

## Econ 330 Final Exam

There are 50 multiple choice questions to this exam, each worth 2 points for a total of 100. You have 2 hours to complete the 50 questions. Good luck.

- 1) Suppose that the latest Consumer Price Index (CPI) release shows a higher inflation rate in the U.S. than was expected. Everything else held constant, the release of the CPI report would immediately cause the demand for U.S. assets to \_\_\_\_\_ and the U.S. dollar would \_\_\_\_\_.
- A) increase; appreciate
  - B) increase; depreciate
  - C) decrease; appreciate
  - D) decrease; depreciate

Answer: D

*Ques Status: New*

- 2) A decrease in the expected future domestic exchange rate causes the demand for domestic assets to shift to the \_\_\_\_\_ and the domestic currency to \_\_\_\_\_, everything else held constant.
- A) right; appreciate
  - B) right; depreciate
  - C) left; appreciate
  - D) left; depreciate

Answer: D

*Ques Status: New*

- 3) \_\_\_\_\_ in the foreign interest rate causes the demand for domestic assets to \_\_\_\_\_ and the domestic currency to appreciate, everything else held constant.
- A) An increase; increase
  - B) An increase; decrease
  - C) A decrease; increase
  - D) A decrease; decrease

Answer: C

*Ques Status: New*

- 4) Everything else held constant, when the current value of the domestic exchange rate increases, the \_\_\_\_\_ of domestic assets \_\_\_\_\_.
- A) quantity supplied; does not change
  - B) supply; decreases
  - C) quantity supplied; increases
  - D) supply; increases

Answer: A

*Ques Status: New*

- 5) According to the interest parity condition, if the domestic interest rate is 10 percent and the foreign interest rate is 12 percent, then the expected \_\_\_\_\_ of the foreign currency must be \_\_\_\_\_ percent.
- A) appreciation; 4
  - B) appreciation; 2
  - C) depreciation; 2
  - D) depreciation; 4

Answer: C

*Ques Status: Revised*

- 6) With a 10 percent interest rate on dollar deposits, and an expected appreciation of 7 percent over the coming year, the expected return on dollar deposits in terms of the dollar is
- A) 3 percent.
  - B) 10 percent.
  - C) 13.5 percent.
  - D) 17 percent.

Answer: B

*Ques Status: Revised*

- 7) If the interest rate on euro-denominated assets is 13 percent and it is 15 percent on peso-denominated assets, and if the euro is expected to appreciate at a 4 percent rate, for Francois the Frenchman the expected rate of return on peso-denominated assets is
- A) 11 percent.
  - B) 15 percent.
  - C) 17 percent.
  - D) 19 percent.

Answer: A

*Ques Status: Revised*

- 8) When Americans or foreigners expect the return on \_\_\_\_\_ assets to be high relative to the return on \_\_\_\_\_ assets, there is a \_\_\_\_\_ demand for dollar assets, everything else held constant.
- A) dollar; foreign; constant
  - B) dollar; foreign; higher
  - C) foreign; dollar; higher
  - D) foreign; dollar; constant

Answer: B

*Ques Status: Revised*

- 9) The condition that states that the domestic interest rate equals the foreign interest rate minus the expected appreciation of the domestic currency is called
- A) the purchasing power parity condition.
  - B) the interest parity condition.
  - C) money neutrality.
  - D) the theory of foreign capital mobility.

Answer: B

*Ques Status: Previous Edition*

10) Lower tariffs and quotas cause a country's currency to \_\_\_\_\_ in the \_\_\_\_\_ run, everything else held constant.

- A) depreciate; short
- B) appreciate; short
- C) depreciate; long
- D) appreciate; long

Answer: C

*Ques Status: Revised*

11) In a liquidity trap, monetary policy has \_\_\_\_\_ effect on aggregate spending because a change in the money supply has \_\_\_\_\_ effect on interest rates.

- A) no; no
- B) no; a large
- C) no; a small
- D) a large; a large

Answer: A

*Ques Status: Revised*

12) In the liquidity trap, the money demand curve

- A) is horizontal.
- B) is vertical.
- C) is negatively sloped.
- D) is positively sloped.

