

## BA206 Proctored Exam

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All questions are equally weighted. Choose the one best answer to the question.

1. Which of the following is a long-run macroeconomic policy goal?
  - a. reduce unemployment
  - b. increase inflation
  - c. promote steady growth
  - d. eliminate recession
  
2. Real GDP is
  - a. the best measure we have for total production, though it does have some flaws.
  - b. the worst measure we have of total production because it misses much of what is produced.
  - c. the best measure we have for total production because it doesn't miss anything.
  - d. ignored as a measure of total production because it does not take account of inflation.
  
3. If the CPI was 132.5 at the end of 2003 and 140.2 at the end of 2004, the inflation rate over these two years was
  - a. 7.7 percent.
  - b. 5.4 percent.
  - c. 4.4 percent.
  - d. 5.8 percent.
  
4. If our exports are \$1.2 billion and our imports are \$1.7 billion,
  - a. the United States is lending to the rest of the world.
  - b. U.S. national saving is too high.
  - c. the United States is borrowing from the rest of the world.
  - d. U.S. investment must decrease.
  
5. In the expenditure approach to GDP, the largest component is
  - a. government purchases.
  - b. personal consumption expenditures.
  - c. gross private domestic investment.
  - d. net exports.

6. If a larger fraction of the adult population is working, household production
- counted in real GDP increases.
  - not counted in real GDP increases.
  - counted in real GDP decreases.
  - not counted in real GDP decreases.
7. Suppose the working age population in Tiny Town is 100 people. If 25 of these people are NOT in the labor force, the \_\_\_\_ equals \_\_\_\_.
- unemployment rate;  $25/100 \times 100$
  - unemployment rate;  $25/125 \times 100$
  - labor force; 75
  - labor force;  $25/100 \times 100$
8. Cyclical unemployment
- is due mainly to job leavers.
  - may increase or decrease during an expansion.
  - occurs when technology improvements change job requirements.
  - fluctuates over the business cycle.
9. If the CPI was 132.5 at the end of 2004 and 137.5 at the end of 2005, the inflation rate over these two years was
- 3.6 percent.
  - 3.8 percent.
  - 5.0 percent.
  - None of the above answers is correct.
10. The technique currently used to calculate the CPI implicitly assumes that over time consumers buy
- relatively more of goods whose relative prices are rising.
  - relatively less of goods whose relative prices are rising.
  - the same relative quantities of goods as in a base year.
  - goods and services whose quality improves at the rate of growth of real income.
11. The supply of real GDP is a function of
- the total expenditures of consumers, investors and government.
  - the sum of wages, salaries, corporate profits, rents and interest.
  - only the state of technology.
  - the quantities of labor, capital and the state of technology.

12. In short-run macroeconomic equilibrium
- real GDP equals potential GDP and aggregate demand determines the price level.
  - the price level is fixed and short-run aggregate supply determines real GDP.
  - real GDP and the price level are determined by short-run aggregate supply and aggregate demand.
  - real GDP is less than potential GDP.
13. \_\_\_\_\_ economists believe that the economy is self-regulating and will be at full employment as long as monetary policy is not erratic.
- Keynesian
  - Monetarist
  - Classical
  - All
14. The classical dichotomy applies when the economy only when the economy
- is at full employment.
  - has less than full employment.
  - is in a recession.
  - has more than full employment.
15. Because the leisure-real GDP production possibilities frontier is bowed outward, then
- each additional unit of real GDP costs a decreasing amount of forgone leisure.
  - as more real GDP is produced, increasingly more productive labor is being used.
  - the marginal product of labor is increasing as real GDP increases.
  - the slope of the economy's production function decreases as real GDP increases.
16. Suppose there is a rise in the real wage rate. As a result, the quantity of labor demanded
- increases.
  - decreases.
  - does not change because there is no change in the money wage rate.
  - increases only if the price level also decreases.

