EXAM 2: Version 1

Econ 2203
Fall 2012

Instructions:

1. Write your **name** on your scantron.
2. Write the version of the exam you are taking (Version 1, 2, etc.) on the scantron. If you do not do this, I cannot guarantee that your exam will be scored properly.
3. Choose the best available answer and indicate your choice on your scantron sheet.
4. When finished, turn in your scantron ONLY. You may keep the exam copy. I will post your results on D2L once the exams have been scored.

1. Diminishing returns to labor means that
   a. the greater the amount of output, the less labor that is needed.
   b. as more labor is employed, total output declines.
   c. as more labor is employed, each additional worker produces less additional output.
   d. as more labor is employed, total output will increase.
   e. the greater the amount of output, the less additional labor that is needed.

2. The total amount of capital in the economy increases each year by that year's amount of
   a. gross investment.
   b. net investment.
   c. GDP.
   d. private saving.
   e. government saving.

3. Given the same amount of natural resources, which of the following conditions leads to a higher rate of economic growth?
   a. A command and control economy.
   b. A corrupt government.
   c. A country in civil war.
   d. An economy open to foreign immigration and capital.
   e. A landlocked country.

4. Technology is
   a. anything that will enable a given amount of capital and labor to produce more output.
   b. another name for capital.
   c. another name for productivity.
   d. any type of invention.
   e. the application of science to production.

5. Economists commonly refer to a person's accumulated knowledge and skills as
   a. relevant accumulated productivity.
   b. human capital.
   c. the knowledge productivity base.
   d. internal capital.
   e. robotic capital.

6. Productivity, defined as real GDP per hour worked, increases if
   a. All of these
   b. new technologies are continuously discovered.
   c. saving and investment cause an increase in the quantity of capital per worker.
   d. the average educational level of the work force increases.
   e. new knowledge is applied in production.

7. The purpose of the growth accounting formula is to
   a. explain why economies stop growing.
   b. determine the role of government in affecting growth.
   c. measure the rate at which GDP grows.
   d. identify the limits to growth.
   e. determine how much productivity growth is due to changes in the capital stock and how much is due to changes in technology.

8. Which of the following best explains the source of increases in productivity?
   a. Increases in capital per hour of work
   b. Technological change
   c. Increases in the number of hours worked
   d. Both technological change and increases in capital per hour of work
   e. It is not known what causes productivity to increase.

9. To economists, money
   a. means the same thing as income.
   b. functions as a medium of exchange.
   c. means the same thing as wealth.
   d. All of these
   e. means the same thing as earnings.

10. Currency includes only
   a. coins and paper money.
   b. coins, paper money, and checking deposits.
   c. paper money.
   d. greenbacks.
   e. coins.

11. Which of the following would *not* be counted as part of M1?
   a. Paper money
   b. Demand deposits
   c. Savings deposits
   d. Travelers' checks
   e. Currency

12. The "Fed" is the nickname for
   a. Congress.
   b. the presidency.
   c. the Federal Reserve System.
   d. the federal government.
   e. the United States Treasury.

13. Which of the following is *true*?
    a. None of these
    b. Commercial banks are the only legal type of financial intermediary.
    c. Banks are prohibited by law from earning a profit.
    d. It is customary to pay a higher interest rate on a loan than you would receive on your savings account from the same bank.
    e. A bank earns a profit by lending at a lower rate than it pays its depositors.

14. Banks are referred to as intermediaries because they
    a. are part of the money supply process.
    b. earn a profit.
    c. charge interest on a loan.
    d. channel funds from depositors to borrowers.
    e. provide a way for people to save their money.

15. The chairman of the Board of Governors of the Federal Reserve since 2006 is
    a. Christina Romer.
    b. Irving Fisher.
    c. Ben Bernanke.
    d. Timothy Geitner
    e. Paul Volcker.

16. The buying and selling of government bonds by the central bank is known as
    a. government bond barter.
    b. fiscal policy.
    c. open market operations.
    d. banking equivalency.
    e. None of these

17. If the Fed wants to decrease the amount of deposits that banks hold, it can
    a. buy government bonds in an open market operation.
    b. sell government bonds in an open market operation.
    c. force banks by decree to do so.
    d. sell domestic deposits to foreign investors.
    e. None of these

18. If the Fed purchases $15 million worth of government bonds from Bank Zip, initially
    a. the amount of Bank Zip's deposits at the Fed will decrease by $15 million.
    b. the amount of Bank Zip's deposits at the Fed will increase by $15 million.
    c. nothing will happen to Bank Zip's balance sheet.
    d. the amount of funds deposited at Bank Zip will increase by $15 million.
    e. the amount of funds deposited at Bank Zip will decrease by $15 million.