Answer: A

*Ques Status: Revised*

13) The evidence on the interest sensitivity of the demand for money suggests that the demand for money is \_\_\_\_\_ to interest rates, and there is \_\_\_\_\_ evidence that a liquidity trap exists.

- A) sensitive; substantial
- B) sensitive; little
- C) insensitive; substantial
- D) insensitive; little

Answer: B

*Ques Status: Previous Edition*

14) If interest rates do not affect the demand for money, then velocity is \_\_\_\_\_ likely to be \_\_\_\_\_.

- A) more; stable
- B) more; unstable
- C) more; procyclical
- D) less; stable

Answer: A

*Ques Status: Previous Edition*

15) In Friedman's modern quantity theory, velocity is procyclical because

- A) money demand depends on permanent income, which is more stable than actual income.
- B) money demand depends on actual income, which is more stable than permanent income.
- C) velocity depends upon interest rates, which are stable over the business cycle.
- D) velocity depends upon interest rates, which move procyclically.

Answer: A

*Ques Status: Revised*

- 16) According to Milton Friedman, the demand for money is insensitive to interest rates because
- A) the demand for money is insensitive to changes in the opportunity cost of holding money.
  - B) competition among banks keeps the opportunity cost of holding money relatively constant.
  - C) people base their investment decisions on expected profits, not interest rates.
  - D) transactions are not subject to scale economies as wealth increases.

Answer: B

*Ques Status: Revised*

- 17) The speculative demand for money may not exist because
- A) banks now pay interest on some types of checkable deposits.
  - B) there are alternative riskless assets paying higher returns than the return on money.
  - C) the transactions demand can be shown to depend on interest rates.
  - D) government regulations have eliminated risk in the financial markets.

Answer: B

*Ques Status: Revised*

- 18) The Keynesian demand for real balances can be expressed as
- A)  $M^d = f(i, Y)$ .
  - B)  $M^d/P = f(i)$ .
  - C)  $M^d/P = f(Y)$ .
  - D)  $M^d/P = f(i, Y)$ .

Answer: D

*Ques Status: Revised*

- 19) Keynes's theory of the demand for money is consistent with
- A) countercyclical movements in velocity.
  - B) a constant velocity.
  - C) procyclical movements in velocity.
  - D) a relatively stable velocity.

Answer: C

*Ques Status: Revised*

- 20) If people expect nominal interest rates to be higher in the future, the expected return to bonds \_\_\_\_\_, and the demand for money \_\_\_\_\_.
- A) rises; increases
  - B) rises; decreases
  - C) falls; increases
  - D) falls; decreases

Answer: C

*Ques Status: Previous Edition*

- 21) If the economy is on the IS curve, but is to the left of the LM curve, then the \_\_\_\_\_ market is in equilibrium, but the interest rate is \_\_\_\_\_ the equilibrium level.
- A) goods; below
  - B) goods; above
  - C) money; below
  - D) money; above

Answer: B

*Ques Status: Previous Edition*

22) If the economy is on the LM curve, but is to the left of the IS curve, aggregate output will \_\_\_\_\_ and the interest rate will \_\_\_\_\_.

- A) rise; rise
- B) rise; fall
- C) fall; rise
- D) fall; fall

Answer: A

*Ques Status: Previous Edition*

23) As aggregate output rises, the demand for money \_\_\_\_\_ and the interest rate \_\_\_\_\_, so that money demanded equals money supplied and the money market is in equilibrium.

- A) increases; rises
- B) increases; falls
- C) decreases; rises
- D) decreases; falls

Answer: A

*Ques Status: Previous Edition*

24) The money market is in equilibrium

- A) at any point on the IS curve.
- B) at any point on the LM curve.
- C) at only one point on the LM curve.
- D) only at the intersection of the IS and LM curves.

Answer: B

*Ques Status: Revised*

25) A decrease in interest rates

- A) increases the value of the dollar, net exports, and equilibrium output.
- B) increases the value of the dollar, reducing net exports and equilibrium output.
- C) reduces the value of the dollar, net exports, and equilibrium output.
- D) reduces the value of the dollar, increasing net exports and equilibrium output.

