

Practice Final Exam

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. Which of the following lists contains only actions that decrease the money supply?
- raise the bank rate; make open market purchases
 - raise the bank rate; make open market sales
 - lower the bank rate; make open market purchases
 - lower the bank rate; make open market sales
- _____ 2. The money supply in Freedonia is \$100 billion. Nominal GDP is \$800 billion, and real GDP is \$200 billion. What is the price level in Freedonia?
- 1
 - 2
 - 4
 - 8
- _____ 3. Suppose the economy is in long-run equilibrium. In a short span of time, there is a large influx of skilled immigrants, a major new discovery of oil, and a major new technological advance in electricity production. In the short run, what would we expect to happen?
- The price level will rise, and real GDP will fall.
 - The price level will fall, and real GDP to rise.
 - The price level and real GDP will both stay the same.
 - The price level and real GDP will both fall.
- _____ 4. Assuming the multiplier effect but no crowding-out or investment-accelerator effects, what is the effect of a \$300 billion increase in government expenditures on the aggregate demand or supply?
- It shifts the aggregate demand right by more than \$300 billion.
 - It shifts the aggregate demand right by less than \$300 billion.
 - It shifts the aggregate demand right by exactly \$300 billion
 - It shifts the aggregate supply left by more than \$300 billion.
- _____ 5. What did Keynes argue about aggregate demand?
- Aggregate demand is stable, because the economy returns to long-run equilibrium.
 - Aggregate demand is stable, because changes in consumption are mostly offset by changes in investment and vice versa.
 - Aggregate demand is unstable, because waves of pessimism and optimism create fluctuations in aggregate demand.
 - Aggregate demand is unstable, because seasonal variations create fluctuations in aggregate demand.

- _____ 6. Suppose that the exchange rate is 10 Moroccan dirhams per Canadian dollar. Also suppose that you can buy a crate of oranges for 300 dirhams in the Moroccan capital of Rabat and can buy a similar crate of oranges in Ottawa for \$35. Which of the following is consistent with these facts?
- The real exchange rate is greater than one, and arbitrageurs could profit by buying oranges in the United States and selling them in Morocco.
 - The real exchange rate is greater than one, and arbitrageurs could profit by buying oranges in Morocco and selling them in the United States.
 - The real exchange rate is less than one, and arbitrageurs could profit by buying oranges in the United States and selling them in Morocco.
 - The real exchange rate is less than one, and arbitrageurs could profit by buying oranges in Morocco and selling them in the United States.
- _____ 7. Suppose the economy is in long-run equilibrium. In a short span of time, there is a sharp decline in the stock market, a tax cut, an increase in the money supply, and a decline in the value of the dollar. In the short run, what would we expect to happen?
- the price level and real GDP both to rise
 - the price level and real GDP both to fall
 - the price level and real GDP both to stay the same
 - The price level and real GDP may rise, fall, or remain the same.
- _____ 8. Which of the following is included in the demand for dollars in the market for foreign-currency exchange in the open-market macroeconomic model?
- A firm in Kenya wants to buy wheat from a Canadian firm.
 - A Japanese bank desires to purchase Canadian government securities.
 - A Canadian citizen wants to buy a bond issued by a Mexican corporation.
 - A Canadian citizen exchanges dollars for Euros.
- _____ 9. According to the sticky wage theory, which of the following is consistent with an unexpected fall in the price level?
- The real wage rises and employment rises.
 - The real wage rises and employment falls.
 - The real wage falls and employment rises.
 - The real wage falls and employment falls.
- _____ 10. Which of the following is an effect of an increase in government purchases?
- It decreases interest rates.
 - It results in a net decrease in aggregate demand.
 - It crowds out investment spending by business.
 - It decreases money demand.
- _____ 11. A Japanese firm buys lumber from Canada and pays for it with yen. Which of the following correctly identifies the effects of this transaction?
- Japanese net exports increase, and Canadian net capital outflow increases.
 - Japanese net exports increase, and Canadian net capital outflow decreases.
 - Japanese net exports decrease, and Canadian net capital outflow increases.
 - Japanese net exports decrease, and Canadian net capital outflow decreases.

