B) shift the aggregate demand curve from AD_1 to AD_2.
   C) lead to increased output and a decrease in the price level.
   D) lead to decreased output and price level.

26. A decrease in aggregate demand will generate _______ in real GDP and _______ in the price level in the short run.
   A) an increase; no change
   B) a decrease; no change
   C) a decrease; a decrease
   D) no change; an increase

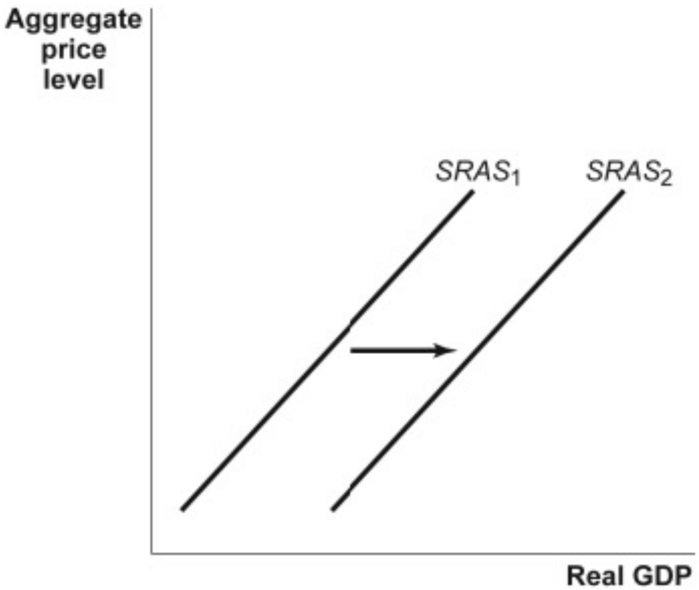
27. In the long run (as the economy self-corrects), an increase in aggregate demand will cause the price level to _______ and potential output to _______ .
   A) rise; increase
   B) fall; decrease
   C) rise; remain stable
   D) fall; remain stable

28. In the long run (as the economy self-corrects), a decrease in aggregate demand, all other things unchanged, will cause the price level to _______ and potential output to _______ .
   A) rise; increase
   B) fall; decrease
   C) rise; remain stable
   D) fall; remain stable

29. In the United States during the 1970s, oil prices increased dramatically and caused:
   A) *AD* to shift right.
   B) *AD* to shift left.
   C) *SRAS* to shift right.
   D) *SRAS* to shift left.

Use the following to answer question 30:

Figure: Aggregate Supply Movements



30. (Figure: Aggregate Supply Movements) Refer to the accompanying figure called Aggregate Supply Movements. In this figure, ________.
   A) an increase in the price level is responsible for pushing the *SRAS* curve to the right
   B) a decrease in the price level is responsible for pushing the *SRAS* curve to the right
   C) that there has been an increase in the short-run aggregate supply
   D) that there has been a decrease in the short-run aggregate supply

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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.

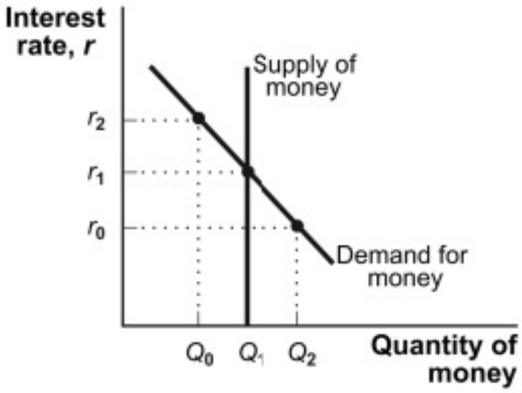
17. An increase in real aggregate spending will shift the money:
   A) demand curve rightward.
   B) demand curve leftward.
   C) supply curve rightward.
   D) supply curve leftward.

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

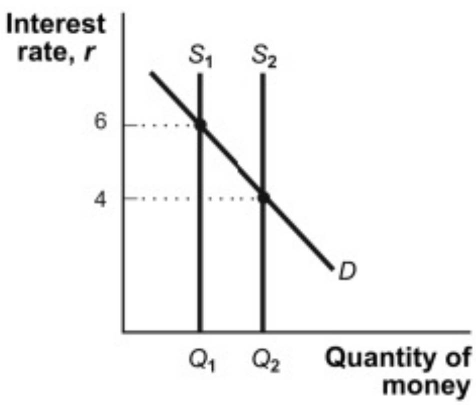
21. (Figure: Equilibrium in the Money Market) Refer to the information in the figure Equilibrium in the Money Market. If the rate of interest is below the equilibrium rate, there will be an _______ money and the interest rate will _______.
    A) excess demand for; rise
    B) excess supply of; fall
    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:

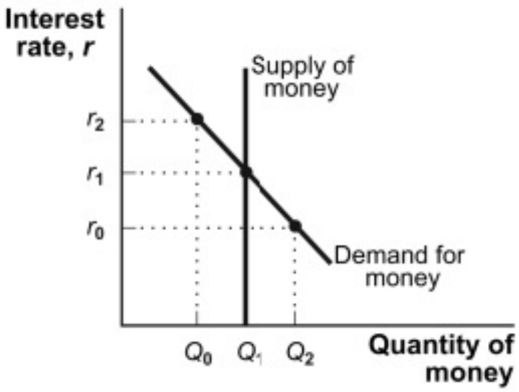
Figure: Changes in the Money Supply



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.