

Exam 2 - Economics 103 Spring 2018 (25 points)

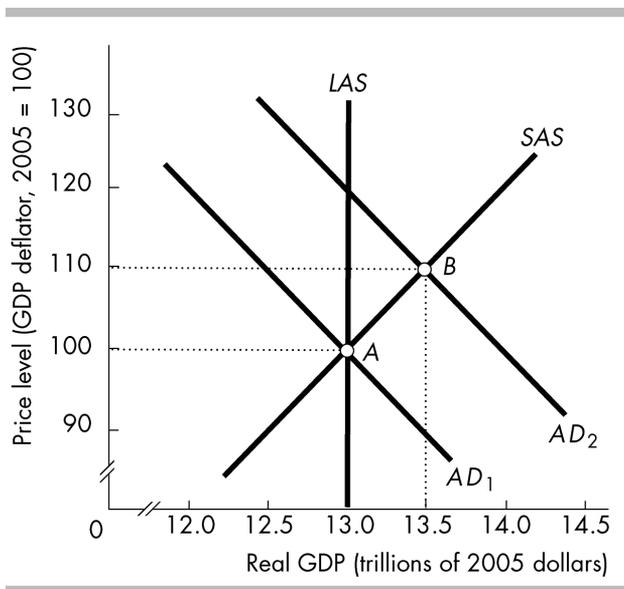
Name _____

MULTIPLE CHOICE (1/2 point each)

- 1) The long-run aggregate supply (*LAS*) curve 1) _____
A) has a negative slope. B) is vertical.
C) has a positive slope. D) is horizontal.
- 2) Controlling the quantity of money and interest rates to influence aggregate economic activity is called 2) _____
A) monetary policy. B) foreign policy.
C) fiscal policy. D) bank antitrust policy.
- 3) Between 2008 and 2009, U.S. real GDP decreased from \$13.2 trillion to \$12.9 trillion. As a result, the real demand for money _____ and the demand for money curve _____. 3) _____
A) decreased; shifted rightward. B) decreased; shifted leftward
C) did not change; did not shift D) increased; shifted leftward
- 4) A bank creates money by 4) _____
A) printing more checks B) buying bonds from the Federal Reserve
C) purchasing cash from the Federal Reserve D) lending its excess reserves
- 5) Suppose that the money multiplier is 3. If the monetary base increases by \$1 million, the quantity of money will 5) _____
A) decrease by \$300,000. B) increase by \$300,000.
C) increase by \$3 million. D) decrease by \$3 million.
- 6) When the Fed wants to undertake open market operations, it 6) _____
A) buys or sells securities.
B) can require all member banks to buy from or sell to it.
C) can require all commercial banks to buy from or sell to it.
D) buys securities from or sells securities to the federal government.
- 7) Nicholas is saving money collected from his paper route in order to purchase a new bicycle. His saving represents using money as 7) _____
A) an unit of account. B) a store of value.
C) a medium of exchange. D) none of the above
- 8) The Federal Reserve System is the 8) _____
A) law enforcement agency that tracks counterfeit money.
B) insurance agency the insures deposits.
C) central bank of the United States.
D) federal government agency that undertakes deregulation for depository institutions.
- 9) A bank's reserves include 9) _____
A) the cash in its vault plus its deposits held at a Federal Reserve bank.
B) the cash in its vault plus any gold held for the bank at Fort Knox.
C) the cash in its vault plus the value of its depositors' accounts.
D) its common stock holdings, the cash in its vault, and any deposits at a Federal Reserve bank.

- 10) Which of the following does NOT shift the aggregate demand curve? 10) _____
- A) an increase in the price level B) an increase in people's wealth
 C) a decrease in the quantity of money D) an increase in current foreign income

- 11) In an open market purchase, the Fed _____ government securities, which _____ bank reserves. 11) _____
- A) buys, decreases B) sells, increases C) sells, decreases D) buys, increases



- 12) In the above figure, real GDP at full employment is 12) _____
- A) \$13 trillion. B) more than \$13 and less than \$13.5 trillion.
 C) \$13.5 trillion. D) None of the above answers is correct.

- 13) In the above figure, the aggregate demand curve is AD_2 , so the short-run equilibrium level of real GDP is 13) _____
- A) more than \$13 and less than \$13.5 trillion. B) \$13.5 trillion.
 C) \$13 trillion. D) None of the above answers is correct.

