

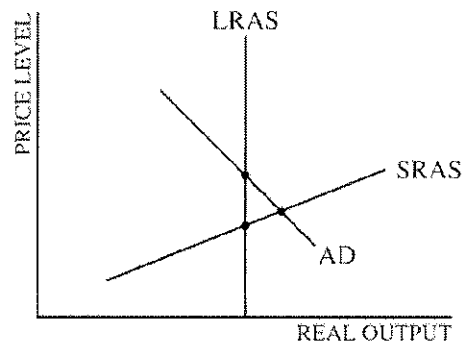
Sample Multiple-Choice Questions

The following are examples of the kinds of multiple-choice questions found on the exam. The distribution of topics and the levels of difficulty approximate the composition of the exam as a whole. Multiple-choice scores are based on the number of questions answered correctly. Points are not deducted for incorrect answers, and no points are awarded for unanswered questions. Because points are not deducted for incorrect answers, students are encouraged to answer all multiple-choice questions. On any questions students do not know the answer to, students should eliminate as many choices as they can, and then select the best answer among the remaining choices. An answer key follows the multiple-choice questions on page 33.

Directions: Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case.

	<u>Fish</u>	<u>Wheat</u>
Country A	10 labor-hours	20 labor-hours
Country B	20 labor-hours	60 labor-hours

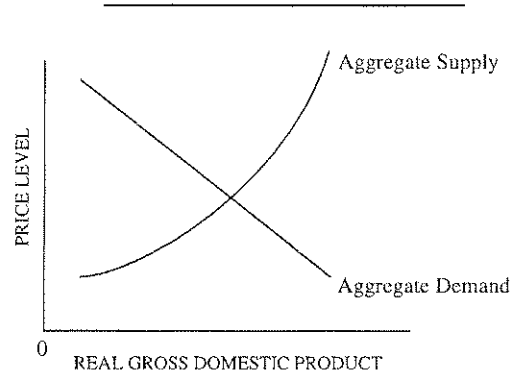
- The table above indicates labor-hours needed to produce a single unit of each of two commodities in each of two countries. If labor is the only factor used to produce the commodities, which of the following statements must be correct?
 - Country A has an absolute advantage in the production of both commodities, but a comparative advantage in the production of wheat.
 - Country B has an absolute advantage in the production of both commodities, but a comparative advantage in the production of fish.
 - Mutually advantageous trade can occur between the two countries when 2.5 units of fish are exchanged for 1 unit of wheat.
 - I only
 - II only
 - III only
 - I and III only
 - II and III only
- Suppose that the consumer price index rises from 100 to 200. From this information we may conclude that
 - each person's real income is cut in half
 - consumer incomes are doubled
 - the prices in an average consumer's market basket are doubled
 - all consumer goods prices are doubled
 - all prices in the economy are doubled



3. In the graph above, AD denotes the aggregate demand curve, SRAS the short-run aggregate supply curve, and LRAS the long-run aggregate supply curve. If no policy action were taken, which of the following changes would move the economy to its long-run equilibrium?
- An increase in aggregate demand
 - An increase in exports
 - An increase in wages
 - A decrease in wages
 - A decrease in the expected price level
4. Suppose that a national government increased deficit spending on goods and services, increasing its demand for loanable funds. In the long run, this policy would most likely result in which of the following changes in this country?
- | <u>Real</u>
<u>Interest Rate</u> | <u>Investment</u> |
|-------------------------------------|-------------------|
| (A) Decrease | Decrease |
| (B) Decrease | Increase |
| (C) Increase | Decrease |
| (D) Increase | No change |
| (E) No change | Increase |
5. In an economy with lump-sum taxes and no international trade, if the marginal propensity to consume is 0.8, which of the following is true?
- When consumption increases by \$5, investment increases by a maximum of \$1.
 - When consumption increases by \$5, savings increase by a maximum of \$1.
 - When investment increases by \$1, income increases by a maximum of \$5.
 - When investment increases by \$1, consumption increases by a maximum of \$5.
 - When income increases by \$1, investment increases by a maximum of \$5.
6. If the government increases expenditures on goods and services and increases taxation by the same amount, which of the following will occur?
- Aggregate demand will be unchanged.
 - Aggregate demand will increase.
 - Interest rates will decrease.
 - The money supply will decrease.
 - The money supply will increase.

Sample Questions for **Macroeconomics**

7. To counteract a recession, the Federal Reserve should
- (A) raise the reserve requirement and the discount rate
 - (B) sell securities on the open market and raise the discount rate
 - (C) sell securities on the open market and lower the discount rate
 - (D) buy securities on the open market and raise the discount rate
 - (E) buy securities on the open market and lower the discount rate



8. Based on the diagram above, what effect will an increase in the world supply of oil have on real gross domestic product and the aggregate price level?

