

INTRODUCTION TO MACROECONOMICS (ECO 1102)

Practice Exam #2

Coverage: Mankiw chapters 10, 11, 12, 13 and 14

1. When the value of money rises, the number of dollars needed to buy a representative basket of goods
 - a. increases, and so the price level rises.
 - b. increases, and so the price level falls.
 - c. decreases, and so the price level rises.
 - d. decreases, and so the price level falls.
2. When the money market is depicted in a graph with the value of money on the vertical axis, as the price level increases, the value of money
 - a. increases, so the quantity of money demanded increases.
 - b. increases, so the quantity of money demanded decreases.
 - c. decreases, so the quantity of money demanded decreases.
 - d. decreases, so the quantity of money demanded increases.
3. Changes in nominal variables are determined mostly by the quantity of money and the monetary system according to
 - a. both the classical dichotomy and the quantity theory of money.
 - b. the classical dichotomy, but not the quantity theory of money.
 - c. the quantity theory of money, but not the classical dichotomy.
 - d. neither the classical dichotomy nor the quantity theory of money.
4. Which of the following is correct?
 - a. If the Bank of Canada purchases bonds in the open market, then the money supply shifts right. A change in the price level does not shift money supply.
 - b. If the Bank of Canada sells bonds in the open market, then money supply shifts right. A change in the price level does not shift money supply.
 - c. If the Bank of Canada purchases bonds, then the money supply shifts right. An increase in the price level shifts money supply right.
 - d. If the Bank of Canada purchases bonds, then the money supply shifts right. A decrease in

the price level shifts money supply right.

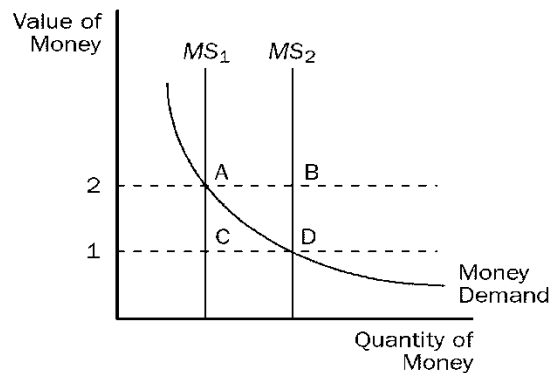
5. Suppose a bank has a 5 percent reserve ratio, \$4,000 in deposits, and it loans out all it can given the reserve ratio.
 - a. It has \$20 in reserves and \$3,980 in loans.
 - b. It has \$200 in reserves and \$3,800 in loans.
 - c. It has \$200 in reserves and \$4,000 in loans.
 - d. It has \$5 in reserves and \$3,995 in loans.
 - e. None of the above are correct.
6. The Fisher effect says that
 - a. the nominal interest rate adjusts one for one with the inflation rate.
 - b. the growth rate of the money supply determines the inflation rate.
 - c. real variables are heavily influenced by the monetary system.
 - d. All of the above are correct.
7. If the world real interest rate is less than the real interest rate that would occur in Canada if there was no trade, then
 - a. Canadian net capital outflow is negative.
 - b. Canadian net capital outflow is positive.
 - c. Canadian investment exceeds Canadian saving.
 - d. Both a and c are correct.
 - e. Both b and c are correct.
8. In Canada, a three-pound can of coffee costs about \$6. Suppose the exchange rate is about 0.7 euros per dollar and that a three-pound can of coffee in Belgium costs about 2.1 euros. What is the real exchange rate?
 - a. 2.45 cans of Belgian coffee per can of Canadian coffee
 - b. 2 cans of Belgian coffee per can of Canadian coffee
 - c. 3/4 cans of Belgian coffee per can of Canadian coffee
 - d. 3/5 cans of Belgian coffee per can of Canadian coffee
 - e. 1/2 cans of Belgian coffee per can of Canadian coffee
9. A decrease in the price level causes the aggregate quantity of goods and services demanded to increase because
 - a. wealth falls, interest rates rise, and the dollar appreciates.
 - b. wealth falls, interest rates rise, and the dollar depreciates.
 - c. wealth rises, interest rates rise, and the dollar appreciates.
 - d. wealth rises, interest rates fall, and the dollar depreciates.
 - e. wealth rises, interest rates rise, and the dollar depreciates.
10. In an open economy,
 - a. $\text{Saving} = \text{Foreign saving} + \text{Net capital outflow}$.
 - b. $\text{Saving} = \text{Domestic investment} - \text{Net capital outflow}$.
 - c. $\text{Saving} = \text{Domestic saving} + \text{Net capital outflow}$.
 - d. None of the above is correct.
11. A citizen of Saudi Arabia uses previously obtained Canadian dollars to purchase apples from Canada. This transaction
 - a. increases Saudi net capital outflow, and increases Canadian net exports.
 - b. increases Saudi net capital outflow, and decreases Canadian net exports.
 - c. decreases Saudi net capital outflow, and increases Canadian net exports.
 - d. decreases Saudi net capital outflow, and decreases Canadian net exports.

