10. Which of the following policy combinations is most likely to cure a severe recession?

	Open-Market Operations	Taxes	Government Spending
(A)	Buy securities	Increase	Decrease
(B)	Buy securities	Decrease	Increase
(C)	Buy securities	Decrease	Decrease
(D)	Sell securities	Decrease	Decrease
(E)	Sell securities	Increase	Increase

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B

14. Which of the following monetary and fiscal policy combinations would most likely result in a decrease in aggregate demand?

	Discount Rate	Open-Market Operations	Government Spending
(A)	Lower	Buy bonds	Increase
(B)	Lower	Buy bonds	Decrease
(C)	Raise	Sell bonds	Increase
(D)	Raise	Buy bonds	Increase
(E)	Raise	Sell bonds	Decrease

1. If a 100 deposit in a bank leads to a 1000 increase in the money supply, the reserve requirement must have been:

A. .10%

B. 10%

C. 100%

D. 1000%

E. cannot be determined from the information given.

1. Which of the following sequences is true?

Money supply		Interest rate	Investment	GDP
A.	Increase	increase	increase	increase
B.	Increase	increase	increase	decrease
C.	Increase	decrease	increase	increase
D.	Increase	decrease	decrease	decrease
E.	Decrease	decrease	decrease	decrease

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E

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C

5. An increase in which of the following will increase aggregate demand?

(A) Taxes
(B) Government spending
(C) The productivity of labor
(D) The wage rate paid to laborers
(E) Consumer expectation of a recession

13. In an economy with a horizontal aggregate supply curve, an increase in government spending will cause output and the price level to change in which of the following ways?

	Output	**Price Level**
A	Decrease	Increase
B	Increase	Increase
C	Increase	No change
D	No change	Increase
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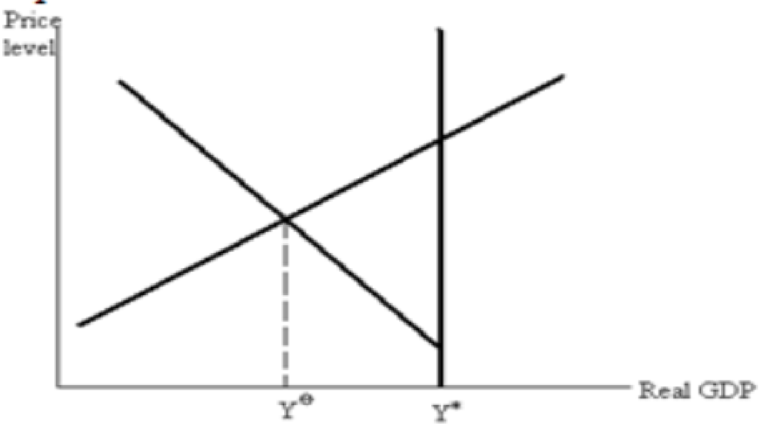
C

19. If the economy is at the equilibrium illustrated below, which combination of actions would have the best chance of moving the economy to long-run equilibrium?



(A) An increase in the tax rate and the sale of bonds.
(B) A decrease in government purchases and the sale of bonds.
(C) An increase in government purchases and the purchase of bonds.
(D) A decrease in the tax rate and the purchase of bonds.
(E) An increase in government purchases and an increase in the reserve requirement.

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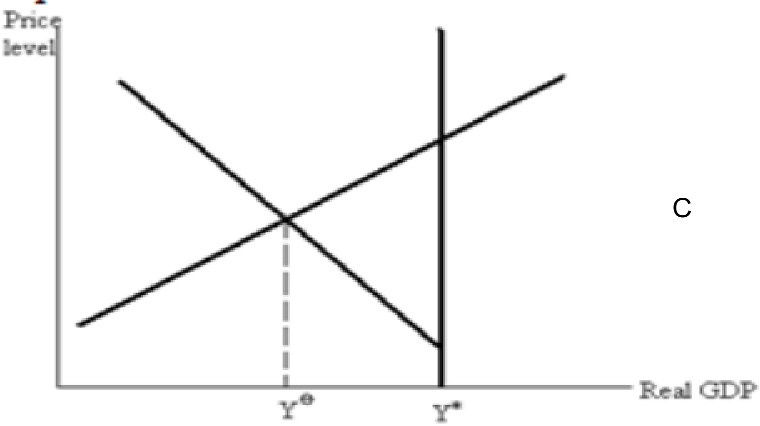

C

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16. Let's assume that recent oil prices are higher than normal. What effect will this have on aggregate supply?

(A) The AS curve will shift to the right.
(B) The AS curve will shift to the left.
(C) The economy will move upward along the AS curve.
(D) The economy will move downward along the AS curve.
(E) Oil prices have no effect on aggregate supply.

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B

22. Suppose taxes decrease by $100 billion. If everything else stays constant and the marginal propensity to consume is 0.8, the value of equilibrium output increases by

(A) $100 billion.
(B) $80 billion.
(C) $500 billion.
(D) $320 billion.
(E) $400 billion.

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25. A contractionary fiscal policy would be the one that

(A) Lowers both government spending and taxes.
(B) Raises both government spending and taxes.
(C) Lowers government spending and/or raises taxes.
(D) Lowers tax rates.
(E) Raises government spending.

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(D) Lowers tax rates.
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C

31. The reserve requirement is 10 percent. Mary takes $1,000 that she has held in currency in a shoebox and deposits it in the bank. In this case, the money supply can change by as much as

(A) $1,000.
(B) $4,000.
(C) $5,000.
(D) $9,000.
(E) $10,000.

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E

19. Which of the following will result in the greatest increase in aggregate demand?

(A) A $100 increase in taxes
(B) A $100 decrease in taxes
(C) A $100 increase in government expenditures
(D) A $100 increase in government expenditures, coupled with a $100 increase in taxes
(E) A $100 increase in government expenditures, coupled with a $100 decrease in taxes

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E

26. If the Federal Reserve wishes to use monetary policy to reinforce Congress' fiscal policy changes, it should

(A) increase the money supply when government spending is increased
(B) increase the money supply when government spending is decreased
(C) decrease the money supply when government spending is increased
(D) increase interest rates when government spending is increased
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A

39. Suppose the required reserve ratio is 20 percent and a single bank with no excess reserves receives a $100 deposit from a new customer. The bank now has excess reserves equal to

(A) $20
(B) $80
(C) $100
(D) $400
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