- 14) In the above figure, point B depicts 14) _____
- A) a recessionary gap with real GDP in excess of potential GDP.
 B) an inflationary gap with real GDP less than potential GDP.
 C) an inflationary gap with real GDP in excess of potential GDP.
 D) a recessionary gap with real GDP less than potential GDP.

- 15) Liquidity is the 15) _____
- A) ease with which an asset can be converted into money.
 B) same as the velocity of money.
 C) speed with which the price of an asset changes as its intrinsic value changes.
 D) inverse of the velocity of money.

- 16) _____ economists believe that the economy is self-regulating and always at full employment. 16) _____
- A) Monetarist B) All C) Keynesian D) Classical

- 17) A \$25,000 price tag on a new car is an example of money as 17) _____
 A) medium of exchange. B) a time deposit.
 C) a store of value. D) a unit of account.
- 18) Which of the following is an example of money functioning as a medium of exchange? 18) _____
 A) Walmart accepting your \$20 when buy a t-shirt.
 B) Apple pricing an iPhone at \$399.
 C) Bank of America paying you 3 percent on your saving account.
 D) You saving your spare change in a jar before depositing them in your savings account.
- 19) Suppose the money growth rate is 3 percent, velocity is constant, and real GDP is growing at 2 percent. What is the inflation rate? 19) _____
 A) 6 percent B) 5 percent C) 1 percent D) 3 percent
- 20) If the Federal Reserve raises the U.S. interest rate, foreigners' 20) _____
 A) demand for U.S. dollars will increase and the exchange rate will fall.
 B) demand for U.S. dollars will increase and the exchange rate will rise.
 C) demand for U.S. dollars will decrease and the exchange rate will fall.
 D) demand for U.S. dollars will decrease and the exchange rate will rise.
- 21) The idea that the value of money is equal across countries is known as 21) _____
 A) the expected profit parity effect. B) exchange rate parity.
 C) interest rate parity. D) purchasing power parity.
- 22) Comparing M1 and M2 we know that 22) _____
 A) M2 is approximately equal to M1.
 B) M2 is larger because it contains M1 and other assets.
 C) M1 is larger because it contains currency.
 D) M2 is larger because it contains more liquid assets than does M1.
- 23) The opportunity cost of holding money increases when 23) _____
 A) the price level falls. B) the purchasing power of money rises.
 C) the nominal interest rate rises. D) consumers' real incomes increase.
- 24) The fact that using money avoids the double coincidence of wants necessary in a barter economy illustrates which function of money? 24) _____
 A) unit of account B) source of liquidity
 C) medium of exchange D) store of value
- 25) Higher resource prices shift the 25) _____
 A) short-run aggregate supply curve rightward, raising the price level and decreasing real GDP so it is less than potential GDP.
 B) short-run aggregate supply curve leftward, raising the price level and decreasing real GDP so it is less than potential GDP.
 C) short-run aggregate supply curve leftward, raising the price level and decreasing potential GDP.
 D) long-run aggregate supply curve leftward, decreasing real GDP and increasing potential GDP.