17. Convergence of the income gap has been most dramatic between
- Hong Kong and the United States.
  - the Central European countries and the United States.
  - Africa and the United States.
  - South America and the United States.
18. Which of the following statements regarding human capital is incorrect?
- Human capital is the accumulated skill and knowledge of human beings.
  - Education is the only vehicle for the creation of human capital because training simply reinforces what has already been learned.
  - The accumulation of human capital is the source of both increased productivity and technological advance.
  - Writing and mathematics, the most basic of human skills, are crucial elements in economic progress.
19. If  $Y$  = real GDP, and  $L$ ,  $K$  and  $T$  represent the quantities of labor, capital and technology respectively, then the most appropriate representation of the aggregate production function is
- $L = F(K, Y, T)$ .
  - $Y = F(T, K)$ .
  - $Y = F(K, T, L)$ .
  - $T = F(Y, T, L)$ .
20. A central proposition of the new growth theory is that
- growth will cease but prosperity will persist.
  - knowledge is not subject to diminishing returns.
  - government direction and oversight is necessary for consistent growth.
  - growth is often just an illusion fostered by growth accounting.
21. Given the list of assets below, which is the most liquid?
- \$500 worth of General Motors common stock.
  - \$500 worth of General Motors bonds.
  - a \$500 traveler's check.
  - a one-ounce gold coin.

22. Which of the following statements concerning commercial banks is true?
- Banks need to maintain cash reserves equal to their deposits.
  - Most banks maintain cash reserves equal to a fraction of deposits.
  - Cash reserves earn the highest rate of return of any asset for a bank.
  - Since the advent of the Federal Reserve, banks do not need to maintain cash reserves.
23. You withdraw \$2,000 from your account. Your bank has a desired reserve ratio of 20 percent. This transaction, by itself, will directly reduce
- the quantity of money by \$1,600.
  - deposits by \$1,600.
  - the quantity of money by \$2,000.
  - deposits by \$2,000.
24. Suppose you hold \$50 to buy groceries weekly and then the price of groceries increases by 5 percent. To be able to buy the same amount of groceries, what must happen to your nominal money holdings?
- They must increase by \$5.
  - They can decrease by \$5.
  - They must increase by \$2.50.
  - They must increase, but the amount of the increase is different than the above answers.
25. If the Fed carries out an open market operation and buys U.S. government securities, the interest rate
- falls and the quantity of money increases.
  - rises and the quantity of money increases.
  - falls and the quantity of money decreases.
  - rises and the quantity of money decreases.
26. The velocity of circulation is
- the rate of change of the GDP deflator.
  - the average number of times a dollar of money is used in a year to buy goods and services in GDP.
  - the changes in the purchasing power of money over a given time period.
  - constant.

27. If the price level for 2003 is 220 and for 2004 is 250, what is the rate of inflation between the two years?
- 30 percent
  - 13.6 percent
  - 12.2 percent
  - 20 percent
28. An initial increase in aggregate demand that is NOT followed by an increase in the quantity of money results in a long-run equilibrium with
- a higher price level but the same real GDP.
  - a higher price level and an increased level of real GDP.
  - the same price level and a lower level of real GDP.
  - None of the above answers are correct.
29. For an economy at full employment, an increase in the quantity of money will lead to which of the following sequences of shifts in aggregate demand and supply curves?
- Decreased aggregate demand, increased short-run aggregate supply, constant long-run aggregate supply.
  - Decreased aggregate demand, decreased short-run aggregate supply, decreased long-run aggregate supply.
  - Increased aggregate demand, increased short-run aggregate supply, increased long-run aggregate supply.
  - Increased aggregate demand, decreased short-run aggregate supply, constant long-run aggregate supply.
30. By itself, an increase in the price of oil shifts the
- short-run aggregate supply curve leftward and does not shift the aggregate demand curve.
  - short-run aggregate supply curve rightward and does not shift the aggregate demand curve.
  - aggregate demand curve leftward and does not shift the short-run aggregate supply curve.
  - aggregate demand curve rightward and does not shift the short-run aggregate supply curve.

31. A consumption function shows a
- negative (inverse) relationship between consumption expenditure and saving.
  - positive (direct) relationship between consumption expenditure and price level.
  - negative (inverse) relationship between consumption expenditure and disposable income.
  - positive (direct) relationship between consumption expenditure and disposable income.
32. The marginal propensity to consume equals 1 minus the
- marginal propensity to invest.
  - marginal propensity to save.
  - marginal propensity to import.
  - marginal propensity to pay taxes.
33. Which of the following are included in autonomous expenditure?
- investment
  - government purchases
  - autonomous consumption expenditure
  - All of the above.
34. In a recession,
- investment is low and the capital stock grows quickly.
  - investment is low and the capital stock grows slowly.
  - investment is high and consumption is low.
  - consumption is high and government spending is low.
35. According to the Keynesian theory of the business cycle, a(n)
- decrease in profit expectations will decrease investment only and will not change real GDP or consumption expenditure.
  - decrease in profit expectations will decrease investment, real GDP and consumption expenditures.
  - increase in profit expectations will increase investment only and will not change real GDP or consumption expenditure.
  - decrease in sales expectations will affect the price level and not real GDP.