- _____ 12. Suppose the economy is in long-run equilibrium. If there is a tax cut at the same time that major new sources of oil are discovered in the country, what would we expect will happen in the short run?
- Real GDP will rise, and the price level might rise, fall, or stay the same.
 - Real GDP will fall, and the price level might rise, fall, or stay the same.
 - The price level will rise, and real GDP might rise, fall, or stay the same.
 - The price level will fall, and real GDP might rise, fall, or stay the same.
- _____ 13. Which of the following policies would Keynes's followers support when an increase in business optimism shifts the aggregate demand curve to the right away from long-run equilibrium?
- decreasing taxes
 - increasing government expenditures
 - increasing the money supply
 - increasing taxes
- _____ 14. If the quantity of loanable funds supplied is greater than the quantity demanded, which of the following best describes the consequences?
- There is a shortage of loanable funds, and the interest rate will fall.
 - There is a shortage of loanable funds, and the interest rate will rise.
 - There is a surplus of loanable funds, and the interest rate will fall.
 - There is a surplus of loanable funds, and the interest rate will rise.
- _____ 15. Which of the following best describes what happens when the price level falls?
- Households increase foreign bond purchases, and the supply of dollars increases.
 - Households increase foreign bond purchases, and the supply of dollars decreases.
 - Households decrease foreign bond purchases, and the supply of dollars increases.
 - Households decrease foreign bond purchases, and the supply of dollars decreases.
- _____ 16. Why are monetary authorities concerned about stock market booms?
- because the booms decrease consumption spending
 - because the booms decrease investment spending
 - because the booms increase consumption spending
 - because the booms increase government deficit
- _____ 17. If Canadian citizens decide to purchase more foreign assets at each interest rate, which of the following best describes the effects?
- The real interest rate increases, the real exchange rate of the dollar appreciates, and Canadian net capital outflow decreases.
 - The real interest rate increases, the real exchange rate of the dollar depreciates, and Canadian net capital outflow increases.
 - The real interest rate decreases, the real exchange rate of the dollar depreciates, and Canadian net capital outflow decreases.
 - The real interest rate decreases, the real exchange rate of the dollar appreciates, and Canadian net capital outflow increases.
- _____ 18. If the $MPC = 5/6$, what is the government purchases multiplier?
- $1/6$
 - $5/6$
 - $6/5$
 - 6

- ___ 19. Given a nominal interest rate of 7 percent, in which of the following cases would you earn the lowest after-tax real rate of interest?
- Inflation is 4 percent, and the tax rate is 25 percent.
 - Inflation is 3 percent, and the tax rate is 20 percent.
 - Inflation is 2 percent, and the tax rate is 15 percent.
 - Inflation is 1 percent, and the tax rate is 10 percent.
- ___ 20. Which of the following is most likely to increase exports in the country of Aquilonia?
- a reduction in political instability
 - ending investment tax credits
 - a reduction in the size of the government's budget surplus
 - an import quota
- ___ 21. If at some interest rate the quantity of money supplied is greater than the quantity of money demanded, what will people desire to do and what happens to the interest rate?
- People will sell interest-bearing assets, causing the interest rate to decrease.
 - People will sell interest-bearing assets, causing the interest rate to increase.
 - People will buy interest-bearing assets, causing the interest rate to decrease.
 - People will buy interest-bearing assets, causing the interest rate to increase.
- ___ 22. In 2001, Cote d'Ivoire had \$3 billion of net exports and bought \$1 billion of goods from foreign countries. What were Cote d'Ivoire's changes in the components of net exports?
- an increase of \$4 billion in exports and \$1 billion in imports
 - an increase of \$3 billion in imports and \$2 billion in exports
 - an increase of \$2 billion in exports and \$3 billion in imports
 - an increase of \$1 billion in imports and \$4 billion in exports
- ___ 23. Which of the following does a trade surplus imply?
- saving is greater than domestic investment and $Y > C + I + G$
 - saving is greater than domestic investment and $Y < C + I + G$
 - saving is less than domestic investment and $Y > C + I + G$
 - saving is less than domestic investment and $Y < C + I + G$
- ___ 24. How does a stock market boom affect household spending, and how would the Bank of Canada offset the effects on the price level and real GDP?
- Household spending increases; the Bank of Canada would increase the money supply.
 - Household spending increases; the Bank of Canada would decrease the money supply.
 - Household spending decreases; the Bank of Canada would increase the money supply.
 - Household spending decreases; the Bank of Canada would decrease the money supply.
- ___ 25. When the money market is depicted in a diagram with the value of money on the vertical axis, which of the following best describes the effects of an increase in money supply?
- It creates an excess supply of money, causing people to spend more.
 - It creates an excess supply of money, causing people to spend less.
 - It creates an excess demand for money, causing people to spend more.
 - It creates an excess demand for money, causing people to spend less.
- ___ 26. In a small open economy with a flexible exchange rate, an expansionary fiscal policy will cause which of the following to happen?
- It will cause the dollar to depreciate.
 - It will cause net exports to rise.
 - It will cause an additional investment accelerator effect.
 - It will cause a reduction in the demand for Canadian-produced goods.

