

Name _____

Student ID _____

Section Number _____

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

- 1) Everything else held constant, if aggregate output is to the right of the LM curve, then there is an excess _____ of money which will cause the interest rate to _____ 1) _____
A) demand; rise B) supply; fall
C) supply; rise D) demand; fall
- 2) Everything else held constant, a decrease in autonomous planned investment spending will cause the IS curve to shift to the _____ and aggregate demand will _____ 2) _____
A) right; decrease B) left; decrease
C) right; increase D) left; increase
- 3) The long-run aggregate supply curve is a vertical line passing through 3) _____
A) the natural-rate price level.
B) the actual rate of unemployment.
C) the natural rate of output.
D) the expected rate of inflation.
- 4) Assume that disposable income equals \$1000 and the mpc equals 0.6. If total consumption equal \$800, then autonomous consumption is equal to 4) _____
A) \$0 B) \$200 C) \$800 D) \$1000
- 5) If the particular channels through which changes in the money supply affect aggregate income are diverse and continually changing, the best evidence of monetary policy's effect is likely to come from 5) _____
A) reduced-form models. B) structural models.
C) indirect models. D) median-voter models.
- 6) In the long-run ISLM model and with everything else held constant, as long as the level of output _____ the natural rate level, the price level will continue to _____, shifting the LM curve to the _____, until finally output is back at the natural rate level. 6) _____
A) exceeds; rise; right B) remains below; fall; right
C) remains below; rise; left D) exceeds; fall; left
- 7) Everything else held constant, an increase in autonomous consumer spending will cause the IS curve to shift to the _____ and aggregate demand will _____ 7) _____
A) left; decrease B) right; decrease
C) left; increase D) right; increase

- 8) According to Milton Friedman, the demand for money is insensitive to interest rates because 8) _____
- A) transactions are not subject to scale economies as wealth increases.
 - B) people base their investment decisions on expected profits, not interest rates.
 - C) competition among banks keeps the opportunity cost of holding money relatively constant.
 - D) the demand for money is insensitive to changes in the opportunity cost of holding money.
- 9) If the money supply is \$2 trillion and velocity is 5, then nominal GDP is 9) _____
- A) \$1 trillion.
 - B) \$2 trillion.
 - C) \$5 trillion.
 - D) \$10 trillion.
- 10) Evidence that examines whether one variable has an effect on another by simply looking directly at the relationship between the two variables is 10) _____
- A) direct-model evidence.
 - B) structural-model evidence.
 - C) reduced-form evidence.
 - D) organizational-model evidence.
- 11) Keynes believed that changes in autonomous spending were dominated by changes in 11) _____
- A) taxes.
 - B) autonomous consumer expenditure.
 - C) investment spending.
 - D) consumer expenditure.
 - E) none of the above.
- 12) If the economy is characterized by a certain and stable LM curve, then _____ target produces _____ fluctuations in aggregate output. 12) _____
- A) a money supply; smaller
 - B) a money supply; larger
 - C) an interest rate; smaller
 - D) an exchange rate; larger
- 13) As the relative expected return on dollar assets increases, foreigners will want to hold more _____ assets and less _____ assets, everything else held constant. 13) _____
- A) dollar; foreign
 - B) foreign; foreign
 - C) dollar; dollar
 - D) foreign; dollar
- 14) The less interest-sensitive is money demand, 14) _____
- A) the steeper is the IS curve.
 - B) the more effective is monetary policy relative to fiscal policy.
 - C) the flatter is the LM curve.
 - D) the more effective is fiscal policy relative to monetary policy.
- 15) When the value of the British pound changes from \$1.50 to \$1.25, then the pound has _____ and the U.S. dollar has _____ 15) _____
- A) appreciated; appreciated
 - B) depreciated; depreciated
 - C) appreciated; depreciated
 - D) depreciated; appreciated

