

Directions: Select the best answer to each of the following 43 questions. Mark your selected answer on both the answer sheet and test. Good luck and have a great summer!

- 1) An adverse or negative supply shock causes the aggregate _____ curve to shift to the _____.
 - A) demand; left
 - B) supply; left
 - C) supply; right
 - D) demand; right

- 2) When the economy slips into a recession, normally the demand for bonds _____, the supply of bonds _____, and the interest rate _____.
 - A) decreases; increases; rises
 - B) increases; increases; rises
 - C) decreases; decreases; falls
 - D) increases; decreases; falls

- 3) Persistent budget deficits will be inflationary if
 - A) they are financed by Treasury sales of bonds to the Fed.
 - B) they are financed by Treasury sales of bonds to the public.
 - C) they are financed by Treasury sales of bonds to commercial banks.
 - D) ANY OF THE ABOVE.

- 4) For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to _____ and the money supply to _____.
 - A) decrease; decrease
 - B) increase; increase
 - C) increase; decrease
 - D) decrease; increase

- 5) For a given level of the monetary base, a decrease in the required reserve ratio on checkable deposits will mean
 - A) an increase in the money supply.
 - B) a decrease in checkable deposits.
 - C) an increase in discount borrowing.
 - D) a decrease in the money supply.

- 6) If budget deficits lead to a sustained inflation, it is true that the deficit can be regarded as an initiating factor, but
 - A) money creation is the sustaining factor.
 - B) deficits cannot persist for long, so the type of inflation cannot last long.
 - C) fiscal policy is the sustaining factor.
 - D) none of the above are true.

- 7) When the expected inflation rate increases, the demand for bonds _____, the supply of bonds _____, and the interest rate _____.
 - A) increases; increases; rises
 - B) decreases; increases; rises
 - C) decreases; decreases; falls
 - D) increases; decreases; falls

- 8) Evidence indicating that an increase in money growth causes aggregate output to increase with long and variable lags would strengthen the case for
 - A) nonactivist policy.
 - B) a constant-money-growth-rate rule.
 - C) discretionary policy.
 - D) only (a) and (b) of the above.

- 9) Many new classical economists are in agreement with monetarists in their advocacy of
 - A) discretionary policies.
 - B) a constant money growth rule.
 - C) policy surprises.
 - D) none of the above.

- 10) Keynesians contend that
- A) the self-correcting mechanism works slowly because wages are inflexible.
 - B) the aggregate supply curve does not move quickly to restore the economy to the natural rate of unemployment.
 - C) see little need for active government policy to restore the economy to full employment when unemployment is high.
 - D) only (a) and (b) of the above.
- 11) Which of the following are true concerning the distinction between interest rates and return?
- A) The rate of return on a bond will not necessarily equal the interest rate on that bond.
 - B) The return can be expressed as the sum of the current yield and the rate of capital gains.
 - C) The rate of return will be greater than the interest rate when the price of the bond rises between time t and time $t+1$.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.
- 12) If actual output is less than equilibrium output, firms will _____ output to keep from _____ inventories.
- A) increase; depleting
 - B) increase; accumulating
 - C) decrease; accumulating
 - D) decrease; depleting
- 13) According to the Keynesians, an increase in taxes, other things equal, will shift the aggregate _____ curve to the _____.
- A) demand; left
 - B) demand; right
 - C) supply; left
 - D) supply, right
- 14) If aggregate output is below the natural rate level, advocates of activist policy would recommend that the government
- A) try to eliminate the high unemployment by attempting to shift the aggregate demand curve to the left.
 - B) try to eliminate the high unemployment by attempting to shift the aggregate supply curve to the right.
 - C) try to eliminate the high unemployment by attempting to shift the aggregate demand curve to the right.
 - D) do nothing.
- 15) The multiplier effect refers to the fact that changes in autonomous expenditure cause larger changes in
- A) equilibrium output.
 - B) required reserves.
 - C) the monetary base.
 - D) none of the above.
- 16) The aggregate supply curve shows the relationship between
- A) the level of inputs and aggregate output.
 - B) the wage rate and the level of employment.
 - C) the price level and the level of inputs.
 - D) the price level and the level of aggregate output supplied.
- 17) When real income falls, the demand curve for money shifts to the _____ and the interest rate _____.
- A) right; rises
 - B) left; rises
 - C) left; falls
 - D) right; fall
- 18) Economists from which of the following schools of thought are most likely to favor activist government policies?
- A) Keynesian
 - B) Monetarist
 - C) All of the above
 - D) Classical

