Masaryk University - Brno
Department of Economics – Faculty of Economics and Administration
Lipová 507/41a, Pisárky, Brno

BPE_MAC1 Macroeconomics 1 – Spring Semester 2011

Final Exam - 13.05.2011, 10:00-11:30 Test B

Guidelines and Rules:
1. The test setup has 6 pages. It is your responsibility to check that you have all the pages.
2. The time limit is 90 minutes.
3. The exam is worth 50 points.
4. You are NOT allowed to use any books or notes.
5. Any violation of academic honesty will be punished to the fullest extent possible.
6. At most one exam-taker is allowed to be outside the room at one time.
7. When ready, **submit** the filled setup sheet with **your name** written on the first page.

Completion
Complete each statement.

1. Throughout __________________ all economies use the same currency.
2. In 1980s and 1990s successive governments in both the US and UK carried out a policy of ____________________ allowing financial institutions to trade globally and with more freedom to innovate than ever before.
3. Friedman and Phelps (1968) developed the so-called _____________________ which implies that unemployment eventually returns to its normal rate, regardless of the rate of inflation.
4. Without policy makers having to take any deliberate action __________________ affect the fiscal policy in such a way that the aggregate demand gets stimulated when the economy goes into recession.
5. Technically speaking, a period in economic development is defined as __________________ if it includes at least two successive quarters of negative economic growth.
6. ___________________ shows the quantity of goods and services that firms choose to produce and sell at each price level.
7. The ratio in which a person can trade the goods and services of one country for the goods and services of another is called ____________________ .
8. __________________ refers to the difference between the value of the foreign assets purchased by domestic residents minus the value of the domestic assets purchased by foreigners.
9. According to the _________________ asset prices reflect all publicly available information about the value of an asset.
10. The fluctuations in the economy are often called __________________.

True/False
Indicate whether the statement is true or false.

____ 11. GDP is the market value of all final goods and services produced by a country’s citizens in a given period of time.

____ 12. The CPI is always 1 in the base year.

____ 13. If per capita real income grows by 2 percent per year, then it will double in approximately 20 years.

____ 14. When economists refer to investment, they mean the purchasing of stocks and bonds and other types of saving.

____ 15. The present value of any future sum of money is the amount that would be needed today, at current interest rates, to produce that future sum.

____ 16. Some degree of unemployment is inevitable in a complex economy.

____ 17. The price level is determined by the supply of, and demand for, money.

____ 18. Banks cannot influence the money supply if they hold all deposits in reserve.

____ 19. In the open-economy macroeconomic model, other things the same, when a U.S. resident imports a foreign good, our model treats this as a decrease in the demand for dollars in the foreign-currency exchange market.

____ 20. Depending on the size of the multiplier and crowding-out effects, the rightward shift in aggregate demand from a tax cut could be larger or smaller than the tax cut.

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 21. If nominal GDP doubles and the GDP deflator doubles, then real GDP
a. remains constant.
b. doubles.
c. triples.
d. quadruples.

____ 22. The president of a poor country has announced that he will implement the following measures which he claims are designed to increase growth: 1. Reduce corruption in the legal system; 2. Reduce reliance on market forces because they allocate goods and services in an unfair manner; 3. Restrict investment in domestic industries by foreigners because they take some of the profits out of the country; 4. Encourage trade with neighboring countries; and 5. Increase the fraction of GDP devoted to consumption. How many of these measures will have a positive effect on growth?
a. 1
b. 2
c. 3
d. 4

____ 23. The Bureau of Labor Statistics reported in 2005 that there were 28.19 million people over age 25 who had no high school degree or its equivalent, 11.73 million of whom were employed and 1.04 million of whom were unemployed. What were the labor-force participation rate and the unemployment rate for this group?
a. 41.6% and 3.7%
b. 41.6% and 8.1%
c. 45.3% and 3.7%
d. 45.3% and 8.1%

____ 24. Which of the following is *not* a reason economies experience structural unemployment?
a. job search
b. unions
c. minimum-wage laws
d. efficiency wages

____ 25. M1 equals currency plus demand deposits plus
a. nothing else.
b. other checkable deposits.
c. traveler's checks plus other checkable deposits.
d. traveler's checks plus other checkable deposits plus savings deposits.

____ 26. If the reserve ratio for all banks is 9 percent, then a decrease in reserves of $6,000 can cause the money supply to fall by as much as
a. $60,000.00.
b. $66,666.67.
c. $90,900.00.
d. $100,555.56.