12. You buy stock and its price rises just as much as the price level, so before taxes you made
 - a. a nominal and real gain, and you pay taxes on the nominal gain.
 - b. a nominal and real gain, but you pay taxes only on the real gain.
 - c. a nominal gain, but no real gain, yet you pay taxes on the nominal gain.
 - d. a nominal gain, but no real gain, so you pay no taxes on the nominal gain.
13. The aggregate demand curve
 - a. slopes downward for the same reasons that market demand curves slope downward.
 - b. is vertical in the long run.
 - c. shows an inverse relation between the price level and the quantity of all goods and services demanded.
 - d. All of the above are correct.
14. Larry, a Canadian citizen, opens and operates a bookstore in Spain. This counts as
 - a. investment for Larry and Canadian foreign direct investment.
 - b. investment for Larry and Canadian foreign portfolio investment.
 - c. Canadian foreign direct investment and Canadian domestic investment.
 - d. Canadian foreign portfolio investment and Canadian domestic investment.
15. On a bank's T-account,
 - a. both deposits and reserves are assets.
 - b. both deposits and reserves are liabilities.
 - c. deposits are assets, reserves are liabilities.
 - d. reserves are assets, deposits are liabilities.
16. A decrease in the money supply creates an excess
 - a. supply of money that is eliminated by rising prices.
 - b. supply of money that is eliminated by falling prices.
 - c. demand for money that is eliminated by rising prices.
 - d. demand for money that is eliminated by falling prices.
17. Fiat money
 - a. is worthless.
 - b. has no intrinsic value.
 - c. may be used as a medium of exchange, but is not legal tender.
 - d. performs all the functions of money except providing a unit of account.
18. Which of the following is a store of value?
 - a. Currency
 - b. federal government bonds
 - c. fine art
 - d. All of the above are correct.
19. Which of the following would make both the equilibrium interest rate and the equilibrium quantity of loanable funds increase?
 - a. The demand for loanable funds shifts right.
 - b. The demand for loanable funds shifts left.
 - c. The supply of loanable funds shifts right.
 - d. The supply of loanable funds shifts left.
 - e. The demand for loanable funds shifts left and the supply of loanable funds shifts left.
20. Which of the following is true?
 - a. $NCO = NX$

- b. $NCO + I = NX$
 - c. $NX + NCO = Y$
 - d. $Y = NCO - I$
 - e. $Y = NCO + I$
21. Suppose that the reserve ratio is 5 percent and that a bank has \$3,000 in deposits. Its required reserves are
- a. \$150.
 - b. \$50.
 - c. \$1,500.
 - d. \$500.
 - e. \$3,000.
22. A Japanese firm buys lumber from Canada and pays for it with yen. Other things the same, Japanese
- a. net exports increase, and Canadian net capital outflow increases.
 - b. net exports increase, and Canadian net capital outflow decreases.
 - c. net exports decrease, and Canadian net capital outflow increases.
 - d. net exports decrease, and Canadian net capital outflow decreases.
23. The classical dichotomy refers to the idea that the supply of money
- a. is irrelevant for understanding the determinants of nominal and real variables.
 - b. determines nominal variables, but not real variables.
 - c. determines real variables, but not nominal variables.
 - d. is a determinant of both real and nominal variables.
24. An increase in the real interest rate induces
- a. Canadians to buy more foreign assets, which increases Canadian net capital outflow.
 - b. Canadians to buy more foreign assets, which reduces Canadian net capital outflow.
 - c. foreigners to buy more Canadian assets, which reduces Canadian net capital outflow.
 - d. foreigners to buy more Canadian assets, which increases Canadian net capital outflow.
 - e. None of the above are correct.
25. According to classical economic theory, changes in the money supply affect
- a. real GDP.
 - b. real interest rates.
 - c. the price level.
 - d. All of the above are correct.
26. Jack and Jill are co-owners of the Canadian firm Wells Grey Petroleum. Jack borrows money to build an oil well in Alberta. Jill borrows money to build an oil well in Venezuela.
- a. Both Jack and Jill's purchase of capital count as demand for loanable funds in the Canadian market.
 - b. Neither Jack nor Jill's purchase of capital count as demand for loanable funds in the Canadian market.
 - c. Jack's purchase of capital counts as demand for loanable funds in the Canadian market; Jill's purchase does not.
 - d. Jill's purchase of capital counts as demand for loanable funds in the Canadian market; Jack's purchase does not.
27. Which of the following is not included in M1?
- a. Currency
 - b. demand deposits
 - c. savings deposits
 - d. travelers' checks