19. Suppose the required reserve ratio is 10 percent, and banks hold no excess reserves. If an individual withdraws $20 million from Bank Zip, then the amount of reserves held by Bank Zip will
    a. decrease by $20 million.
    b. decrease by $2 million.
    c. increase by $2 million.
    d. increase by $20 million.
    e. not change.

20. Velocity, *V*, measures
    a. the percent of income held in the form of money.
    b. real GDP.
    c. nominal GDP.
    d. how frequently money is used.
    e. currency as a percentage of GDP.

Exhibit 1

Year	**Price Level**	**Real GDP (billions of 2005 dollars)**	**Money Supply**	**Velocity**
2007	1.06	13,228.9	1,373.6	10.2
2008		13,228.9	1,602.7	9.0
2009		12,880.6	1,693.6	8.3
2010		13,248.2	1,830.9	8.0

21. According to the data in Exhibit 1, the price level in 2008 was
    a. 0.95.
    b. 1.09.
    c. 1.11.
    d. 1.23.
    e. 1.42

22. According to the data in Exhibit 1, the rate of inflation between 2007 and 2008 was
    a. 4.3 percent.
    b. 2.2 percent.
    c. 1.1 percent.
    d. 0 percent.
    e. –3.1 percent.

23. To look for evidence concerning whether higher money growth leads to higher inflation, one should, according to the quantity equation, examine periods of time when
    a. changes in velocity and real GDP were small compared to changes in inflation and money growth.
    b. changes in the price level and real GDP were small compared to changes in velocity and money growth.
    c. changes in the price level and velocity were small compared to changes in velocity and real GDP.
    d. changes in the price level and money growth were small compared to changes in inflation and money growth.
    e. changes in velocity were small compared to changes in the price level, money growth, and real GDP.

24. When the unemployment rate drops below the natural unemployment rate,
    a. the economy is in a recession.
    b. real GDP is rising above potential GDP.
    c. real GDP is falling below potential GDP.
    d. the capacity utilization rate is declining.
    e. All of these

25. Changes in aggregate demand occur when
    a. foreign countries are experiencing recession.
    b. the government changes the tax laws.
    c. the government reduces military spending.
    d. consumers become more optimistic about the future and increase their spending.
    e. All of these

26. The consumption function shows the relationship between consumption and
    a. the interest rate.
    b. the money supply.
    c. the price level.
    d. potential GDP.
    e. income.

27. The slope of the consumption function is equal to
    a. the nominal interest rate.
    b. the real interest rate.
    c. the marginal propensity to consume.
    d. the relative price of consumption.
    e. the marginal propensity to save.

28. If the consumption function is $C = 200 + 0.8Y$, which of the following is *true*?
    a. This economy's consumption is 300 when income is 100.
    b. When income increases by 100, consumption increases by 90.
    c. This economy's consumption is 200 when income is 0.
    d. The marginal propensity to consume in this economy is .2.
    e. When income increases by 100, consumption increases by 20.

29. Which of the following statements is *true*?
  a. A change in government purchases affects income. However, the change in income does not affect consumption.
  b. A change in government purchases does not affect income or consumption.
  c. A change in government purchases affects GDP, which is the same as income. The change in income affects consumption.
  d. A change in government purchases affects GDP but not income.
  e. A change in government purchases has no effect on GDP, but it does affect consumption.