- 16) If net exports decrease by 250 and the mpc is 0.75, equilibrium aggregate output 16) _____
output
A) decreases by 750. B) decreases by 1000.
C) increases by 750. D) increases by 1000.
- 17) In the long-run ISLM model and with everything else held constant, the long-run effect of an autonomous increase in investment is to 17) _____
A) not affect real output and reduce the interest rate.
B) increase real output and the interest rate.
C) increase real output and not affect the interest rate.
D) not affect real output and increase the interest rate.
- 18) The aggregate demand curve slopes down and to the right because 18) _____
A) a decrease in the price level raises the real money supply, lowering interest rates.
B) a decrease in the price level raises the real money supply, decreasing output.
C) an increase in the price level increases the real money supply, lowering interest rates.
D) a decrease in the price level increases the nominal money supply, lowering interest rates.
- 19) If the money supply is \$600 and nominal income is \$3,000, the velocity of money is 19) _____
A) 1/50. B) 1/5. C) 5. D) 50.
- 20) According to Milton Friedman, income declines relative to permanent income during a business cycle contraction, causing the demand for money relative to actual income to increase, thereby causing velocity to 20) _____
A) rise.
B) decline.
C) remain unchanged, since velocity depends only on interest rates.
D) decline, provided that interest rates increase when the economy contracts.
- 21) Irving Fisher's view that velocity is fairly constant in the short run transforms the equation of exchange into the 21) _____
A) Friedman's theory of income determination.
B) quantity theory of money.
C) Keynesian theory of income determination.
D) monetary theory of income determination.
- 22) Although foreign exchange market trades are said to involve the buying and selling of currencies, most trades involve the buying and selling of 22) _____
A) SDRs.
B) bank deposits denominated in different currencies.
C) ECUs.
D) gold.

23) Everything else held constant, if total consumption increases from \$600 to \$800 because of an increase of disposable income of \$400, then the mpc is equal to _____
A) 0.2 B) 0.4 C) 0.5 D) 0.6

24) 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 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.
C) 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.
D) 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.

25) In the long-run ISLM model and with everything else held constant, the long-run effect of an autonomous fall in consumption expenditure is to _____
A) increase real output and the interest rate.
B) not affect real output and reduce the interest rate.
C) not affect real output and increase the interest rate.
D) increase real output and not affect the interest rate.

26) Keynes's model of the demand for money suggests that velocity is _____ related to _____.
A) negatively; interest rates B) positively; interest rates
C) positively; bond values D) positively; stock prices

27) If the economy is on the LM curve, but is to the right of the IS curve, then the _____ market is in equilibrium, but aggregate _____ exceeds aggregate _____.
A) money; demand; output B) goods; demand; output
C) money; output; demand D) goods; output; demand

- 28) By analyzing aggregate demand through its component parts, we can conclude that, everything else held constant, a decline in the price level causes 28) _____
- A) an increase in the real money supply, a decline in interest rates, an increase in investment spending, and an increase in aggregate output demand.
 - B) an increase in the real money supply, an increase in interest rates, a decline in investment spending, and a decline in aggregate output demand.
 - C) a decline in the real money supply, an increase in interest rates, a decline in investment spending, and a decline in aggregate output demand.
 - D) a decline in the real money supply, a decline in interest rates, an increase in investment spending, and an increase in aggregate output demand.
- 29) Keynes hypothesized that the speculative component of money demand was primarily determined by the level of 29) _____
- A) velocity.
 - B) interest rates.
 - C) stock market prices.
 - D) income.
- 30) Which of the following statements concerning Keynesian analysis is false? 30) _____
- A) Keynes's analysis started with the recognition that the total quantity demanded of an economy's output was the sum of four types of spending: consumer expenditure, planned investment spending, government spending, and net exports.
 - B) Keynes's analysis explains how the price level will change when the total quantity of output supplied changes.
 - C) Keynes's analysis involves explaining why aggregate output is at a certain level by understanding what factors affect each component of aggregate demand and how the sum of these components could add up to an output smaller than the economy is capable of producing, resulting in less than full employment.
 - D) Keynes recognized that equilibrium would occur in the economy when total quantity of output supplied equals quantity of output demanded (Y^{ad}), that is, when $Y = Y^{ad}$.
- 31) If an economy experiences high interest rates and high unemployment, the ISLM framework predicts that _____ policy has been too 31) _____
- A) monetary; expansionary
 - B) monetary; contractionary
 - C) fiscal; expansionary
 - D) fiscal; contractionary
- 32) Everything else held constant, when a country's currency appreciates, the country's goods abroad become _____ expensive and foreign goods in that country become _____ expensive. 32) _____
- A) less; less
 - B) more; less
 - C) more; more
 - D) less; more

