

## Economics

1. "Crowding Out" occurs when:
  - a) U.S. producers lose sales to foreign competition.
  - b) An increase in taxes results in a lower level of consumption spending.
  - c) Foreign interests buy government securities.
  - d) Government borrowing forces up interest rates and reduces the level of private investment spending.
  
2. Which of the following items would be counted in GDP?
  - a) The work of a stay at home dad.
  - b) The sale of a used car.
  - c) The soda you buy at the movie theater.
  - d) The flowers you personally grow and cut from your own garden to display in your home.
  
3. Suppose that Susan received a 3% raise last year, but her rent and other prices she had to pay rose 5%. An economist would say that Susan's
  - a) real income rose, but her nominal income fell.
  - b) nominal income rose, but her money income fell.
  - c) money income rose, but her nominal income fell.
  - d) nominal income rose, but her real income fell.
  
4. Real GDP is gross GDP adjusted for:
  - a) population.
  - b) inflation
  - c) output levels
  - d) depreciation
  
5. Economist define a recession as when GDP declines by:
  - a) 2 months in a row.
  - b) 3 quarters in a row.
  - c) 2 years in a row.
  - d) 2 quarters in a row.
  
6. The most common measure of an economy's standard of living is:
  - a) median family income.
  - b) per capita income.

- c) GDP per capita.
- d) average household income.

7. Cyclical unemployment exists because

- a) certain skills tend to become obsolete as the economy continually changes.
- b) there are periodic reductions in the economy's total demand for goods and services.
- c) it takes some time for new entrants into the labor force to find employment.
- d) domestic producers have lost out to foreign competition.

8. In our economy, full employment (the natural rate of unemployment) means

- a) a zero unemployment rate.
- b) an unemployment rate of about 3%.
- c) an unemployment rate of about 5%.
- d) an unemployment rate of about 8%.

9. The MPS refers to:

- a) that fraction of a change in income that is saved.
- b) that fraction of a change in income that is spent.
- c) the amount of saving per individual.
- d) the amount of spending per individual.

10. Because of automatic stabilizers, the federal budget will

- a) tend toward surplus during a recession.
- b) tend toward a deficit during an economic expansion.
- c) tend toward deficit during a recession.
- d) always remain in balance.

11. Between the spring of 1990 and the spring of 1991, interest rates in the U.S. dropped by nearly two full percentage points. A possible explanation for this decrease in interest rates is:

- a) the demand for money increased as the economy sank into a recession during the fall of 1990.
- b) the implementation of an expansionary fiscal policy.
- c) a major increase in the size of the federal budget.
- d) the implementation of an expansionary monetary policy by the Federal Reserve.

12. You are a member of the Council of Economic Advisors, and you are concerned that the inflation rate is too high. Which of the following policies would you recommend?
- a decrease in the money supply.
  - an increase in the money supply.
  - a decrease in income tax rates.
  - an increase in government spending.
13. Banks “create” money by:
- printing paper currency.
  - accepting deposits and making loans.
  - creating checkable deposits.
  - selling securities.
14. When the Federal Reserve wants to reduce the equilibrium interest rate, it should:
- increase the reserve requirement in order to expand the money supply.
  - sell securities on the open market in order to expand the money supply.
  - buy government securities in order to expand the money supply.
  - increase the discount rate in order to expand the money supply.
15. When the Federal Reserve sells government securities on the open market the lending ability of banks:
- tends to decline; the money supply shrinks, and the interest rate tends to decline.
  - tends to decline; the money supply expands and the interest rate tends to rise.
  - increases; the monetary supply expands and the interest rate tends to fall.
  - tends to decline; the money supply shrinks and the interest rate tends to rise.
16. Economic variables that generally turn down before a recession begins and turn back up before the recovery starts are called:
- leading indicators.
  - coincident indicators.
  - lagging indicators.
  - none of these.
17. Money serves all of the following functions except:
- medium of exchange.
  - store of value.
  - unit of account.
  - measure of power.
18. If \$1000 was deposited in a bank and the reserve requirement is 0.20, how much is available for loans?
- \$900

- b) \$910
- c) \$800
- d) \$930

19. If marginal propensity to save equals 0.25, then the marginal propensity to consume is:

- a) 1.25.
- b) 0.50.
- c) 0.75.
- d) 1.00.

20. Transfer payments are:

- a) included in GDP.
- b) not included in GDP.
- c) included in both GDP and GNP.
- d) none of these.