

Sample Final Exam

Name _____

Id # _____

Part B Instructions: Please answer in the space provided and circle your answer on the question paper as well. Please turn the exam in at the end.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following is NOT included in real GDP?
 - A) production in the home
 - B) production of goods that do not last more than one year, such as gasoline
 - C) production of services, such as the services of doctors
 - D) production of goods that last more than one year, such as television sets

- 2) A business cycle is
 - A) an irregular fluctuation in real GDP about its trend.
 - B) the trend increase in real GDP.
 - C) the downward trend in real GDP.
 - D) a periodic and predictable fluctuation in real GDP about its trend.

- 3) At the beginning of the year, your wealth is \$10,000. During the year, you have an income of \$90,000 and you spend \$80,000 on consumption. You pay no taxes. Your wealth at the end of the year is
 - A) \$0.
 - B) \$20,000.00.
 - C) \$100,000.00.
 - D) \$90,000.00.

- 4) Unemployment as measured includes the total number of people who
 - A) are available and looking for work but unable to find employment.
 - B) have jobs or are currently looking for jobs.
 - C) would like to have a job but have stopped seeking work.
 - D) would like to have a full-time job but are working part-time.

- 5) The duration of time spent by unemployed people looking for jobs
 - A) rises during both recessions and expansions.
 - B) rises during recessions and falls during expansions.
 - C) falls during both recessions and expansions.
 - D) falls during recessions and rises during expansions.

- 6) When the economy moves into and out of recessions and expansions, the unemployment rate fluctuates around the
 - A) cyclical unemployment rate.
 - B) structural unemployment rate.
 - C) frictional unemployment rate.
 - D) natural rate of unemployment.

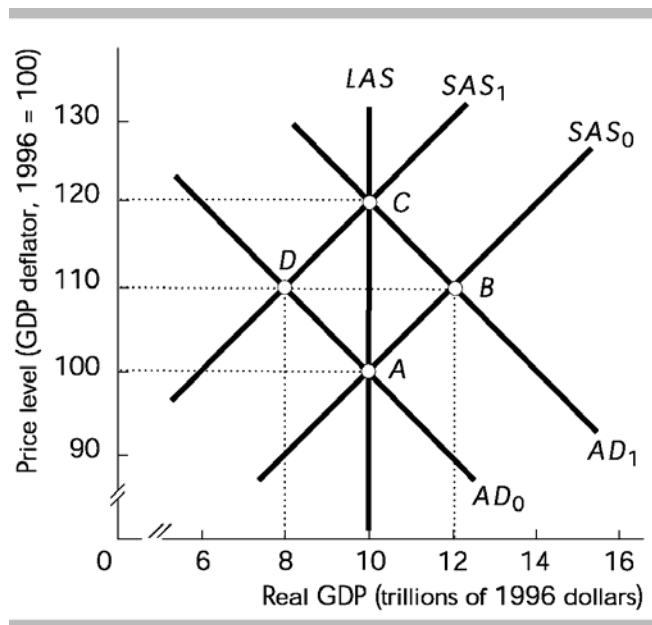
Price Level	Aggregate demand (trillions of 1996 dollars)	Short-run aggregate supply (trillions of 1996 dollars)	Long-run aggregate supply (trillions of 1996 dollars)
130	8	12	10
120	9	11	10
110	10	10	10
100	11	9	10
90	12	8	10

- 7) The data in the above table indicate that when the price level is 100,
- A) firms will plan to decrease the level of output.
 - B) firms have unexpectedly high inventories, so prices fall.
 - C) inventories are at levels planned by firms.
 - D) firms have unexpectedly low inventories, so prices will rise.
- 8) Moving along the aggregate demand curve, a decrease in the quantity of real GDP demanded is a result of
- A) an increase in income.
 - B) a decrease in income.
 - C) an increase in the price level.
 - D) a decrease in the price level.
- 9) Which of the following is true about the long-run aggregate supply curve?
- A) It does not shift in response to temporary changes in aggregate demand.
 - B) It is vertical at the level of potential GDP.
 - C) It shows the relationship between the price level and real GDP when wages and other costs are at an equilibrium level.
 - D) All of the above are true.
- 10) The expected profit rate falls
- A) when the real interest rate falls.
 - B) during business cycle recessions.
 - C) during business cycle expansions.
 - D) Both answers A and C are correct.
- 11) If the real interest rate is above the equilibrium real interest rate,
- A) lenders will be unable to find borrowers willing to borrow all of the available funds and the real interest rate will rise.
 - B) borrowers will be unable to borrow all of the funds they want to borrow and the investment demand curve will shift leftward.
 - C) borrowers will be unable to borrow all of the funds they want to borrow and the investment demand curve will shift rightward.
 - D) a surplus of saving will cause the real interest rate to fall.