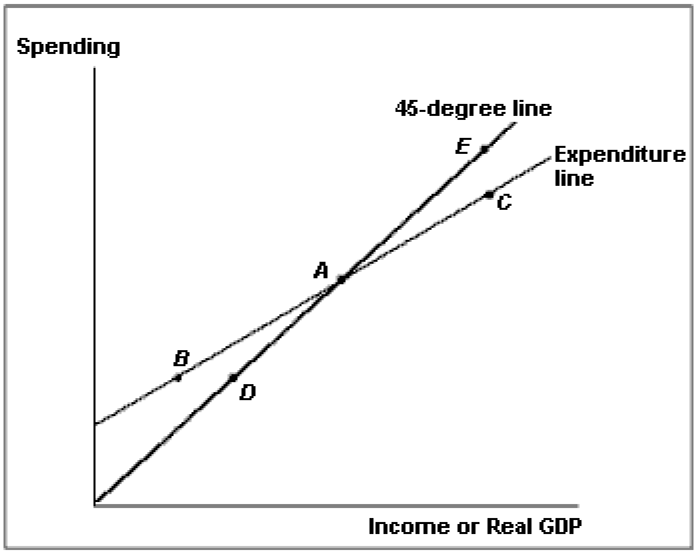
30. If firms decide to decrease their purchases of U.S.-produced goods,
  a. the decrease in investment will have no effect on U.S. income or consumption.
  b. the decrease in investment will cause U.S. income to increase, which will cause consumption to increase.
  c. the decrease in investment will cause U.S. income to decrease, which will cause consumption to decrease.
  d. real GDP will increase by the same amount that investment spending decreased.
  e. real GDP will decrease by the same amount that investment spending decreased.

31. Along the 45-degree line,
  a. spending equals income.
  b. real GDP equals potential GDP.
  c. spending is greater than income.
  d. real GDP equals nominal GDP.
  e. spending is equal to the marginal propensity to consume times income.

32. The components that make up aggregate expenditures are
  a. consumption and government purchases.
  b. investment, government purchases, and net exports.
  c. consumption, investment, government purchases, and net exports.
  d. income and consumption.
  e. consumption and investment.

33. If government expenditures decrease, the expenditure line will
  a. shift up in a parallel direction.
  b. stay constant.
  c. shift down in a parallel direction.
  d. pivot down to the right.
  e. pivot up to the left.

Exhibit 2



34. If spending was equal to the amount corresponding to point *B* in Exhibit 2,
    a. aggregate output would increase.
    b. aggregate output would decrease.
    c. spending is too high, and the expenditure line will shift down.
    d. the economy would be in equilibrium.
    e. the marginal propensity to consume would increase.

35. The aggregate demand curve shows the relationship between
    a. real GDP and interest rates.
    b. spending and the price level.
    c. real GDP and inflation.
    d. interest rates and inflation.
    e. spending and interest rates.

36. When interest rates increase,
    a. government purchases will increase to offset the decline in consumption, investment, and net exports.
    b. expenditures may increase or decrease.
    c. investment will increase.
    d. expenditures increase.
    e. expenditures decrease.

37. The real rate of interest is
   a. the difference between the stated interest rate and the rate of growth of real GDP.
   b. the difference between the stated interest rate and the expected rate of inflation.
   c. the rate of interest on Treasury bills.
   d. the sum of the stated interest rate plus the expected inflation rate.
   e. the same as the federal funds rate.

38. A lower real interest rate in the United States relative to the rest of the world will tend to
   a. increase the value of the dollar and increase net exports.
   b. decrease the value of the dollar and have an indeterminate effect on net exports.
   c. decrease the value of the dollar and increase net exports.
   d. increase the value of the dollar and decrease net exports.
   e. decrease the value of the dollar and decrease net exports.

39. The central bank's monetary policy rule shows that
   a. the real interest rate must increase to match the increase in inflation.
   b. the nominal interest rate must increase to match the increase in inflation.
   c. the nominal interest rate must increase by more than the increase in inflation.
   d. the real interest rate must increase by less than the increase in inflation.
   e. the nominal interest rate must increase by less than the increase in inflation.

40. When the rate of inflation rises, the central bank should
   a. raise the real rate of interest.
   b. raise the nominal rate of interest.
   c. lower the nominal rate of interest.
   d. increase aggregate expenditures.
   e. lower the real rate of interest.

41. When the Fed wants to raise nominal interest rates, it
   a. increases bank reserves.
   b. orders all banks to increase interest rates.
   c. recommends that Congress raise the federal funds rate.
   d. recommends that Congress conduct open market operations.
   e. sells government bonds.

42. If real GDP is greater than potential GDP,
   a. the rate of inflation will not change.
   b. the price level will not change.
   c. the rate of inflation will decrease.
   d. the price level will fall.
   e. the rate of inflation will increase.