Answer: D

*Ques Status: Revised*

26) When interest rates rise in the United States (with the price level fixed), the value of the dollar \_\_\_\_\_, domestic goods become \_\_\_\_\_ expensive, and net exports \_\_\_\_\_.

- A) falls; less; fall
- B) falls; more; rise
- C) rises; more; fall
- D) rises; less; fall

Answer: C

*Ques Status: Previous Edition*

27) When the interest rate is \_\_\_\_\_, \_\_\_\_\_ investments in physical capital will earn more than the cost of borrowed funds, so planned investment spending is \_\_\_\_\_.

- A) high; few; high
- B) high; few; low
- C) low; few; high
- D) low; many; low
- E) high; many; high

Answer: B

*Ques Status: Previous Edition*

- 28) If net exports increase by 100 and the mpc is 0.75, equilibrium aggregate output increases by
- A) 100.
  - B) 250.
  - C) 400.
  - D) 750.

Answer: C

*Ques Status: Revised*

- 29) Keynes believed that changes in autonomous spending were dominated by changes in
- A) consumer expenditure.
  - B) autonomous consumer expenditure.
  - C) investment spending.
  - D) taxes.
  - E) none of the above.

Answer: C

*Ques Status: Previous Edition*

- 30) The ratio of the change in aggregate output to a change in planned investment spending is called
- A) the marginal propensity to consume.
  - B) autonomous consumer expenditure.
  - C) the expenditure multiplier.
  - D) unplanned inventory accumulation.

Answer: C

*Ques Status: Previous Edition*

- 31) Everything else held constant, an increase in autonomous planned investment spending will cause the IS curve to shift to the \_\_\_\_\_ and aggregate demand will \_\_\_\_\_.
- A) right; increase
  - B) right; decrease
  - C) left; increase
  - D) left; decrease

Answer: A

*Ques Status: New*

- 32) Expansionary monetary policies, all else remaining the same, will cause
- A) the quantity of aggregate demand to increase.
  - B) the quantity of aggregate demand to decrease.
  - C) aggregate demand to decrease.
  - D) aggregate demand to increase.

Answer: D

*Ques Status: Revised*

- 33) The aggregate demand curve has the usual downward slope, since a \_\_\_\_\_ price level \_\_\_\_\_ the real money supply, raises interest rates, and lowers the equilibrium level of aggregate output.
- A) lower; reduces

- B) lower; increases
- C) higher; reduces
- D) higher; increases

Answer: C

*Ques Status: Previous Edition*

- 34) In the long-run the ISLM model predicts that
- A) only monetary policy can change real output.
  - B) only fiscal policy can change real output.
  - C) both monetary and fiscal policy can change real output.
  - D) neither monetary nor fiscal policy can change real output.

Answer: D

*Ques Status: Revised*

- 35) The long-run neutrality of money refers to the fact that in the long run, monetary policy
- A) changes only real output.
  - B) changes only the real interest rate.
  - C) changes both real output and the real interest rate.
  - D) has no effect on either real output or the real interest rate.

Answer: D

*Ques Status: Revised*

- 36) In the case of an expansionary \_\_\_\_\_ policy, the interest rate rises, while in the case of an expansionary \_\_\_\_\_ policy, the interest rate falls.
- A) monetary; monetary
  - B) monetary; fiscal
  - C) fiscal; monetary
  - D) fiscal; fiscal

Answer: C

*Ques Status: Previous Edition*

- 37) In the money market, a condition of excess supply of money can be eliminated by a \_\_\_\_\_ in aggregate output or a \_\_\_\_\_ in the interest rate, everything else held constant.
- A) rise; rise
  - B) rise; fall
  - C) fall; rise
  - D) fall; fall

Answer: B

*Ques Status: Revised*

- 38) A contractionary monetary policy shifts the LM curve to the \_\_\_\_\_, reducing \_\_\_\_\_, everything else held constant.
- A) left; output and increasing interest rates
  - B) left; both real output and interest rates
  - C) right; both interest rates and real output
  - D) right; interest rates and increasing real output