- 33) An autonomous rise in _____ shifts the LM curve to the _____, everything else held constant. 33) _____
 A) money demand; right B) net exports; left
 C) money demand; left D) net exports; right
- 34) 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 Manuel the Mexican the expected rate of return on euro-denominated assets is 34) _____
 A) 11 percent. B) 13 percent.
 C) 17 percent. D) 19 percent.
- 35) 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 _____. 35) _____
 A) rise; rise B) rise; fall C) fall; rise D) fall; fall
- 36) A decline in the money _____ shifts the LM curve to the _____, causing the interest rate to rise and output to fall, everything else held constant. 36) _____
 A) supply; right B) demand; left
 C) supply; left D) demand; right
- 37) If initially the money supply is \$2 trillion, velocity is 5, the price level is 2, and real GDP is \$5 trillion, a fall in the money supply to \$1 trillion 37) _____
 A) decreases the price level to 1.
 B) decreases the price level to 1 and decreases velocity to 2.5.
 C) reduces real GDP to \$2.5 trillion.
 D) causes velocity to rise to 10.
- 38) In the long run, a rise in a country's price level (relative to the foreign price level) causes its currency to _____, while a fall in the country's relative price level causes its currency to _____. 38) _____
 A) depreciate; appreciate B) appreciate; depreciate
 C) appreciate; appreciate D) depreciate; depreciate
- 39) Reverse causation between money and aggregate output is likely to be a problem when a central bank targets 39) _____
 A) the inflation rate. B) an interest rate.
 C) the exchange rate. D) a monetary aggregate.
- 40) Everything else held constant, an increase in planned investment expenditure _____ aggregate _____. 40) _____
 A) decreases; supply B) increases; supply
 C) increases; demand D) decreases; demand
- 41) Everything else held constant, if aggregate output is to the _____ of the LM curve, then there is an excess _____ of money which will cause the interest rate to rise. 41) _____
 A) left; demand B) right; demand
 C) left; supply D) right; supply

- 42) An autonomous decrease in money demand, other things equal, shifts the _____ curve to the _____ 42) _____
 A) IS; right B) IS; left C) LM; left D) LM; right
- 43) 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. 43) _____
 A) appreciation; 4 B) appreciation; 2
 C) depreciation; 2 D) depreciation; 4
- 44) A tax increase _____ disposable income, _____ consumption expenditure, and shifts the IS curve to the _____, everything else held constant. 44) _____
 A) increases; decreases; left B) decreases; decreases; left
 C) increases; increases; right D) decreases; increases; left
- 45) When the exchange rate for the Mexican peso changes from 10 pesos to the U.S. dollar to 9 pesos to the U.S. dollar, then the Mexican peso has _____ and the U.S. dollar has _____. 45) _____
 A) depreciated; depreciated B) appreciated; appreciated
 C) appreciated; depreciated D) depreciated; appreciated
- 46) The theory of PPP suggests that if one country's price level rises relative to another's, its currency should _____ 46) _____
 A) depreciate in the long run. B) appreciate in the long run.
 C) depreciate in the short run. D) appreciate in the short run.
- 47) In the ISLM framework a contractionary fiscal policy causes aggregate output to _____ and the interest rate to _____, everything else held constant. 47) _____
 A) increase; decrease B) decrease; decrease
 C) decrease; increase D) increase; increase
- 48) If, in retaliation for "unfair" trade practices, Congress imposes a 30 percent tariff on Japanese DVD recorders, but at the same time, U.S. demand for Japanese goods increases, then, in the long run, _____, everything else held constant 48) _____
 A) the Japanese yen should depreciate relative to the U.S. dollar
 B) there is no effect on the Japanese yen relative to the U.S. dollar
 C) the Japanese yen could appreciate, depreciate or remain constant relative to the U.S. dollar
 D) the Japanese yen should appreciate relative to the U.S. dollar
- 49) Everything else held constant, a depreciation of the domestic currency will cause the IS curve to shift to the _____ and aggregate demand will _____. 49) _____
 A) right; increase B) left; decrease
 C) left; increase D) right; decrease

