

NAME: _____ Student ID: _____



College of Business Administration
Department of Economics
Principles of Macroeconomics
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ECO 2013 - 0008
Spring 2004

QUIZ V – Version 1

- This closed book QUIZ is worth 100 points.
The exam totals 45 Multiple-Choice questions.
Each Multiple-Choice question is worth 2.22 points.
Allocate your time accordingly.
- Including the cover page, the exam totals 10 pages.
- DO NOT forget to write your name and your student id on the exam booklet.
- Non-Programmable calculators and language dictionaries are allowed.
- At the end of the exam, hand-in the exam booklet and the computer sheet to the examiner.

April 14, 2004

4:35 p.m. – 5:40 p.m.

BA 2-210

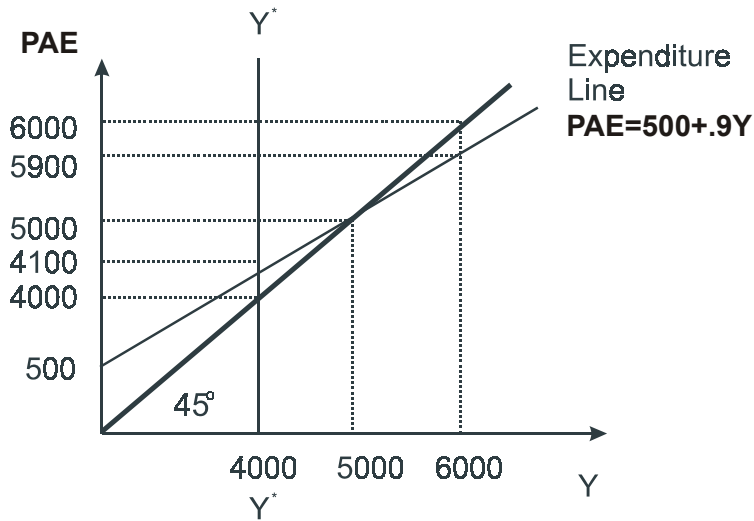
Multiple-Choice Questions (100 points)

1. You own shares in a well-managed diversified company. If a court finds that one of the company's products was seriously defective and orders the company to pay damages to all purchasers of the product, then the price of your shares will _____, holding other factors constant.
 - a) decrease.
 - b) be indeterminate.
 - c) either increase or decrease.
 - d) increase.
 - e) not change.
2. In the 1960s imports and exports each equaled less than _____ percent of GDP, compared to 2001 when each equaled more than _____ percent of GDP.
 - a) 20; 25
 - b) 1; 5
 - c) 15; 20
 - d) 5; 10
 - e) 10; 15
3. Capital inflows used to finance capital investment in some developing countries have:
 - a) had economic benefits without costs.
 - b) decreased domestic saving.
 - c) benefited domestic savers because of higher interest rates paid on saving accounts.
 - d) caused debt crises because the returns on the investments were less than the interest cost of the capital.
 - e) caused debt crises because the returns on the investments were greater than the interest cost of the capital.
4. If actual output equals potential output, but potential is growing very rapidly, then an economy:
 - a) is in an expansion.
 - b) has an expansionary gap.
 - c) has a recessionary gap.
 - d) is in a recession.
 - e) has an output gap.
5. In Macroland autonomous consumption equals 100, the marginal propensity to consume equals .75, net taxes are fixed at 40, planned investment is fixed at 50, government purchases are fixed at 150, and net exports are fixed at 20. Autonomous expenditure equals:
 - a) 290
 - b) 350
 - c) 360
 - d) 320
 - e) 100

6. If planned aggregate expenditure (PAE) in an economy equals $1,000 + .9Y$ and potential output (Y^*) equals 11,000, then this economy has:
- a) no output gap.
 - b) an expansionary gap.
 - c) no autonomous expenditure.
 - d) no induced expenditure.
 - e) a recessionary gap.

7. In the short-run Keynesian model, to close a recessionary gap of \$1 billion dollars taxes must be:
- a) decreased by \$1 billion.
 - b) increased by less than \$1 billion.
 - c) increased by \$1 billion.
 - d) decreased by less than \$1 billion.
 - e) increased by more than \$1 billion.