- _____ 27. Assume that banks do not hold excess reserves. The banking system has \$20 million in reserves and has a reserve requirement of 20 percent. The public holds \$10 million in currency. Then the public decides to withdraw \$5 million in currency from the banking system. If the Bank of Canada wants to keep the money supply stable by changing the reserve requirement, then what will the new reserve requirement be?
- 20 percent
 - 18.2 percent
 - 15.8 percent
 - 15 percent
- _____ 28. Which of the following lists contains only things that increase when the budget deficit of the Canadian government increases?
- Canadian supply of loanable funds, Canadian domestic investment
 - Canadian imports, the real exchange rate of the dollar
 - The real exchange rate of the dollar, Canadian domestic investment
 - the real exchange rate of the dollar, Canadian net exports
- _____ 29. As the price level decreases, which of the following happens to the value of money?
- It increases, so people want to hold more of it.
 - It increases, so people want to hold less of it.
 - It decreases, so people want to hold more of it.
 - It decreases, so people want to hold less of it.
- _____ 30. Assuming that velocity is stable, if real GDP grows by 10 percent this year, and if the money supply does not change this year, how does the price level change?
- The inflation rate will be zero.
 - The price level will fall by 9.09 percent.
 - The price level will rise by 10 percent.
 - The price level will rise by 9.09 percent.
- _____ 31. Which of the following defines the government purchases multiplier?
- $1/MPC$
 - $1/(1 - MPC)$
 - $MPC/(1 - MPC)$
 - $(1 - MPC)/MPC$
- _____ 32. In the market for foreign currency exchange in the open economy macroeconomic model, which of the following does the amount of net capital outflow represent?
- the quantity of dollars supplied for the purpose of selling assets domestically
 - the quantity of dollars supplied for the purpose of buying assets abroad
 - the quantity of dollars demanded for the purpose of buying Canadian net exports of goods and services
 - the quantity of dollars demanded for the purpose of importing foreign goods and services
- _____ 33. If there is excess money demand, what will people do and what happens to the interest rate?
- People will deposit more into interest-bearing accounts, and the interest rate will fall.
 - People will deposit more into interest-bearing accounts, and the interest rate will rise.
 - People will withdraw money from interest-bearing accounts, and the interest rate will fall.
 - People will withdraw money from interest-bearing accounts, and the interest rate will rise.

- ___ 34. According to the theory of liquidity preference, what does an increase in the price level cause the interest rate and investment to do?
- It causes both the interest rate and investment to rise.
 - It causes both the interest rate and investment to fall.
 - It causes the interest rate to rise and investment to fall.
 - It causes the interest rate to fall and investment to rise.
- ___ 35. Suppose the closed economy is in long-run equilibrium. Technological change shifts the long-run aggregate supply curve \$80 billion to the right. At the same time, government purchases increase by \$40 billion. If the *MPC* equals 0.8 and the crowding-out effect is \$70 billion, what would we expect to happen in the long-run to real GDP and the price level?
- Both real GDP and the price level would be higher.
 - Both real GDP and the price level would be lower.
 - Real GDP would be higher but the price level would be lower.
 - Real GDP would be higher but the price level would be the same.
- ___ 36. According to the sticky price theory, which of the following is consistent with an unexpected fall in the price level?
- Some firms' prices are lower than desired, which increases their sales.
 - Some firms' prices are lower than desired, which depresses their sales.
 - Some firms' prices are higher than desired, which increases their sales.
 - Some firms' prices are higher than desired, which depresses their sales.
- ___ 37. In a small open economy with perfect capital mobility, if the Bank of Canada chooses to fix the value of the Canadian dollar, what will a contractionary monetary policy do?
- It will have no effect.
 - It will shift the AD curve to the left.
 - It will shift the AD curve to the right.
 - It will shift both the AD curve and the short-run AS curve to the left.
- ___ 38. How does Canadian aggregate demand change if the dollar appreciates or other countries experience recessions?
- Aggregate demand shifts right.
 - Aggregate demand shifts left.
 - If the dollar appreciates, aggregate demand shifts right; if other countries experience recessions aggregate demand shifts left.
 - If the dollar appreciates, aggregate demand shifts left; if other countries experience recessions aggregate demand shifts right.
- ___ 39. Which of the following shifts money demand to the left?
- an increase in the price level
 - a decrease in the price level
 - an increase in the interest rate
 - a decrease in the interest rate
- ___ 40. Suppose the economy is in long-run equilibrium. In a short span of time, there is a decline in the money supply, a tax increase, a pessimistic revision of expectations about future business conditions, and a rise in the value of the dollar. In the short run, what would we expect to happen?
- The price level and real GDP will both rise.
 - The price level and real GDP will both fall.
 - The price level and real GDP will both stay the same.
 - The price level will increase, and the real GDP will fall.