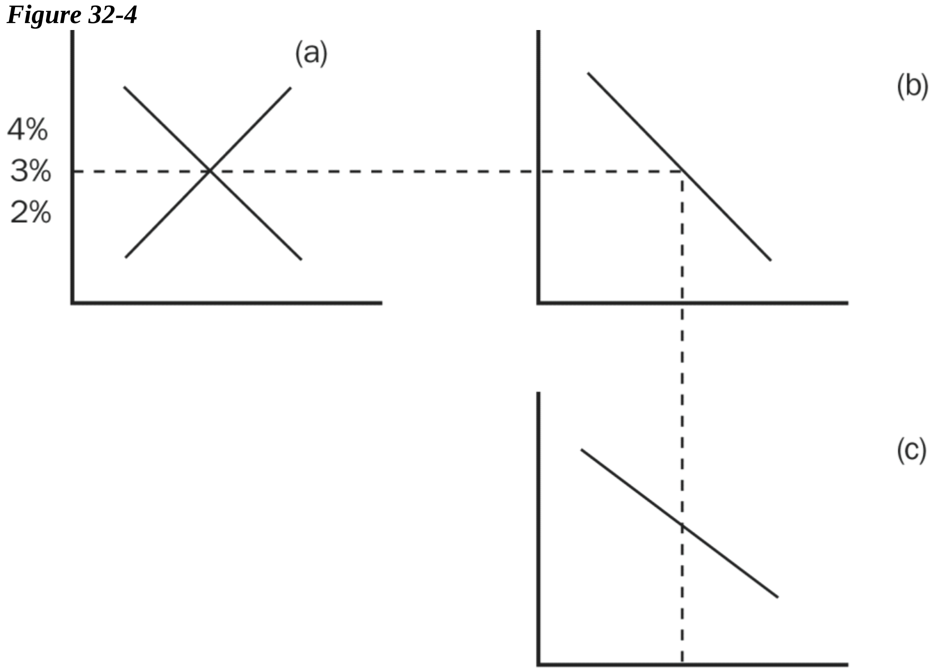
____ 27. Which of the following statements about inflation is correct?

a. Evidence from studies indicates that, in U.S. newspapers, *inflation* is mentioned less frequently than other economic terms, such as *unemployment* and *productivity*.
b. People believe the inflation fallacy because they tend to believe too strongly in the principle of monetary neutrality.
c. Nominal incomes are determined by nominal factors; they are not affected by real factors.
d. Inflation does not in itself reduce people's real purchasing power.

____ 28. Suppose that in some tax year you earned a nominal interest rate of 4 percent. During the time you held these funds inflation was 1 percent. You compute that you made a real after-tax interest rate of 2 percent. What was your tax rate?

a. 50 percent
b. 33.3 percent
c. 25 percent
d. None of the above are correct.

____ 29. ***Figure 32-4***



Refer to Figure 32-4. Suppose that U.S. firms desire to purchase more capital in the U.S. The effects of this could be illustrated by

a. shifting the demand curve in panel (a) to the right and the demand curve in panel (c) to the left.
b. shifting the demand curve in panel (a) to the right and the supply curve in panel (c) to the left.
c. shifting the supply curve in panel (a) to the right and the demand curve in panel (c) to the left.
d. shifting the supply curve in panel (a) to the right and the supply curve in panel (c) to the right.

____ 30. **Refer to Figure 32-4.** Suppose that the government goes from a budget surplus to a budget deficit. The effects of the change could be illustrated by

a. shifting the demand curve in panel a to the right and the demand curve in panel c to the left.
b. shifting the demand curve in panel a to the left and the supply curve in panel c to the left.
c. shifting the supply curve in panel a to the right and the demand curve in panel c to the right.
d. shifting the supply curve in panel a to the left and the supply curve in panel c to the left.