- 26) China is one of the world's largest exporters. As the world's economies slipped into a worldwide recession in 2008, there was a _____ China's aggregate demand curve as China's exports _____.
- A) leftward shift of; decreased
 B) rightward shift of; decreased
 C) movement upward along; decreased
 D) movement upward along; increased
- 27) The Fed's purchase of government securities will _____.
- A) be an effective anti-inflationary policy.
 B) increase loans made by banks.
 C) have no effect on real GDP.
 D) decrease bank reserves.
- 28) If the dollar's value changes from 120 yen per dollar to 110 yen per dollar, the dollar has _____.
- A) demanded.
 B) devalued.
 C) appreciated.
 D) depreciated.
- 29) An aggregate supply curve depicts the relationship between _____.
- A) the price level and the aggregate quantity supplied.
 B) the price level and nominal GDP.
 C) the price level and the aggregate quantity demanded.
 D) household expenditures and household income.
- 30) If a customer deposits \$10,000 in currency into a checking account, the bank's total reserves _____.
- A) increase
 B) are greater than 100 percent
 C) do not change
 D) decrease
- 31) On www.yodobashi.com, you can buy a Canon EOS camera for 300,000 yen. The same camera costs \$3000 on www.calumetphoto.com. If the exchange rate is _____ yen per dollar, we can determine _____ for this camera.
- A) 110; purchasing power parity occurs
 B) 100; purchasing power parity occurs
 C) 110; interest rate parity occurs
 D) 100; interest rate parity doesn't occur
- 32) Hyundai is a large South Korean company that produces finished steel products. Hyundai plans to buy raw steel from U.S. Steel. As a result, the _____.
- A) demand curve for U.S. dollars shifts leftward.
 B) demand curve for South Korean won shifts leftward.
 C) demand curve for U.S. dollars shifts rightward.
 D) demand curve for South Korean won shifts rightward.
- 33) Exports of U.S. goods creates a _____ U.S. dollars and creates a _____ foreign currencies.
- A) supply of; supply of
 B) demand for; supply of
 C) supply of; demand for
 D) demand for; demand for.
- 34) Which of the following changes while moving along the aggregate demand curve?
- A) future profits from investment projects
 B) future incomes of households
 C) the amount of money in the economy
 D) the price level
- 35) The exchange rate is the _____.
- A) interest rate that is charged on risk-free international capital flow.
 B) ratio between imports and exports.
 C) price of one country's currency expressed in terms of another country's currency.
 D) opportunity cost of pursuing a nation's comparative advantage.

- 36) A bank can only make a loan if it has _____
 A) reserves equal to its deposits. B) permission from the Federal Reserve.
 C) excess reserves. D) branches.
- 37) When you toss your spare quarters into a jar so you can use them later at the laundromat, you are using money in its function as a _____
 A) medium of exchange. B) store of value.
 C) unit of account. D) record keeping device.
- 38) Which of the following is the most liquid? _____
 A) the pencil or pen in your hand right now.
 B) gold.
 C) the U.S. dollars that your professor used this morning to buy breakfast.
 D) your credit card.
- 39) Which of the following shifts the aggregate demand curve rightward? _____
 A) a decrease in consumption B) a decrease in government expenditures
 C) an increase in investment D) a decrease in net exports
- 40) The aggregate demand curve _____
 A) is horizontal. B) has a negative slope.
 C) is vertical. D) has a positive slope.
- 41) At long-run macroeconomic equilibrium, _____. _____
 A) real GDP equals potential GDP
 B) a recessionary gap exists
 C) an inflationary gap exists
 D) real GDP is less than potential GDP but is as close as it is possible to be
- 42) The AS/AD model studies the relationship between _____
 A) unemployment and real GDP. B) nominal GDP and inflation.
 C) the price level and real GDP. D) the price level and unemployment.
- 43) The interest rate in Canada rises while the interest rate in the United States does not change. The _____
 A) demand curve for Canadian dollars will shift rightward.
 B) demand curve for Canadian dollars will shift leftward.
 C) demand curves Canadian and U.S. dollars will remain unchanged.
 D) demand curve for U.S. dollars will shift rightward.

TRUE/FALSE. Write 'Tr' if the statement is true and 'Fa' if the statement is false.

- 44) Credit cards are not part of the nation's money supply. _____
- 45) The level of output when there is full employment is called actual GDP. _____
- 46) If China depreciates its currency, US exports become cheaper. _____
- 47) If hyperinflation occurs, money will serve as a better store of value. _____
- 48) I will be so sad when this course is over. _____

Answer Key

Testname: EXAM2SPRING2018

- 1) B
- 2) A
- 3) B
- 4) D
- 5) C
- 6) A
- 7) B
- 8) C
- 9) A
- 10) A
- 11) D
- 12) A
- 13) B
- 14) C
- 15) A
- 16) D
- 17) D
- 18) A
- 19) C
- 20) B
- 21) D
- 22) B
- 23) C
- 24) C
- 25) B
- 26) A
- 27) B
- 28) D
- 29) A
- 30) A
- 31) B
- 32) C
- 33) B
- 34) D
- 35) C
- 36) C
- 37) B
- 38) C
- 39) C
- 40) B
- 41) A
- 42) C
- 43) A
- 44) TRUE
- 45) FALSE
- 46) FALSE
- 47) FALSE
- 48) TRUE