Name: ___________________________ Date: _____________

1. Recessions are periods when real GDP:
   A) increases slowly.
   B) increases rapidly.
   C) decreases mildly.
   D) decreases severely.

2. In an economic model:
   A) exogenous variables and endogenous variables are both fixed when they enter the model.
   B) endogenous variables and exogenous variables are both determined within the model.
   C) endogenous variables affect exogenous variables.
   D) exogenous variables affect endogenous variables.

3. The economic statistic used to measure the level of prices is:
   A) GDP.
   B) CPI.
   C) GNP.
   D) real GDP.

4. *All* of the following are measures of GDP *except* the total:
   A) expenditures of all businesses in the economy.
   B) income from all production in the economy.
   C) expenditures on all final goods produced.
   D) value of all final production.

5. To compute the value of GDP:
   A) goods and services are valued at market prices.
   B) the sale of used goods is included.
   C) production for inventory is not included.
   D) goods and services are valued by weight.

6. In the national income accounts, consumption expenditures include *all* of the following *except* household purchases of:
   A) durable goods.
   B) nondurable goods.
   C) new residential housing.
   D) services.

7. The two most important factors of production are:
   A) goods and services.
   B) labour and energy.
   C) capital and labour.
   D) saving and investment.

8. At any particular point in time, the output of the economy:
   A) is fixed because the supplies of capital and labour and the technology are fixed.
   B) is fixed because the demand for goods and services is fixed.
   C) varies because the supplies of capital and labour vary.
   D) varies because the technology for turning capital and labour into goods and services varies.

9. The property of diminishing marginal product means that, after a point, when additional quantities of:
   A) a factor are added, output diminishes.
   B) both labour and capital are added, output diminishes.
   C) both labour and capital are added, the marginal product of labour diminishes.
   D) a factor are added when another factor remains fixed, the marginal product of that factor diminishes.

10. If the consumption function is given by $C = 150 + 0.85Y$ and Y increases by 1 unit, then savings:
    A) decreases by 0.85 unit.
    B) decreases by 0.15 unit.
    C) increases by 0.15 unit.
    D) increases by 0.85 unit.

11. Currency equals:
    A) $M1$.
    B) the sum of funds in current bank accounts.
    C) the sum of current bank accounts and paper money.
    D) the sum of coins and paper money.

12. If velocity is constant and, in addition, the factors of production and the production function determine real GDP, then:
    A) the price level is proportional to the money supply.
    B) real GDP is proportional to the money supply.
    C) the price level is fixed.
    D) nominal GDP is fixed.

13. According to the Fisher effect, the nominal interest rate moves one-for-one with changes in the:
    A) inflation rate.
    B) expected inflation rate.
    C) *ex ante* real interest rate.
    D) *ex post* real interest rate.

14. The opportunity cost of holding money is the:
    A) nominal interest rate.
    B) real interest rate.
    C) rate of inflation.
    D) shoe leather cost of having to go to the bank.

15. If inflation is 6 per cent and a worker receives a 4 per cent wage increase, then the worker's real wage:
    A) increased 4 per cent.
    B) increased 2 per cent.
    C) decreased 2 per cent.
    D) decreased 6 per cent.

16. Net capital outflow is equal to:
    A) national saving minus the trade balance.
    B) domestic investment plus the trade balance.
    C) domestic investment minus national saving.
    D) national saving minus domestic investment.

17. When exports exceed imports, *all* of the following are true *except*:
    A) net capital outflows are positive.
    B) net exports are positive.
    C) domestic investment exceeds domestic saving.
    D) domestic output exceeds spending.

18. In a small open economy, starting from a position of balanced trade, if the government increases the income tax, this produces a tendency toward a trade ______ and ______ net capital outflow.
    A) deficit; negative
    B) surplus; positive
    C) deficit; positive
    D) surplus; negative

19. The lower the real exchange rate is, the ______ expensive domestic goods are relative to foreign goods, and the ______ the demand is for net exports.
   A) more; greater
   B) more; smaller
   C) less; greater
   D) less; smaller

20. If s is the rate of job separation, f is the rate of job finding, and both rates are constant, then the unemployment rate is approximately:
   A) $f/(f + s)$.
   B) $(f + s)/f$.
   C) $s/(s + f)$.
   D) $(s + f)/s$.

21. If the steady-state rate of unemployment equals 0.125 and the fraction of unemployed workers who find jobs each month (the rate of job findings) is 0.56, then the fraction of employed workers who lose their jobs each month (the rate of job separations) must be:
   A) 0.08.
   B) 0.125.
   C) 0.22.
   D) 0.435.

22. Efficiency-wage theories suggest that a firm may pay workers more than the market-clearing wage for *all* of the following reasons *except* to:
   A) reduce labour turnover.
   B) improve the quality of the firm's labour force.
   C) increase worker effort.
   D) reduce the firm's wage bill.