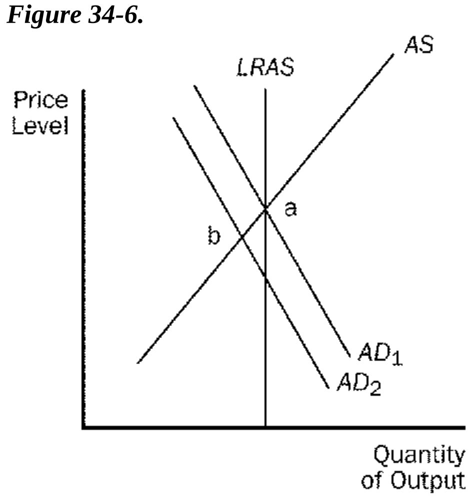
____ 31. Which of the following would cause prices to fall and output to rise in the short run?

a. Short-run aggregate supply shifts right.
b. Short-run aggregate supply shifts left.
c. Aggregate demand shifts right.
d. Aggregate demand shifts left.

____ 32. An increase in the price level and a reduction in output would result from

a. a fall in stock prices.
b. natural disasters such as hurricanes, floods, and droughts..
c. declining government expenditures.
d. tax rebates.

____ 33. ***Figure 34-6.***



Refer to Figure 34-6. The aggregate-demand curve could shift from AD_1 to AD_2 as a result of

a. an increase in government purchases.
b. a decrease in stock prices.
c. consumers and firms becoming more optimistic about the future.
d. an increase in the price level.

____ 34. **Refer to Figure 34-6**. If the economy is at point b, a policy to restore full employment would be

a. an increase in the money supply.
b. a decrease in government purchases.
c. an increase in taxes.
d. All of the above are correct.

____ 35. **Refer to Figure 34-6**. Which of the following is correct?

a. A wave of optimism could move the economy from point a to point b.
b. If aggregate demand moves from AD_1 to AD_2, the economy will stay at point b in both the short run and long run.
c. It is possible that either fiscal or monetary policy might have caused the shift from AD_1 to AD_2.
d. All of the above are correct.

____ 36. **Refer to Figure 34-6**. Which of the following is correct?

a. Unemployment rises as the economy moves from point a to point b.
b. Either fiscal or monetary policy could be used to move the economy from point b to point a.
c. If the economy is left alone, then as the economy moves from point b to long-run equilibrium, the price level will fall farther.
d. All of the above are correct.

____ 37. **Refer to The Economy in 2008.** The effects of the housing and financial crises could be shown by shifting

a. aggregate demand to the right.
b. aggregate demand to the left.
c. aggregate supply to the right.
d. aggregate supply to the left.

____ 38. **Refer to the Economy in 2008.** In the short-run the housing and financial crises

a. raises both the price level and output.
b. raises the price level and reduces output.
c. reduces the price level and raises output.
d. reduces both the price level and output.

____ 39. **Refer to the Economy in 2008.** The effects of increased prices of world commodities is shown by shifting

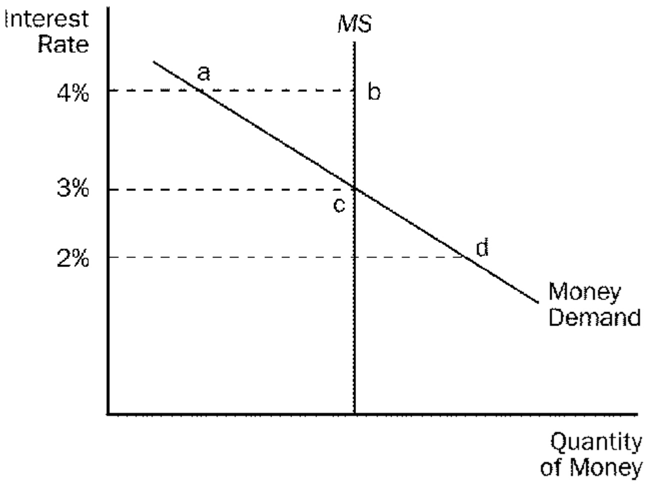
a. aggregate demand to the right.
b. aggregate demand to the left.
c. aggregate supply to the right.
d. aggregate supply to the left.

____ 40. **Refer to The Economy in 2008.** In the short run the increased prices of world commodities

a. raise both the price level and output.
b. raise the price level and reduce output.
c. reduce the price level and raise output.
d. reduce both the price level and output.

____ 41. **Refer to The Economy in 2008.** Given the effects of the financial and housing crisis on the price level and output and the effects of increased world commodity prices on the price level and output, the aggregate demand and aggregate supply model tells us that
a. output rises and the price level falls.
b. output may rise, fall or stay the same and the price level rises.
c. output falls and the price level may rise, fall or stay the same.
d. None of the above is correct.