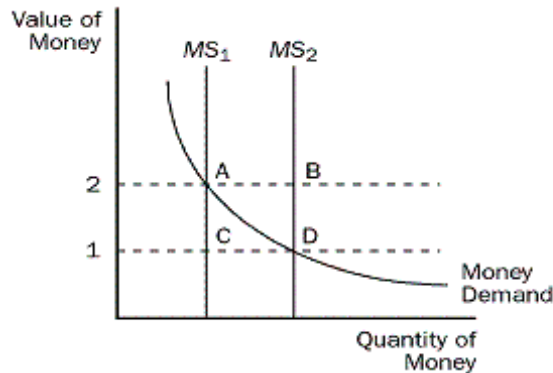
- _____ 41. According to liquidity preference theory, if the price level increases, how do the equilibrium interest rate and the aggregate quantity of goods change?
- The interest rate and the quantity demanded rise.
 - The interest rate rises and the quantity demanded falls.
 - The interest rate falls and the quantity demanded rises.
 - The interest rate and the quantity demanded fall.
- _____ 42. Which of the following best defines liquidity?
- It is the ease with which an asset is converted to the medium of exchange.
 - It is a measurement of the intrinsic value of commodity money.
 - It is the suitability of an asset to serve as a store of value.
 - It refers to how many times a dollar changes hands in a given year.
- _____ 43. Suppose the banking system has \$10 million in reserves, the reserve requirement is 20 percent, and there are no excess reserves. The public holds \$10 million in cash. Then bankers decide that it is prudent to hold some excess reserves, and so begin to hold 25 percent of deposits in the form of reserves. At the same time, the public decides to withdraw \$5 million in currency from the banking system. Other things the same, what will these actions cause the money supply to do?
- to change forms, but not size
 - to fall by \$10 million
 - to fall by \$25 million
 - to fall by \$35 million
- _____ 44. If households view a tax cut as being temporary, how does the tax cut affect aggregate demand?
- It has no effect on aggregate demand.
 - It has more of an effect on aggregate demand than if households view it as permanent.
 - It has the same effect on aggregate demand than if households view the cut as permanent.
 - It has less of an effect on aggregate demand than if households view the cut as permanent.
- _____ 45. Suppose a bank uses \$100 of its \$500 excess reserves to make a new loan when the reserve ratio is 20 percent. How does this action by itself initially change the money supply?
- The money supply increases by \$80.
 - The money supply decreases by \$80.
 - The money supply increases by \$100.
 - The money supply decreases by \$100.
- _____ 46. Over what period of time is the liquidity preference theory most relevant, and what does it suppose?
- short run; it supposes that the price level adjusts to bring money supply and money demand into balance
 - short run; it supposes that the interest rate adjusts to bring money supply and money demand into balance
 - long run; it supposes that the price level adjusts to bring money supply and money demand into balance
 - long run; it supposes that the interest rate adjusts to bring money supply and money demand into balance

- _____ 47. Suppose the economy is in long-run equilibrium. If there is a sharp decline in the stock market combined with a significant increase in immigration of skilled workers, what would we expect to happen?
- In the short run, real GDP will rise, and the price level might rise, fall, or stay the same. In the long-run, real GDP will rise, and the price level might rise, fall, or stay the same.
 - In the short run, the price level will fall, and real GDP might rise, fall, or stay the same. In the long-run, real GDP and the price level will be unaffected.
 - In the short run, the price level will rise, and real GDP might rise, fall, or stay the same. In the long run, real GDP will rise, and the price level will fall.
 - In the short run, the price level will fall, and real GDP might rise, fall, or stay the same. In the long run, real GDP will rise, and the price level will fall.
- _____ 48. A country has \$80 million of saving and domestic investment of \$30 million. What are net exports?
- \$50 million
 - \$50 million
 - \$80 million
 - \$110 million
- _____ 49. Which of the following lists contains only things that decrease when the budget deficit of the Canadian government increases?
- Canadian net exports, national saving, and net capital outflow
 - Canadian supply of loanable funds, the real exchange rate of the dollar, and domestic investment
 - Canadian imports, interest rates, and the real exchange rate of the dollar
 - National saving, net exports, and the quantity demanded for loanable funds for domestic investment
- _____ 50. Suppose the closed economy is in long-run equilibrium. Advances in technology shift the long-run aggregate supply curve \$75 billion to the right. Optimistic investors have shifted the aggregate demand curve \$150 billion to the right. In order to stabilize the price level at its original value, the government wants to reduce its spending. If the crowding-out effect is always half of the multiplier effect, and if the MPC equals 0.8, by how much must the government cut its spending?
- \$4 billion
 - \$30 billion
 - \$75 billion
 - \$150 billion
- _____ 51. In the short run, an increase in the money supply causes interest rates and aggregate demand to do what?
- It causes interest rates to increase and aggregate demand to shift right.
 - It causes interest rates to increase and aggregate demand to shift left.
 - It causes interest rates to decrease and aggregate demand to shift right.
 - It causes interest rates to decrease and aggregate demand to shift left.
- _____ 52. Suppose there is a decrease in the availability of an important major resource, such as oil. Which of the following shifts would most likely occur?
- The aggregate supply would shift right.
 - The aggregate supply would shift left.
 - The aggregate demand would shift right.
 - The aggregate demand would shift left.