Answer: A

*Ques Status: Revised*

- 39) An autonomous increase in money demand, other things equal, shifts the \_\_\_\_\_ curve to the \_\_\_\_\_.
- A) IS; right
  - B) IS; left
  - C) LM; left
  - D) LM; right

Answer: C

*Ques Status: Revised*

- 40) When the central bank \_\_\_\_\_ the money supply, the LM curve shifts to the right, interest rates \_\_\_\_\_, and equilibrium aggregate output \_\_\_\_\_, everything else held constant.
- A) increases; fall; increases
  - B) increases; rise; decreases
  - C) decreases; rise; decreases
  - D) decreases; fall; increases

Answer: A

*Ques Status: Revised*

- 41) If workers demand and receive higher real wages (a successful wage push), the cost of production \_\_\_\_\_ and the short-run aggregate supply curve shifts \_\_\_\_\_.
- A) rises; leftward
  - B) rises; rightward
  - C) falls; leftward
  - D) falls; rightward

Answer: A

*Ques Status: Revised*

- 42) Everything else held constant, a decrease in the cost of production \_\_\_\_\_ aggregate \_\_\_\_\_.
- A) increases; demand
  - B) decreases; demand
  - C) increases; supply
  - D) decreases; supply

Answer: C

*Ques Status: Revised*

- 43) The short-run aggregate supply curve is upward sloping because in the short run, costs of many factors that go into producing goods and services are \_\_\_\_\_, meaning that the price for a unit of output will \_\_\_\_\_ relative to input prices and the profit per unit will rise.
- A) fixed; rise
  - B) fixed; fall
  - C) flexible; rise
  - D) flexible; fall

Answer: A

*Ques Status: Revised*

- 44) A decrease in government spending, other things equal, \_\_\_\_\_ aggregate \_\_\_\_\_.
- A) increases; demand

- B) decreases; demand
- C) decreases; supply
- D) increases; supply

Answer: B

*Ques Status: Revised*

- 45) By looking at aggregate demand via its component parts, we can conclude that the aggregate demand curve is downward sloping because
- A) a lower price level, holding the nominal quantity of money constant, leads to a larger quantity of money in real terms, causes the interest rate to fall, and stimulates planned investment spending.
  - B) a lower price level, holding the nominal quantity of money constant, leads to a larger quantity of money in nominal terms, causes the interest rate to rise, and stimulates planned investment spending.
  - C) a higher price level, holding the nominal quantity of money constant, leads to a larger quantity of money in real terms, causes the interest rate to fall, and stimulates planned investment spending.
  - D) a higher price level, holding the nominal quantity of money constant, leads to a smaller quantity of money in real terms, causes the interest rate to fall, and stimulates planned investment spending.

Answer: A

*Ques Status: Revised*

- 46) Suppose real GDP is equal to \$100 trillion, the money supply is equal to \$50 trillion and the price level is equal to 2. In this case, the velocity of money is equal to \_\_\_\_\_.
- A) 1
  - B) 2
  - C) 4
  - D) 5

Answer: C

*Ques Status: New*

- 47) The quantity theory of money concludes that changes in aggregate spending are primarily determined by changes in
- A) government spending and taxes.
  - B) the velocity of money.
  - C) interest rates.
  - D) the money supply.

Answer: D

*Ques Status: Revised*

- 48) The total quantity of an economy's final goods and services demanded at different price levels is
- A) the aggregate supply curve.
  - B) the aggregate demand curve.
  - C) the Phillips curve.
  - D) the aggregate expenditure function.

Answer: B

*Ques Status: Revised*

- 49) According to the quantity theory of money, changes in the money supply are
- A) unrelated to changes in the price level.
  - B) unrelated to changes in inflation.
  - C) unrelated to shifts in the aggregate demand curve.
  - D) the primary source of changes in aggregate spending.

Answer: D

*Ques Status: Revised*

- 50) Everything else held constant, a balanced budget increase in government spending (that is, an increase in government spending that is matched by an identical increase in net taxes) will
- A) increase aggregate demand, but not by as much if just government spending increases.
  - B) increase aggregate demand by more than if just government spending increases.
  - C) will not affect aggregate demand.
  - D) decrease aggregate demand.

Answer: A

*Ques Status: New*