____ 42. ***Figure 34-1***



Refer to Figure 34-1. If the current interest rate is 2 percent,
a. there is an excess supply of money.
b. people will sell more bonds, which drives interest rates up.
c. as the money market moves to equilibrium, people will buy more goods.
d. All of the above are correct.

____ 43. **Refer to Figure 34-1**. There is an excess demand for money at an interest rate of
a. 2 percent.
b. 3 percent.
c. 4 percent.
d. None of the above is correct.

____ 44. **Refer to Figure 34-1**. At an interest rate of 4 percent, there is an excess
a. demand for money equal to the distance between points a and b.
b. demand for money equal to the distance between points b and c.
c. supply of money equal to the distance between points a and b.
d. supply of money equal to the distance between points b and c.

____ 45. **Refer to Figure 34-1**. Which of the following is correct?
a. If the interest rate is 4 percent, there is excess money demand, and the interest rate will fall.
b. If the interest rate is 3 percent, there is excess money supply, and the interest rate will rise.
c. Starting with an interest rate of 4 percent, the demand for goods and services will increase until the money market reaches a new equilibrium.
d. None of the above is correct.

____ 46. During periods of expansion, automatic stabilizers cause government expenditures
a. and taxes to fall.
b. and taxes to rise.
c. to rise and taxes to fall.
d. to fall and taxes to rise.

____ 47. If the exchange rate is 5 units of Peruvian currency per dollar and a hotel room in Lima costs 300 units of Peruvian currency, then how many dollars do you need to get a room?
a. 1,500, and your purchase will increase Peru's net exports.
b. 60 and your purchase will increase Peru's net exports.
c. 1,500 and your purchase will have no effect on Peru's net exports.
d. 60 and your purchase will have no effect on Peru's net exports.

____ 48. The real exchange rate is the nominal exchange rate, defined as foreign currency per dollar, times
- a. U.S. prices minus foreign prices.
- b. prices in the United States divided by foreign prices.
- c. foreign prices divided by U.S. prices.
- d. None of the above is correct.

____ 49. Classical economist David Hume observed that as the money supply expanded after gold discoveries it took some time for prices to rise and in the meantime the economy enjoyed higher employment and production. This is inconsistent with monetary neutrality because
- a. monetary neutrality would mean that neither prices nor production should have risen.
- b. monetary neutrality would mean that production should have risen, but prices should not have.
- c. monetary neutrality would mean the prices should have risen, but production should not have changed.
- d. monetary neutrality would mean that prices and production should both have fallen.

____ 50. A policy change that changes the natural rate of unemployment changes
- a. neither the long-run Phillips curve nor the long-run aggregate supply curve.
- b. both the long-run Phillips curve and the long-run aggregate supply curve.
- c. the long-run Phillips curve, but not the long-run aggregate supply curve.
- d. the long-run aggregate supply curve, but not the long-run Phillips curve.

Final Exam - 13.05.2011, 10:00-11:30 Test B
Answer Section

COMPLETION

1. ANS: common currency area

   PTS: 1
2. ANS: deregulation

   PTS: 1
3. ANS: natural-rate hypothesis

   PTS: 1
4. ANS: automatic stabilizers

   PTS: 1
5. ANS: recession

   PTS: 1
6. ANS: aggregate supply curve

   PTS: 1
7. ANS: real exchange rate

   PTS: 1
8. ANS: net capital outflow

   PTS: 1
9. ANS: efficient markets hypothesis

   PTS: 1
10. ANS: the business cycle

    PTS: 1

TRUE/FALSE

11. ANS: F PTS: 1 DIF: 1 REF: 23-2
    TOP: GDP MSC: Definitional
12. ANS: F PTS: 1 DIF: 1 REF: 24-1
    TOP: CPI MSC: Definitional
13. ANS: F PTS: 1 DIF: 1 REF: 25-0
    TOP: Economic growth MSC: Definitional
14. ANS: F PTS: 1 DIF: 1 REF: 26-1
    TOP: Investment | Saving MSC: Definitional
15. ANS: T PTS: 1 DIF: 1 REF: 27-1
    TOP: Present value MSC: Interpretive
16. ANS: T PTS: 1 DIF: 1 REF: 28-0
    TOP: Unemployment MSC: Definitional