- 50) The negative relation between investment spending and the interest rate is what gives the _____ curve its _____ slope. 50) _____
 A) LM; downward B) IS; downward
 C) LM; upward D) IS; upward
- 51) If the Fed adopts a policy of pegging the interest rate, a _____ in government spending forces the Fed to increase the money supply to prevent interest rates from _____. 51) _____
 A) rise; increasing B) fall; increasing
 C) rise; decreasing D) fall; decreasing
- 52) The Keynesian theory of money demand predicts that people will increase their money holdings if they believe that 52) _____
 A) expected inflation is about to fall.
 B) interest rates are about to fall.
 C) bond prices are about to fall.
 D) bond prices are about to rise.
- 53) Suppose the U.S. economy is producing at the natural rate of output. An appreciation of the U.S. dollar will cause _____ in real GDP and _____ in the aggregate price level in the short run, everything else held constant. (Assume the appreciation causes no effects in the supply side of the economy.) 53) _____
 A) no change; a decrease B) no change; an increase
 C) an increase; an increase D) a decrease; a decrease
- 54) Analysis of the transmission mechanisms of monetary policy provides four basic lessons for a central bank's conduct of monetary policy. Which of the following is not one of these lessons? 54) _____
 A) Avoiding unanticipated fluctuations in the price level is an important objective of monetary policy, thus providing a rationale for price stability as the primary long-run goal for monetary policy.
 B) Rising interest rates indicate a tightening of monetary policy, whereas falling interest rates indicate an easing of monetary policy.
 C) Other asset prices beside those on short-term debt instruments do not contain important information about the stance of monetary policy because they are important elements in various monetary policy transmission mechanisms.
 D) Monetary policy can be highly effective in reviving a weak economy even if short-term interest rates are already near zero.
- 55) A depreciation of the U.S. dollar makes American goods cheaper relative to foreign goods, resulting in a _____ in net exports in the U.S. and a _____ shift of the IS curve in the U.S., everything else held constant. 55) _____
 A) fall; leftward B) rise; rightward
 C) rise; leftward D) fall; rightward

- 56) Everything else held constant, when output is _____ the natural rate level, wages will begin to _____, increasing short-run aggregate supply. 56) _____
- A) below; fall
B) below; rise
C) above; rise
D) above; fall
- 57) The long-run neutrality of money refers to the fact that in the long run, monetary policy 57) _____
- A) has no effect on either real output or the real interest rate.
B) changes both real output and the real interest rate.
C) changes only the real interest rate.
D) changes only real output.
- 58) The quantity theory of money is a theory of how 58) _____
- A) the money supply is determined.
B) interest rates are determined.
C) the nominal value of aggregate income is determined.
D) the real value of aggregate income is determined.
- 59) The equation of exchange is 59) _____
- A) $M \times P = V \times Y$.
B) $M + V = P + Y$.
C) $M \times V = P \times Y$.
D) $M + Y = V + P$.
- 60) An increase in government spending causes the equilibrium level of aggregate output to _____ at any given interest rate and shifts the _____ curve to the _____, everything else held constant. 60) _____
- A) rise; IS; right
B) rise; LM; right
C) fall; LM; left
D) fall; IS; left

330

Final

- 1) A
- 2) B
- 3) C
- 4) B
- 5) A
- 6) B
- 7) D
- 8) C
- 9) D
- 10) C
- 11) C
- 12) A
- 13) A
- 14) B
- 15) D
- 16) B
- 17) D
- 18) A
- 19) C
- 20) B
- 21) B
- 22) B
- 23) C
- 24) A
- 25) B
- 26) B
- 27) C
- 28) A
- 29) B
- 30) B
- 31) B
- 32) B
- 33) C
- 34) C
- 35) A
- 36) C
- 37) A
- 38) A
- 39) B
- 40) C
- 41) B
- 42) D
- 43) C
- 44) B
- 45) C
- 46) A
- 47) B
- 48) C
- 49) A
- 50) B
- 51) A



52) C

53) D

54) B

55) B

56) A

57) A

58) C

59) C

60) A