- _____ 53. In which of the following situations would the long-run aggregate supply curve shift right?
- a. if technology improves
 - b. if the price level decreases
 - c. if the price of oil increases
 - d. if the money supply increases
- _____ 54. When a country's central bank increases the money supply, which of the following best predicts the consequences?
- a. Its price level rises, and its currency appreciates relative to other currencies in the world.
 - b. Its price level rises, and its currency depreciates relative to other currencies in the world.
 - c. Its price level falls, and its currency appreciates relative to other currencies in the world.
 - d. Its price level falls, and its currency depreciates relative to other currencies in the world.
- _____ 55. Which of the following policies would someone who wants the government to follow an active stabilization policy recommend when the economy is experiencing unemployment above the natural rate?
- a. decreasing the money supply
 - b. increasing government expenditures
 - c. increasing taxes
 - d. reducing the government deficit
- _____ 56. If a central bank wanted to increase the money supply, which of the following would it most likely do?
- a. It would make open market purchases and lower the bank rate.
 - b. It would make open market sales and lower the bank rate.
 - c. It would make open market purchases and raise the bank rate.
 - d. It would make open market sales and raise the bank rate.
- _____ 57. Suppose that velocity and output are constant and that the quantity theory and Fisher effect are both correct. If the nominal interest rate is 8 percent and inflation is 3 percent, what is the money supply growth rate or the real interest rate?
- a. The money supply growth rate is 3 percent.
 - b. The real interest rate is 11 percent.
 - c. The real interest rate is 8 percent.
 - d. The money supply growth rate is 11 percent.

Use the figure below for the following questions.

Figure 30-1



58. Refer to Figure 30-1. If the money supply is MS_2 and the value of money is 2, how much is the excess demand or supply?
- There is an excess demand equal to the distance between A and C.
 - There is an excess demand equal to the distance between A and B.
 - There is an excess supply equal to the distance between A and C.
 - There is an excess supply equal to the distance between A and B.
59. Which of the following best describes the consequences of open market sales conducted by the Bank of Canada?
- Bank reserves increase and the money supply increases.
 - Bank reserves increase and the money supply decreases.
 - Bank reserves decrease and the money supply increases.
 - Bank reserves decrease and the money supply decreases.
60. Which of the following shifts both the short-run and the long-run aggregate supply right?
- an increase in the actual price level
 - an increase in the expected price level
 - an increase in the capital stock
 - an increase in money supply
61. Suppose the closed economy is in long-run equilibrium. Pessimism on the part of investors then shifts the aggregate demand curve \$50 billion to the left. The government wants to increase spending in order to avoid a recession. If the crowding-out effect is always half as strong as the multiplier effect, and if the MPC equals 0.8, by how much do government purchases have to rise?
- \$10 billion
 - \$20 billion
 - \$50 billion
 - \$100 billion

Table 29-5 The following information pertains to the Bank of Kingston.