- e. Both c and d are correct
28. A decrease in Canadian interest rates leads to
- a. a depreciation of the dollar that leads to greater net exports.
 - b. a depreciation of the dollar that leads to smaller net exports.
 - c. an appreciation of the dollar that leads to greater net exports.
 - d. an appreciation of the dollar that leads to smaller net exports.
29. Which of the following is incorrect concerning the long run?
- a. Higher money supply growth leads to higher output growth.
 - b. An unemployment rate of zero is unobtainable.
 - c. Per-capita real GDP depends on productivity.
 - d. An increase in the money supply raises the price level.
 - e. None of the above are correct.
30. When taxes decrease, consumption
- a. increases, so aggregate demand shifts right.
 - b. increases, so aggregate supply shifts right.
 - c. decreases, so aggregate demand shifts left.
 - d. decreases, so aggregate supply shifts left.

Figure 1



31. **Refer to Figure 1.** When the money supply curve shifts from MS_1 to MS_2 ,
- a. the demand for goods and services decreases.
 - b. the economy's ability to produce goods and services increases.
 - c. the equilibrium price level increases.
 - d. the equilibrium value of money increases.
 - e. None of the above are correct.
32. **Refer to Figure 1.** If the money supply is MS_2 and the value of money is 2,
- a. the value of money is less than its equilibrium level.
 - b. the price level is higher than its equilibrium level.
 - c. money demand is greater than the money supply.
 - d. the money supply is greater than money demand.
 - e. None of the above are correct.
33. The supply of money increases when
- a. the value of money increases.

- b. the interest rate increases.
 - c. the Bank of Canada makes open-market purchases.
 - d. None of the above are correct.
34. If the price level rises, the value of money
- a. rises while foreign exchange rates and interest rates rise.
 - b. rises while foreign exchanger rates and interest rates fall.
 - c. falls while foreign exchange rates and interest rate rise.
 - d. falls while foreign exchange rates and interest rates fall.
35. In the long run, technological progress
- a. and increases in the money supply both make the price level rise.
 - b. and increases in the money supply both make the price level fall.
 - c. makes the price level rise, while increases in the money supply make prices fall.
 - d. makes the price level fall, while increases in the money supply make prices rise.
 - e. None of the above are correct.

Use the (hypothetical) information in the following table to answer the following Questions.

Table 1

Type of Money	Amount
Large time deposits	\$80 billion
Small time deposits	\$75 billion
Demand deposits	\$75 billion
Foreign currency accounts	\$40 billion
Savings deposits	\$10 billion
Travelers' checks	\$1 billion
Money market mutual funds	\$15 billion
Currency	\$100 billion
SDRs	\$10 billion
Term Deposits	\$25 billion

36. **Refer to Table 1.** What is the M1 money supply?
- a. \$175 billion
 - b. \$215 billion
 - c. \$216 billion
 - d. \$226 billion
 - e. \$301 billion
37. In the market for foreign currency exchange in the open economy macroeconomic model, the amount of net capital outflow represents the quantity of dollars
- a. supplied for the purpose of selling assets domestically.
 - b. supplied for the purpose of buying assets abroad.
 - c. demanded for the purpose of buying Canadian net exports of goods and services.
 - d. demanded for the purpose of importing foreign goods and services.
38. Velocity is computed as
- a. $(P \times Y)/M$.