36. If the real interest rate is 4 percent and workers expect real wages to be 2 percent year higher next year, according to real business cycle theory, workers will work
- more this year and less next year.
  - less this year and less next year.
  - more this year and more next year.
  - less this year and more next year.
37. All of the following are government expenditure items except
- interest on the government's debt.
  - transfer payments.
  - purchases of corporate bonds.
  - purchases of goods and services.
38. Suppose the tax rate on interest income is 25 percent, the real interest rate is 4 percent, and the inflation rate is 4 percent. In this case, the real after-tax interest rate is
- .5 percent.
  - 3.5 percent.
  - 4.0 percent.
  - 2.0 percent.
39. With a steep short-run aggregate supply curve,
- an increase in government spending will not have an impact on the price level.
  - fiscal policy will be an effective tool to reduce unemployment without raising prices too much.
  - an increase in taxes that does not change potential GDP will not decrease real GDP by much.
  - there is a large change in real GDP whenever the price level rises.
40. The term "induced taxes" refers to
- the taxes that we are forced to pay.
  - sales taxes that we pay but could avoid if we choose not to purchase the item.
  - the rise in taxes due to a rise in GDP.
  - local property taxes that we pay in addition to the federal income tax.



41. Monetary policy affects macroeconomic performance by
- changing aggregate supply.
  - creating budget surpluses.
  - changing aggregate demand.
  - creating budget deficits.
42. Suppose that the Fed is using this feedback rule: Every time real GDP exceeds potential GDP, contractionary policy is used and whenever real GDP is less than potential GDP, expansionary policy is used. GDP equals potential GDP and then aggregate demand increases. As a consequence of the policy action taken the resulting
- contractionary policy will lower the price level from what it otherwise would be.
  - contractionary policy will decrease unemployment from what it otherwise would be.
  - expansionary policy will decrease unemployment from what it otherwise would be.
  - expansionary policy will lower the price level from what it otherwise would be.
43. The Taylor Rule is an example of
- a feedback-rule policy.
  - discretionary monetary policy.
  - a fixed rule.
  - an activist rule.
44. A foreign student from Hong Kong studying in an American university who has no income from U.S. sources gets a hair cut from a local salon. This haircut will
- increase the volume of exports from Hong Kong to the U.S.
  - decrease the volume of imports from Hong Kong to the U.S.
  - increase the volume of exports from the U.S. to Hong Kong.
  - decrease the volume of imports from the U.S. to Hong Kong.

45. Country A and country B both consume and produce only food and clothing. Both countries use only labor to produce these two products. A worker in country A can produce 6 units of clothing or 10 units of food each day while a worker in country B can produce 4 units of clothing or 8 units of food. Which of the following statements is true?
- The opportunity cost of clothing production in country A is greater than that of country B.
  - The opportunity cost of food production in country A is greater than that of country B.
  - The opportunity cost of food production in country A is the same as that of country B.
  - The opportunity cost of clothing production in country B is less than that of country A.
46. A decrease in a country's tariffs will
- not change its imports or exports.
  - increase both its imports and exports.
  - increase its imports but not its exports.
  - increase its exports but not its imports.
47. Suppose U.S. net exports are  $-\$400$  billion and the U.S. government sector surplus is  $\$200$  billion. Then in the private sector, saving minus investment equals
- $-\$600$  billion.
  - $-\$200$  billion.
  - $+\$600$  billion.
  - $+\$200$  billion.
48. Which of the following is a factor that determines the amount of dollars supplied in the foreign exchange market?
- The exchange rate.
  - U.S. interest rate.
  - Interest rates in foreign countries.
  - All of the above affect the number of dollars supplied in the foreign exchange market.

49. Suppose the target exchange rate set by the Fed is 150 yen per dollar. If the demand for dollars permanently decreases the Fed
- can permanently meet the target by selling dollars.
  - can permanently meet the target by buying dollars.
  - must violate both interest rate parity and purchasing power parity to permanently meet the target.
  - cannot permanently maintain the target rate.
50. The U.S. interest rate minus the foreign interest rate is called the \_\_\_\_\_.
- foreign interest rate differential
  - U.S. bond rate differential
  - U.S. interest rate differential
  - U.S. stock yield differential