Assets:		Liabilities:	
Reserves	\$12 000	Deposits	\$240 000
Loans	\$228 000		

- _____ 62. **Refer to Table 29-5.** Assume that all other banks hold only the required 4 percent of deposits as reserves, and that people hold only deposits and no currency. If the Bank of Kingston decides to hold reserves of 4 percent, by how much would the economy's money supply increase?
- \$50 200
 - \$60 000
 - \$62 000
 - \$65 400
- _____ 63. Velocity in the country of Shem is always stable. In 2009, the money supply was \$200 billion and the GDP price deflator was four times as high as it was in the base year. In 2010, the money supply increased to \$240 billion, the price level increased by 15 percent, and nominal GDP equalled \$1200 billion. By how much did real GDP increase between 2009 and 2010?
- 20 percent
 - 4.35 percent
 - 2.17 percent
 - There is not enough information to answer the question.
- _____ 64. How do prices change due to an economic contraction that is caused by a shift in aggregate demand?
- They rise in the short run, and rise even more in the long run.
 - They rise in the short run, and fall back to their original level in the long run.
 - They fall in the short run, and fall even more in the long run.
 - They fall in the short run, and rise back to their original level in the long run.
- _____ 65. If you deposit \$5000 into First Hawkeye Bank, what will the bank most likely do?
- It will eventually increase its required reserves by the reserve ratio times \$5000.
 - It will be able to lend out \$5,000 times the reserve ratio.
 - It will initially see reserves increase by \$5000 divided by the reserve ratio.
 - It will be able to lend out \$5000.
- _____ 66. Other things the same, which of the following would induce a trade deficit?
- a decline in saving, but not a rise in investment
 - a rise in investment, but not a decline in saving
 - both a decline in saving and a rise in investment
 - neither a decline in saving nor a rise in investment
- _____ 67. Casimir purchased one share of Norcet stock for \$200 in year 1 and sold that share in year 2 for \$400. The inflation rate between year 1 and year 2 was 50 percent. If the capital gains tax is imposed at a rate of 50 percent, what is Casimir's after-tax real capital gain?
- \$0
 - \$50
 - \$100
 - \$200

- _____ 68. Suppose the economy is in long-run equilibrium. If there is a sharp increase in the minimum wage as well as an increase in pessimism about future business conditions, what would we expect to happen?
- In the short run, real GDP will rise and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same, but real GDP will be unaffected.
 - In the short run, real GDP will fall, and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same, but real GDP will be unaffected.
 - In the short run, real GDP will rise, and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same, but real GDP will be lower.
 - In the short run, real GDP will fall and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same, but real GDP will be lower.
- _____ 69. When the number of dollars needed to buy a representative basket of goods falls, what happens to the value of money?
- It rises, and so the price level rises.
 - It rises, and so the price level falls.
 - It falls, and so the price level rises.
 - It falls, and so the price level falls.
- _____ 70. Assuming that a is positive, how are theories of short-run aggregate supply expressed mathematically?
- quantity of output supplied = natural rate of output + $a(\text{actual price level} - \text{expected price level})$
 - quantity of output supplied = natural rate of output + $a(\text{expected price level} - \text{actual price level})$
 - quantity of output supplied = $a(\text{actual price level} - \text{expected price level}) - \text{natural rate of output}$
 - quantity of output supplied = $a(\text{expected price level} - \text{actual price level}) - \text{natural rate of output}$
- _____ 71. Which of the following terms refers to the reduction in demand that results when a fiscal expansion raises the interest rate?
- the multiplier effect
 - the crowding-out effect
 - the accelerator effect
 - the Ricardian equivalence effect
- _____ 72. Which of the following shifts aggregate demand to the left?
- The price level rises.
 - The price level falls.
 - The dollar depreciates.
 - Stock prices fall.
- _____ 73. If a U.S. textbook publishing company sells texts to Canadian students, which of the following correctly identifies the effects of these sales?
- U.S. net exports increase, and U.S. net capital outflow increases.
 - U.S. net exports increase, and U.S. net capital outflow decreases.
 - U.S. net exports decrease, and U.S. net capital outflow increases.
 - U.S. net exports decrease, and U.S. net capital outflow decreases.