- 19) Open market operations as a monetary policy tool have the advantages that
- they are flexible and precise.
 - they are easily reversed if mistakes are made.
 - they can be implemented quickly without administrative delays.
 - all of the above.
 - only (a) and (b) of the above.
- 20) Holding everything else equal, an increase in the money supply causes
- interest rates to decline initially.
 - interest rates to increase initially.
 - bond prices to decline initially.
 - both (a) and (c) of the above.
 - both (b) and (c) of the above.
- 21) Which of the following is not an operating target?
- Federal funds interest rate
 - Discount rate
 - Monetary base
 - Nonborrowed reserves
 - All are operating targets
- 22) The return on a 10 percent coupon bond that initially sells for \$1,000 and sells for \$1,100 next year is
- 17 percent.
 - 20 percent.
 - 30 percent.
 - 24 percent.
- 23) The _____ lag is the time it takes for policymakers to obtain the data that tell them what is happening to the economy, while the _____ lag is the time it takes for policymakers to be sure of what the data are signaling about the future course of the economy.
- recognition; data
 - data; implementation
 - data; recognition
 - implementation; recognition
- 24) When the price level _____, the demand curve for money shifts to the _____ and the interest rate _____.
- falls; left; falls
 - falls; right; falls
 - rises; right; falls
 - rises; right; rises
 - falls; left; rises
- 25) Monetarists and Keynesians both agree with Milton Friedman that
- velocity is predictable and fairly constant.
 - the demand for money is insensitive to changes in the interest rate.
 - inflation is a monetary phenomenon.
 - the price level and the money supply are unrelated. all of the above are true.
- 26) During the banking crisis that ended in March 1933,
- the money supply (M1) had declined by over 25 percent--by far the largest decline in American history.
 - both {C/D} and {ER/D} rose.
 - the money supply declined despite a 20 percent rise in the monetary base.
 - all of the above.

- 36) Which of the following does not cause the aggregate demand curve to shift to the right?
- A) an increase in government spending
 - B) an increase in consumer optimism
 - C) an increase in net exports
 - D) an increase in taxes
 - E) an increase in the money supply
- 37) Which of the following statements describe activists' policy views?
- A) Wage and price adjustment and, therefore, the economy's self-correcting mechanism brings the economy back to the natural rate level of output quickly.
 - B) Discretionary economic policies speed the return of the economy back to the natural rate level of output.
 - C) Discretionary economic policies, because of long and variable time lags, are likely to be destabilizing.
 - D) Only (a) and (b) of the above.
- 38) Friedman's modern quantity theory of money concludes that changes in aggregate spending are primarily determined by changes in
- A) government spending and taxes.
 - B) the money supply.
 - C) the velocity of money.
 - D) interest rates.
- 39) The existence of long and variable policy lags tends to support
- A) activist views regarding macropolicy.
 - B) Keynesian views regarding macropolicy.
 - C) monetarist views regarding macropolicy.
 - D) none of the above.
- 40) In a new classical macroeconomic model developed by Lucas and Sargent, expansionary macropolicies affect aggregate output
- A) only when the macropolicy change is unanticipated.
 - B) only after a long and variable lag, provided the policy is anticipated.
 - C) relatively quickly, provided the policy is anticipated.
 - D) only when the macropolicy change is anticipated.
- 41) If the desired intermediate target is an interest rate, then the preferred operating target will be a(n) _____ variable like the _____.
- A) monetary aggregate; nonborrowed base
 - B) interest rate; three-month T-bill rate
 - C) interest rate; federal funds rate
 - D) monetary aggregate; monetary base

(continued)

42. According to Dr. Poole, President of the St. Louis Fed, Alan Greenspan:
- a. has surprisingly little impact on Fed policy.
 - b. rules the Fed in a dictatorial fashion.
 - c. usually gets the policy he desires because he is well respected by the open-market committee.
 - d. none of the above

43. According to Dr. Poole, the open-market committee:
- a. uses the discount rate as an operating target.
 - b. Uses the fed funds rate as its operating target.
 - c. Uses M1 as its operating target.
 - d. Uses M2 as its operating target.

