

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

Answer: A

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.

Answer: A

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.

Answer: B

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.

Answer: A

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.

Answer: B

- 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.

Answer: D

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.

Answer: D

- 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.

Answer: C

- 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.

Answer: D

- 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.

Answer: B

- 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.

Answer: D

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.

Answer: A

- 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

Answer: C

- 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.

Answer: C

- 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

Answer: B

- 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.

Answer: C

- 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.

Answer: A

- 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

Answer: B

- 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.

Answer: B

- 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.

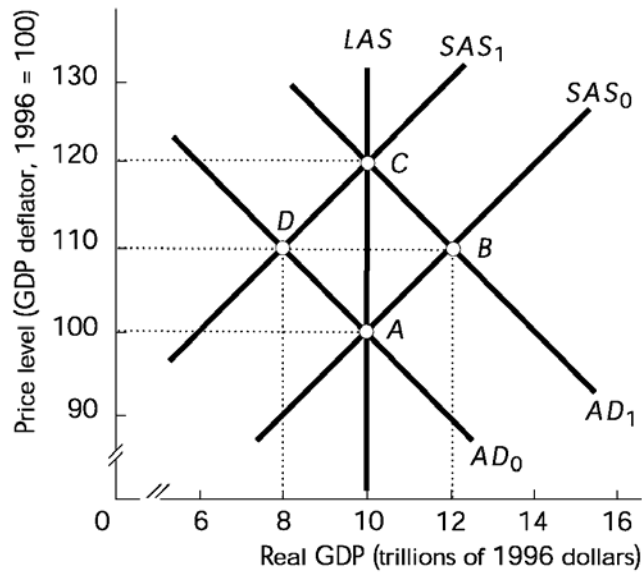
Answer: A

- 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

Answer: A

- 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.

Answer: C



- 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.

Answer: D

- 24) The minimum percentage of deposits that a depository institution must hold and cannot use for lending is known as the
- A) money multiplier.
  - B) deposit multiplier.
  - C) required reserve ratio.
  - D) discount rate.

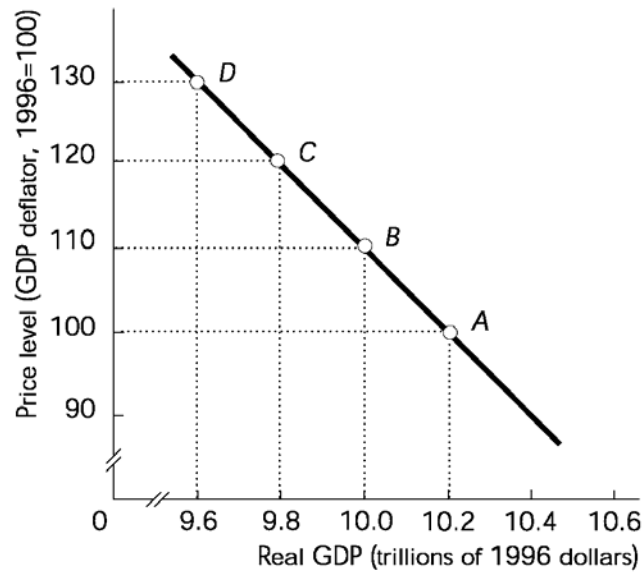
Answer: C

- 25) In the nation of Nirvana, depreciation is \$22 billion, GDP is \$260.4 billion, and national income is \$215.2 billion. Net domestic product is
- A) smaller than national income.
  - B) \$445.2 billion.
  - C) \$238.4 billion.
  - D) \$215.2 billion.

Answer: C

- 26) An expansion occurs when production of goods and services is
- A) at a cyclical trough.
  - B) at a cyclical peak.
  - C) decreasing.
  - D) increasing.

Answer: D

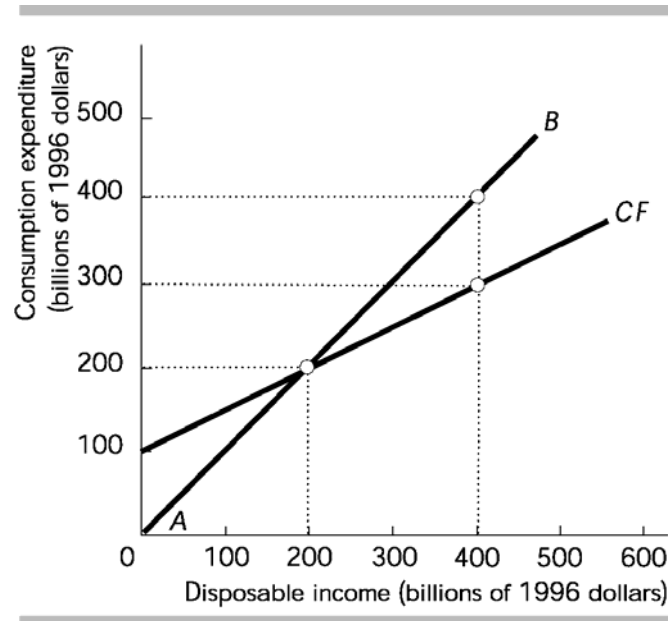


- 27) In the above figure, the economy initially is at point C. Then the domestic price level rises by 10. A
- A) wealth effect would help move the economy to point B.
  - B) substitution effect would help move the economy to point D.
  - C) substitution effect would keep the economy at point C.
  - D) substitution effect would help move the economy to point B.

Answer: B

- 28) The equilibrium real interest rate in the world is determined by the world
- A) consumption demand curve and the world saving supply curve.
  - B) investment demand curve and the world saving supply curve.
  - C) investment demand curve and the world consumption demand curve.
  - D) government spending curve and the world taxing curve.

Answer: B



- 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.

Answer: D

- 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.

Answer: D