	<u>Real Gross Domestic Product</u>	<u>Price Level</u>
(A)	Decrease	Increase
(B)	Decrease	Decrease
(C)	Increase	Increase
(D)	Increase	No change
(E)	Increase	Decrease

9. If the government simultaneously engages in expansionary monetary and fiscal policies, which of the following is the likely effect on interest rates and unemployment?

	<u>Interest Rates</u>	<u>Unemployment</u>
(A)	Increase	Indeterminate
(B)	Increase	Decrease
(C)	Decrease	Decrease
(D)	Indeterminate	Decrease
(E)	Indeterminate	Increase

10. If the Federal Reserve sells a significant amount of government securities in the open market, which of the following will occur?

- (A) The total amount of loans made by commercial banks will decrease.
- (B) The total amount of loans made by commercial banks will increase.
- (C) The money supply will increase.
- (D) Rates of interest will decrease.
- (E) Rates of interest and amount of loans made by commercial banks will remain unchanged.

11. The purchase of bonds by the Federal Reserve will have the greatest effect on real gross domestic product if which of the following situations exists in the economy?
 - (A) The required reserve ratio is high, and the interest rate has a large effect on investment spending.
 - (B) The required reserve ratio is high, and the interest rate has a small effect on investment spending.
 - (C) The required reserve ratio is low, and the interest rate has a large effect on investment spending.
 - (D) The required reserve ratio is low, and the marginal propensity to consume is low.
 - (E) The marginal propensity to consume is high, and the interest rate has a small effect on investment spending.

12. Which of the following will most likely occur as a result of an increase in labor productivity in an economy?
 - (A) An increase in output and a decrease in inflation
 - (B) An increase in interest rates and a decrease in investment
 - (C) A decrease in both money demand and money supply
 - (D) A decrease in exports and an increase in unemployment
 - (E) A leftward shift in the short-run aggregate supply curve and a decrease in output

13. Which of the following is most likely to cause an increase in the international value of the United States dollar?
 - (A) Higher United States real interest rates
 - (B) Lower United States government expenditures
 - (C) Higher real interest rates abroad
 - (D) Expansionary monetary policy in the United States
 - (E) Reduced inflation abroad

14. On a short-run Phillips curve, high rates of inflation coincide with
 - (A) high interest rates
 - (B) low interest rates
 - (C) high unemployment rates
 - (D) low unemployment rates
 - (E) low discount rates

15. If the reserve requirement is 25 percent and banks hold no excess reserves, an open market sale of \$400,000 of government securities by the Federal Reserve will
 - (A) increase the money supply by up to \$1.6 million
 - (B) decrease the money supply by up to \$1.6 million
 - (C) increase the money supply by up to \$300,000
 - (D) increase the money supply by up to \$100,000
 - (E) decrease the money supply by up to \$100,000

Sample Questions for **Macroeconomics**

16. An increase in which of the following would cause an increase in aggregate supply?
- (A) Labor productivity
 - (B) The wage rate
 - (C) Prices of imports
 - (D) Consumer spending
 - (E) Interest rates
17. Which of the following is true when the velocity of money falls?
- (A) An increase in the money supply will have less effect on nominal gross national product.
 - (B) A change in the money supply will affect output only.
 - (C) The Federal Reserve will decrease the money supply.
 - (D) Output will be greater for a given money supply.
 - (E) The public will increase its holdings of assets other than money.
18. A stimulative fiscal policy combined with a restrictive monetary policy will necessarily cause
- (A) gross domestic product to increase
 - (B) gross domestic product to decrease
 - (C) interest rates to fall
 - (D) interest rates to rise
 - (E) the federal budget deficit to decrease
19. Assume that Canadian consumers increase their demand for Mexican financial assets. How would the international supply of Canadian dollars, the value of the Mexican peso relative to the Canadian dollar, and Canadian net exports to Mexico change?
- | | <u>Supply of
Canadian Dollars</u> | <u>Value of
the Peso</u> | <u>Canadian Net
Exports</u> |
|-----|---------------------------------------|------------------------------|---------------------------------|
| (A) | Increase | Increase | Increase |
| (B) | Increase | Increase | Decrease |
| (C) | Decrease | Increase | Decrease |
| (D) | Decrease | Decrease | Increase |
| (E) | No change | Increase | Decrease |
20. If nominal gross domestic product fell while real gross domestic product rose, which of the following must be true?
- (A) Unemployment increased.
 - (B) The inflation rate was negative.
 - (C) Net exports were negative.
 - (D) The average of stock prices rose while bond prices fell.
 - (E) Nominal interest rates rose by less than the rate of inflation.

21. An increase in which of the following would reduce the United States balance-of-trade deficit?
- (A) United States demand for foreign goods
 - (B) United States rate of inflation compared to other countries
 - (C) The value of foreign currency relative to the United States dollar
 - (D) The federal budget deficit
 - (E) United States interest rates compared to other countries

Answers to Multiple-Choice Questions