- _____ 74. How does the multiplier change when the *MPC increases*, and what is the effect on aggregate demand?
- Higher *MPC* increases the multiplier, so that changes in government expenditures have a larger effect on aggregate demand.
 - Higher *MPC* increases the multiplier, so that changes in government expenditures have a smaller effect on aggregate demand.
 - Higher *MPC* decreases the multiplier, so that changes in government expenditures have a larger effect on aggregate demand.
 - Higher *MPC* decreases the multiplier, so that changes in government expenditures have a smaller effect on aggregate demand.
- _____ 75. Which of the following is consistent with an increase in the price level?
- Dollars become more valuable, and interest rates rise.
 - Dollars become more valuable, and interest rates fall.
 - Dollars become less valuable, and interest rates rise.
 - Dollars become less valuable, and interest rates fall.
- _____ 76. Suppose the closed economy is in long-run equilibrium. Immigration of skilled workers shifts the long-run aggregate supply curve \$120 billion to the right. At the same time, government purchases increase by \$50 billion. If the *MPC* equals 0.75 and the crowding-out effect is \$80 billion, what would we expect to happen in the long run to real GDP and the price level?
- Both real GDP and the price level would be higher.
 - Both real GDP and the price level would be lower.
 - Real GDP would be higher, but the price level would be lower.
 - Real GDP would be higher, but the price level would be the same.
- _____ 77. In 2002 it looked like the Argentinean government might default on its debt (which eventually it did). Which of the following is consistent with what the open-economy macroeconomic model predicts?
- This event should have raised Argentinean interest rates and caused the Argentinean currency to appreciate.
 - This event should have raised Argentinean interest rates and caused the Argentinean currency to depreciate.
 - This event should have lowered Argentinean interest rates and caused the Argentinean currency to appreciate.
 - This event should have lowered Argentinean interest rates and caused the Argentinean currency to depreciate.
- _____ 78. Which of the following is most likely to increase exports in the country of Turania?
- The government of Turania introduces an investment tax credit.
 - The government of Turania reduces the size of the budget surplus.
 - Political instability in Turania increases modestly.
 - The government of Turania imposes an import quota.
- _____ 79. Which of the following best predicts the effects of an increase in a country's real interest rate?
- Its net capital outflow and the real exchange rate increase.
 - Its net capital outflow and the real exchange rate decrease.
 - Its net capital outflow increases and the real exchange rate decreases.
 - Its net capital outflow decreases and the real exchange rate increases.

- _____ 80. The country of Freedonia has a GDP of \$4000, consumption of \$1800, and government purchases of \$500. Which of the following does this situation imply?
- Investment is equal to $-\$1700$.
 - Investment plus net capital outflow is equal to $\$1700$.
 - Investment plus net exports is equal to $\$2300$.
 - Saving is equal to $\$2200$.
- _____ 81. In Ireland, a pint of beer costs 4 Irish punts. In Australia, a pint of beer costs 6 Australian dollars. If the exchange rate is 0.6 punts per Australian dollar, what is the real exchange rate?
- 0.8 punts of Irish beer per pint of Australian beer
 - 0.9 punts of Irish beer per pint of Australian beer
 - 1.11 punts of Irish beer per pint of Australian beer
 - 1.25 punts of Irish beer per pint of Australian beer
- _____ 82. Suppose the reserve ratio is 20 percent, and banks do not hold excess reserves. Under these circumstances, suppose the Bank of Canada sells \$40 million of bonds to the public. Which of the following best describes the effects of this open market operation?
- Bank reserves increase by \$40 million, and the money supply eventually increases by \$200 million.
 - Bank reserves increase by \$40 million, and the money supply eventually increases by \$800 million.
 - Bank reserves decrease by \$40 million, and the money supply eventually decreases by \$200 million.
 - Bank reserves decrease by \$40 million, and the money supply eventually decreases by \$800 million.
- _____ 83. Suppose that the Government of Canada unexpectedly decided to pay off its debt by printing new money. Which of the following would happen?
- People who held money would feel richer.
 - Prices would fall.
 - People who lent money at a fixed interest rate would feel richer.
 - People who borrowed money at a fixed interest rate would feel richer.
- _____ 84. If Canadian citizens decide to save a larger fraction of their incomes, which of the following best identifies the effects?
- The real interest rate decreases, the real exchange rate of the dollar depreciates, and Canadian net capital outflow increases.
 - The real interest rate decreases, the real exchange rate of the dollar appreciates, and Canadian net capital outflow decreases.
 - The real interest rate increases, the real exchange rate of the dollar appreciates, and Canadian net capital outflow decreases.
 - The real interest rate increases, the real exchange rate of the dollar depreciates, and Canadian net capital outflow increases.
- _____ 85. If the reserve ratio is 10 percent and a bank receives a new deposit of \$800, which of the following will this bank most likely do?
- It will increase its required reserves by \$8000.
 - It will make new loans of \$8000.
 - It will be able to make new loans of \$800.
 - It will initially see its total reserves increase by \$800.