23. The production function $y = f(k)$ means:
   A) labour is not a factor of production.
   B) output per worker is a function of labour productivity.
   C) output per worker is a function of capital per worker.
   D) the production function exhibits increasing returns to scale.

24. The consumption function in the Solow model assumes that society saves a:
   A) constant proportion of income.
   B) smaller proportion of income as it becomes richer.
   C) larger proportion of income as it becomes richer.
   D) larger proportion of income when the interest rate is higher.

25. In the steady state, the capital stock does not change because investment equals:
    A) output per worker.
    B) the marginal product of capital.
    C) depreciation.
    D) consumption.

26. If the per-worker production function is given by $y = k^{1/2}$, the saving ratio is 0.3, and the depreciation rate is 0.1, then the steady-state ratio of output per worker (y) is:
    A) 1.
    B) 2.
    C) 3.
    D) 4.

27. In a Solow model with technological change, if population grows at a 2 per cent rate and the efficiency of labour grows at a 3 per cent rate, then in the steady state total output grows at a ______ per cent rate.
    A) 0
    B) 2
    C) 3
    D) 5

28. If the labour force is growing at a 3 per cent rate and the efficiency of a unit of labour is growing at a 2 per cent rate, then the number of effective workers is growing at a rate of:
    A) 2 per cent.
    B) 3 per cent.
    C) 5 per cent.
    D) 6 per cent.

29. The *IS-LM* model takes ______ as exogenous.
    A) the price level and national income
    B) the price level
    C) national income
    D) the interest rate

30. With planned expenditure and the equilibrium condition $Y = E$ drawn on a graph with income along the horizontal axis, if income exceeds expenditure, then income is to the ______ of equilibrium income and there is unplanned inventory ______.
    A) right; decumulation
    B) right; accumulation
    C) left; decumulation
    D) left; accumulation

31. A decrease in the real money supply, other things being equal, will shift the *LM* curve:
    A) downward and to the left.
    B) upward and to the left.
    C) downward and to the right.
    D) upward and to the right.

32. A rise in government spending shifts the *IS* curve because it ______ national saving for any given level of income, and this ______ the interest rate for any given level of income.
    A) reduces; reduction lowers
    B) reduces; reduction raises
    C) increases; increase raises
    D) increases; increase lowers

33. In the Mundell-Fleming model, the domestic interest rate is determined by the:
    A) intersection of the *LM* and *IS* curves.
    B) domestic rate of inflation.
    C) world rate of inflation.
    D) world interest rate.

34. In a small open economy with a fixed exchange rate, if the central bank tries to increase the money supply, then in the new short-run equilibrium:
    A) income rises.
    B) income falls.
    C) the exchange rate falls.
    D) income remains constant.

35. According to the Mundell-Fleming model, in an economy with flexible exchange rates, expansionary fiscal policy causes the exchange rate to ______ and expansionary monetary policy causes the exchange rate to ______.
    A) rise; rise
    B) rise; fall
    C) fall; fall
    D) fall; rise

36. According to the Mundell-Fleming model, import restrictions in an economy with flexible exchange rates cause net exports to ______ and in an economy with fixed exchange rates import restrictions cause net exports to ______.
    A) increase; increase
    B) increase; remain unchanged
    C) remain unchanged; remain unchanged
    D) remain unchanged; increase

37. According to the sticky-wage model, an unexpected increase in the price level ______ the real wage, ______the quantity of labour hired, and ______ the quantity of output produced.
    A) lowers; increases; increases
    B) lowers; decreases; decreases
    C) raises; increases; increases
    D) raises; decreases; decreases

38. According to the sticky-price model, other things being equal, the greater the proportion, *s*, of firms that follow the sticky-price rule, the ______ the ______ in output in response to an unexpected price increase.
    A) greater; increase
    B) smaller; increase
    C) greater; decrease
    D) smaller; decrease

39. The outside lag is the time:
    A) before automatic stabilizers respond to economic activity.
    B) when automatic stabilizers are not effective.
    C) between a shock to the economy and the policy action responding to the shock.
    D) between a policy action and its influence on the economy.

40. A time-inconsistency problem in macroeconomic policy can occur when the policymaker:
    A) is made to follow a strict and an inflexible rule.
    B) has discretion in the short run but follows a rule in the long run.
    C) has discretion to act as it seems best in each situation, based on his or her own knowledge and experience.
    D) has no discretion.

Answer Key

1. C
2. D
3. B
4. A
5. A
6. C
7. C
8. A
9. D
10. C
11. D
12. A
13. B
14. A
15. C
16. D
17. C
18. B
19. C
20. C
21. A
22. D
23. C
24. A
25. C
26. C
27. D
28. C
29. B
30. B
31. B
32. B
33. D
34. D
35. B
36. D
37. A
38. A
39. D
40. C