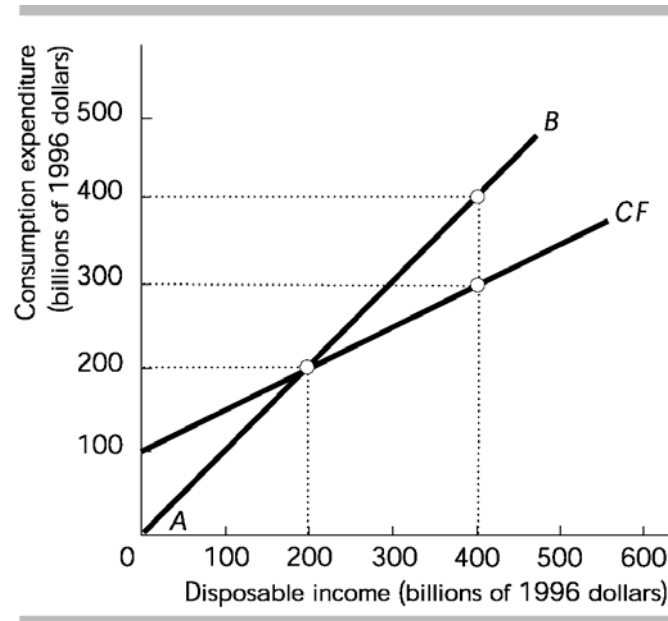
Consumption expenditure:	$C = 8 + 0.7Y$
Investment:	$I = 5$
Government purchases:	$G = 7$
Exports:	$X = 10$
Imports:	$M = 0.2Y$

- 12) The equations above describe the economy of La La Land. What is the equilibrium level of consumption expenditure?
- A) 50
B) 40
C) 60
D) None of the above answers are correct.
- 13) The graph of the aggregate expenditure curve has _____ on the y -axis and _____ on the x -axis.
- A) household expenditures; real GDP
B) real GDP; aggregate planned expenditure
C) aggregate planned expenditure; real GDP
D) aggregate actual expenditure; real GDP
- 14) The structural deficit is the deficit
- A) during a recovery.
B) caused by the business cycle.
C) that would occur at full employment.
D) during a recession.
- 15) If the MPC is 0.9, what is the government purchases multiplier?
- A) -5.0
B) 10.0
C) -9.0
D) 5.0
- 16) Suppose you hold \$50 to buy groceries weekly and then the price of groceries increases by 5 percent. To be able to buy the same amount of groceries, what must happen to your nominal money holdings?
- A) They can decrease by \$5.
B) They must increase by \$5.
C) They must increase by \$2.50.
D) They must increase, but the amount of the increase is different than the above answers.
- 17) If firms set prices and then keep them fixed for a period of time, their fixed prices imply that
- A) the aggregate price level is fixed and that aggregate demand determines the quantity of goods and services sold.
B) the aggregate price level adjusts continuously.
C) the aggregate price level is fixed and that aggregate supply determines the quantity of goods and services sold.
D) prices are set by aggregate demand and supply.
- 18) Gross domestic product is the total _____ produced within a country in a given time period.
- A) market value of all final and intermediate goods and services
B) market value of all final goods and services
C) amount of final and intermediate goods and services
D) market value of all final and intermediate goods and services plus investment and depreciation

- 19) If the labor force participation rate is rising and the working-age population is not changing, then the
- A) size of the labor force is falling.
 - B) size of the labor force is rising.
 - C) number of unemployed people is rising and the size of the labor force is falling.
 - D) number of unemployed people is falling and the size of the labor force is rising.
- 20) One reason that the aggregate demand curve has a negative slope is because
- A) people buy more foreign goods when the domestic price level rises.
 - B) firms supply more when prices rise.
 - C) the amount of money in the economy increases when the price level rises.
 - D) firms supply less when prices rise.
- 21) Which of the following is true regarding disposable income and consumption expenditure?
- I. As disposable income increases, consumption expenditure increases.
 - II. As expected future income increases, current consumption expenditure increases.
- A) both I and II B) II C) neither I nor II D) I
- 22) For a household, the marginal propensity to save plus the marginal propensity to consume
- A) equals a number that is larger the larger the household's disposable income.
 - B) equals 0.
 - C) equals 1.
 - D) equals a number that is smaller the larger the household's disposable income.



- 23) In the above figure, if the economy is initially at point C and government purchases decrease, the economy will
- A) stay at point C, that is, in the long run the equilibrium will not change.
 - B) move to point B.
 - C) move to point D.
 - D) move to point A.



- 29) In the above figure, at a disposable income level of \$200 billion, saving equals
- A) \$40 billion.
 - B) consumption expenditures.
 - C) disposable income.
 - D) zero.
- 30) Suppose that in 2002 the economy has an *MPC* of 0.67 and in 2003 the *MPC* changes to 0.8. Which of the following best describes what happens to the multiplier?
- A) It falls from 1.49 to 1.25.
 - B) It rises from 1.25 to 1.49.
 - C) It falls from 5 to 3.
 - D) It rises from 3 to 5.