- _____ 86. Suppose the economy is in long-run equilibrium. Premier Aviary succeeds in getting a major new highway project for his province. At the same time, Premier Green succeeds in getting major new restrictions on logging enacted for her province. In the short run, what would we expect to happen?
- Real GDP will rise, and the price level might rise, fall, or stay the same.
 - Real GDP will fall, and the price level might rise, fall, or stay the same.
 - The price level will rise, and real GDP might rise, fall, or stay the same.
 - The price level will fall, and real GDP might rise, fall, or stay the same.
- _____ 87. How do tax cuts and government expenditure affect aggregate demand?
- Both shift aggregate demand right.
 - Both shift aggregate demand left.
 - Tax cuts shift aggregate demand right; government expenditure shifts aggregate demand left.
 - Tax cuts shift aggregate demand left; government expenditure shifts aggregate demand right.
- _____ 88. Which of the following best describes the consequences of a decrease in the reserve requirements in a fractional reserve system?
- Both the money multiplier and the money supply increase.
 - Both the money multiplier and the money supply decrease.
 - The money multiplier increases, but the money supply decreases.
 - The money multiplier decreases, but the money supply increases.
- _____ 89. Which of the following lists contains only actions that increase the money supply?
- lower the bank rate; raise the reserve requirement ratio
 - lower the bank rate; lower the reserve requirement ratio
 - raise the bank rate; raise the reserve requirement ratio
 - raise the bank rate; lower the reserve requirement ratio
- _____ 90. What do open-market purchases do to the price level and real GDP?
- They increase the price level and real GDP.
 - They decrease the price level and real GDP.
 - They increase the price level and decrease real GDP.
 - They decrease the price level and increase real GDP.

Practice Final Exam Answer Section

MULTIPLE CHOICE

1. ANS: B REF: p.232-235
2. ANS: C REF: p.249-250
3. ANS: B REF: p.346-355
4. ANS: A REF: p.381
5. ANS: C REF: p.395-396
6. ANS: B REF: p.285-288
7. ANS: D REF: p.346-355
8. ANS: A REF: p.302-304
9. ANS: B REF: p.342-343
10. ANS: C REF: p.381
11. ANS: C REF: p.276
12. ANS: A REF: p.346-355
13. ANS: D REF: p.395-396
14. ANS: C REF: p.301-303
15. ANS: A REF: p.333
16. ANS: C REF: p.374-376
17. ANS: B REF: p.307-309
18. ANS: D REF: p.379
19. ANS: D REF: p.259
20. ANS: B REF: p.311-318
21. ANS: C REF: p.365-366
22. ANS: A REF: p.270
23. ANS: A REF: p.279
24. ANS: B REF: p.374-376
25. ANS: A REF: p.246-247
26. ANS: D REF: p.384
27. ANS: C REF: p.229-231 | p.235
28. ANS: B REF: p.311-313
29. ANS: B REF: p.244-245
30. ANS: B REF: p.249-250
31. ANS: B REF: p.379
32. ANS: B REF: p.302
33. ANS: D REF: p.365-366
34. ANS: C REF: p.368
35. ANS: A REF: p.381 | p.389
36. ANS: D REF: p.343
37. ANS: A REF: p.387
38. ANS: B REF: p.334-336
39. ANS: B REF: p.366-368
40. ANS: B REF: p.346-355
41. ANS: B REF: p.366-368

42. ANS: A	REF: p.221
43. ANS: C	REF: p.229-231
44. ANS: D	REF: p.389
45. ANS: C	REF: p.229-231
46. ANS: B	REF: p.363
47. ANS: D	REF: p.346-355
48. ANS: B	REF: p.278
49. ANS: A	REF: p.311-313
50. ANS: B	REF: p.386 p.394
51. ANS: C	REF: p.369-370
52. ANS: B	REF: p.352-353
53. ANS: A	REF: p.338-339
54. ANS: B	REF: p.288
55. ANS: B	REF: p.395-396
56. ANS: A	REF: p.232-235
57. ANS: A	REF: p.252-254
58. ANS: D	REF: p.246
59. ANS: D	REF: p.232-233
60. ANS: C	REF: p.342-346
61. ANS: B	REF: p.386 p.394
62. ANS: B	REF: p.229-231
63. ANS: B	REF: p.249-250
64. ANS: C	REF: p.347-350
65. ANS: A	REF: p.229-230
66. ANS: C	REF: p.279
67. ANS: A	REF: p.258-259
68. ANS: D	REF: p.346-355
69. ANS: B	REF: p.242-243
70. ANS: A	REF: p.344
71. ANS: B	REF: p.380-381
72. ANS: D	REF: p.334-336
73. ANS: A	REF: p.276
74. ANS: A	REF: p.379
75. ANS: C	REF: p.332-334
76. ANS: D	REF: p.386 p.394
77. ANS: B	REF: p.315-317
78. ANS: C	REF: p.311-318
79. ANS: D	REF: p.307-309
80. ANS: B	REF: p.278
81. ANS: B	REF: p.283
82. ANS: C	REF: p.231-233
83. ANS: D	REF: p.252
84. ANS: A	REF: p.307-309
85. ANS: D	REF: p.230-231
86. ANS: C	REF: p.346-355
87. ANS: A	REF: p.388-389
88. ANS: A	REF: p.234

89. ANS: B
90. ANS: A

REF: p.232-235
REF: p.370