17. ANS: T PTS: 1 DIF: 1 REF: 30-1
TOP: Money market MSC: Definitional
18. ANS: T PTS: 1 DIF: 2 REF: 29-3
TOP: Banks | Money supply MSC: Interpretive
19. ANS: T PTS: 1 DIF: 2 REF: 32-2
TOP: Market for foreign-currency exchange MSC: Applicative
20. ANS: T PTS: 1 DIF: 2 REF: 34-3
TOP: Multiplier effect MSC: Analytic

MULTIPLE CHOICE

21. ANS: A PTS: 1 DIF: 2 REF: 23-4
TOP: Real GDP MSC: Applicative
22. ANS: B PTS: 1 DIF: 3 REF: 25-3
TOP: Economic growth MSC: Applicative
23. ANS: D PTS: 1 DIF: 2 REF: 28-1
TOP: Labor-force participation rate | Unemployment rate MSC: Applicative
24. ANS: A PTS: 1 DIF: 2 REF: 28-5
TOP: Structural unemployment MSC: Interpretive
25. ANS: C PTS: 1 DIF: 1 REF: 29-1
TOP: Money supply MSC: Definitional
26. ANS: B PTS: 1 DIF: 1 REF: 29-3
TOP: Money multiplier MSC: Applicative
27. ANS: D PTS: 1 DIF: 2 REF: 30-2
TOP: Inflation MSC: Definitional
28. ANS: C PTS: 1 DIF: 3 REF: 30-2
TOP: Taxes | Inflation | Real interest rate MSC: Applicative
29. ANS: B PTS: 1 DIF: 3 REF: 32-3
TOP: Net capital outflow | Open-economy macroeconomic model
MSC: Analytical
30. ANS: D PTS: 1 DIF: 2 REF: 32-3
TOP: Budget deficits | Open-economy macroeconomic model MSC: Analytical
31. ANS: A PTS: 1 DIF: 2 REF: 33-5
TOP: Short-run equilibrium MSC: Analytical
32. ANS: B PTS: 1 DIF: 2 REF: 33-5
TOP: Aggregate supply shifts | Costs of production MSC: Analytical
33. ANS: B PTS: 1 DIF: 1 REF: 34-3
TOP: Aggregate demand shifts MSC: Applicative
34. ANS: A PTS: 1 DIF: 1 REF: 34-3
TOP: Stabilization policy MSC: Applicative
35. ANS: C PTS: 1 DIF: 1 REF: 34-3
TOP: Stabilization policy MSC: Applicative
36. ANS: D PTS: 1 DIF: 2 REF: 34-3
TOP: Monetary policy | Fiscal policy MSC: Interpretive
37. ANS: B PTS: 1 DIF: 2 REF: 35-4
TOP: Aggregate demand shifts MSC: Applicative
38. ANS: D PTS: 1 DIF: 2 REF: 35-4
TOP: Aggregate demand shifts MSC: Analytical
39. ANS: D PTS: 1 DIF: 2 REF: 35-4
TOP: Aggregate demand shifts MSC: Applicative

40. ANS: B PTS: 1 DIF: 2 REF: 35-4
TOP: Aggregate demand shifts MSC: Analytical
41. ANS: C PTS: 1 DIF: 3 REF: 35-4
TOP: Aggregate demand shifts MSC: Analytical
42. ANS: B PTS: 1 DIF: 2 REF: 34-1
TOP: Money market equilibrium MSC: Interpretive
43. ANS: A PTS: 1 DIF: 1 REF: 34-1
TOP: Money market equilibrium MSC: Interpretive
44. ANS: C PTS: 1 DIF: 2 REF: 34-1
TOP: Money market equilibrium MSC: Interpretive
45. ANS: C PTS: 1 DIF: 2 REF: 34-1
TOP: Money market equilibrium MSC: Interpretive
46. ANS: D PTS: 1 DIF: 1 REF: 34-3
TOP: Automatic stabilizers MSC: Analytical
47. ANS: B PTS: 1 DIF: 1 REF: 31-2
TOP: Nominal exchange rate | Net exports MSC: Applicative
48. ANS: B PTS: 1 DIF: 1 REF: 31-2
TOP: Real exchange rate MSC: Definitional
49. ANS: C PTS: 1 DIF: 2 REF: 33-2
TOP: Monetary neutrality | David Hume MSC: Interpretive
50. ANS: B PTS: 1 DIF: 2 REF: 35-2
TOP: Long-run Phillips curve | Long-run aggregate supply MSC: Applicative