- b. $(P \times M)/Y$.
 - c. $(Y \times M)/P$.
 - d. $(Y \times M)/V$.
39. Mike, a Canadian citizen living in Canada, buys \$30 of cheese from France. His action alone
- a. increases Canadian imports by \$30 and increases Canadian net exports by \$30.
 - b. increases Canadian imports by \$30 and decreases Canadian net exports by \$30.
 - c. increases Canadian exports by \$30 and increases Canadian net exports by \$30.
 - d. increases Canadian exports by \$30 and decreases Canadian net exports by \$30.
40. In the open-economy macroeconomic model, the market for loanable funds identity can be written as
- a. $S = I$
 - b. $S = NCO$
 - c. $S = I + NCO$
 - d. $S + I = NCO$
 - e. $S = NX$
41. When the dollar appreciates, Canadian
- a. exports decrease, while imports increase.
 - b. exports and imports decrease.
 - c. exports and imports increase.
 - d. exports increase, while imports decrease.
42. Which list ranks assets from most to least liquid?
- a. currency, fine art, stocks
 - b. currency, stocks, fine art
 - c. fine art, currency, stocks
 - d. fine art, stocks, currency
43. Suppose that the real return from operating factories in Ghana rises relative to the real rate of return in Canada. Other things the same,
- a. this will increase Canadian net capital outflow and decrease Ghanaian net capital outflow.
 - b. this will decrease Canadian net capital outflow and increase Ghanaian net capital outflow.
 - c. this will only increase Canadian net capital outflow.
 - d. this will only increase Ghanaian net capital outflow.
 - e. None of the above are correct.
44. An increase in the price level induces people to hold
- a. less money, so they lend less, and the interest rate rises.
 - b. less money, so they lend more, and the interest rate falls.
 - c. more money, so they lend more, and the interest rate falls.
 - d. more money, so they lend less, and the interest rate rises.
45. Exchange rates are 150 yen per dollar, 0.8 euro per dollar, and 20 pesos per dollar. A bottle of beer in New York costs 6 dollars, 1,200 yen in Tokyo, 7 euro in Munich, and 100 pesos in Cancun. Where is the most expensive and the cheapest beer in that order?
- a. Cancun, New York
 - b. New York, Tokyo
 - c. Tokyo, Munich
 - d. Munich, Cancun
46. The money supply in Freedonia is \$100 billion. Nominal GDP is \$800 billion and real GDP is \$200 billion. What are the price level and velocity in Freedonia?

- a. Velocity is 2 and the price level is 1.
 - b. Velocity is 4 and the price level is 8.
 - c. Velocity is 8 and the price level is 4.
 - d. Velocity is 1 and the price level is 2.
 - e. There is insufficient information to answer the question.
47. Mia puts money into a piggy bank so she can spend it later. What function of money does this illustrate?
- a. store of value
 - b. medium of exchange
 - c. unit of account
 - d. None of the above is correct.
48. A lower real interest rate decreases the quantity of
- a. loanable funds demanded.
 - b. loanable funds supplied.
 - c. domestic investment.
 - d. net capital outflow.
 - e. Government spending.
49. If the money supply growth rate permanently increased from 5 percent to 30 percent, we would expect that inflation and nominal interest rates would both
- a. increase by more than 25 percentage points.
 - b. increase by 25 percentage points.
 - c. increase, but by less than 25 percentage points.
 - d. decrease by more than 25 percentage points
 - e. None of the above is correct.
50. Net capital outflow refers to the purchase of
- a. foreign assets by domestic residents minus the purchase of domestic assets by foreign residents.
 - b. foreign assets by domestic residents minus the purchase of foreign goods and services by domestic residents.
 - c. domestic assets by foreign residents minus the purchase of domestic goods and services by foreign residents.
 - d. domestic assets by foreign residents minus the purchase of foreign assets by domestic residents.
 - e. domestic assets by foreign residents plus the purchase of foreign assets by domestic residents.

Sample Mid-Term Examination #2 Answers

<u>Question Number</u>	<u>Answer</u>	<u>Question Number</u>	<u>Answer</u>
1	D	31	C
2	D	32	D
3	A	33	C
4	A	34	C
5	B	35	D
6	A	36	A
7	D	37	B
8	B	38	A
9	D	39	B
10	D	40	C
11	C	41	A
12	C	42	B
13	C	43	A
14	A	44	D
15	D	45	D
16	D	46	C
17	B	47	A
18	D	48	B
19	A	49	B
20	A	50	A
21	A	51	
22	C	52	
23	B	53	
24	C	54	
25	C	55	
26	A	56	
27	E	57	
28	A	58	
29	A	59	
30	A	60	