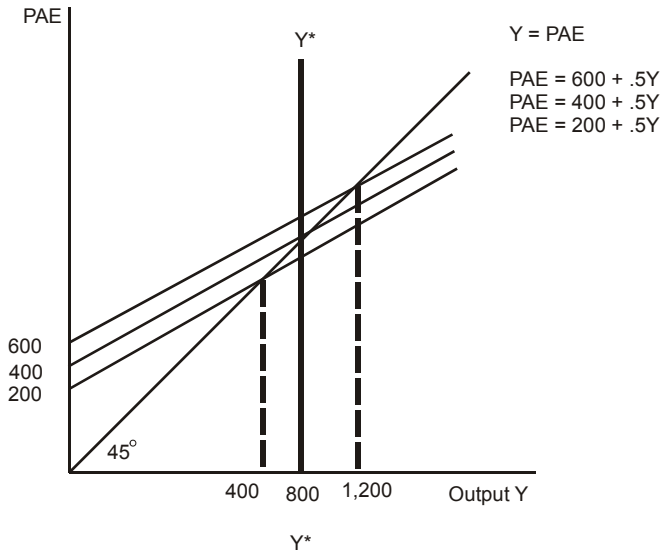
Use the following to answer questions 8-9:



8. Based on the Keynesian cross diagram, at short-run equilibrium output autonomous expenditure equals _____ and induced expenditure equals _____.
- a) 5900, 6000
 - b) 500, 4500
 - c) 500, 5000
 - d) 500, 5900
 - e) 5450, 5500
9. Based on the Keynesian cross diagram, if output equals 4,000 planned aggregate expenditure is _____ output and firms will _____ production.
- a) less than; increase
 - b) equal to; not change
 - c) less than; decrease
 - d) greater than; decrease
 - e) greater than; increase

- 10.** Coca Cola's "smart" vending machine is designed to provide:
- a)** output at preset prices.
 - b)** more flexible pricing of products.
 - c)** greater sensitivity to consumer complaints and concerns.
 - d)** a less expensive vending machine.
 - e)** higher levels of output.
- 11.** During the 1960s and 1970s, the U.S. trade balance was close to zero, but during the 1980s the trade deficit ballooned to unprecedented levels due to:
- a)** a worldwide recession that made it difficult for American companies to sell their products abroad.
 - b)** an inability of U.S. companies to compete in the international market.
 - c)** a decline in private saving that resulted from an upsurge in consumption.
 - d)** unfair protectionist policies imposed by America's major trade partners.
 - e)** a decline in national saving caused largely by rapidly rising government budget deficits.
- 12.** Regular interest payments made to bondholders are called _____ payments.
- a)** dividend **b)** diversification **c)** reserve **d)** principal **e)** coupon
- 13.** In the Keynesian model, a \$1 billion decrease in autonomous consumption leads to _____ in short-run equilibrium output.
- a)** a greater than \$1 billion increase
 - b)** more than a \$1 billion decrease
 - c)** a \$1 billion decrease
 - d)** a \$1 billion increase
 - e)** no change

Use the following to answer question 14:



14. Based on the figure, the income expenditure multiplier equals:
 a) 2. b) 400. c) 0.5. d) 5. e) 200.
15. At each value of the domestic interest rate, decreases in the riskiness of domestic assets _____ capital inflows, _____ capital outflows, and _____ net capital inflows.
 a) decrease; decrease; decrease d) increase; increase; decrease
 b) increase; decrease; increase e) increase; increase; increase
 c) decrease; increase; decrease
16. Short-term economic fluctuations are _____ in length and severity and _____ to predict.
 a) regular; easy d) irregular; easy
 b) constant; easy e) regular; difficult
 c) irregular; difficult
17. In the long run, total spending only influences:
 a) productive capacity. d) potential output.
 b) inflation. e) actual output.
 c) labor supply and demand.

25. Market oriented financial systems in countries such as the United States improve the allocation of savings by:
- a) providing information to savers and helping savers share risks.
 - b) centralizing decision making and lowering costs for borrowers.
 - c) maximizing allocations to risky projects and allowing noneconomic conditions to influence decisions.
 - d) raising interest rates and helping savers assume risk.
 - e) eliminating risk and raising interest rates for savers.
26. If the natural rate of unemployment is 4 percent, what is the actual rate of unemployment if output is 2 percent below potential?
- a) 8% b) 5% c) 2% d) 4% e) 6%
27. In an open economy, an increase in the perceived riskiness of domestic assets by foreigners, arising, for example, from an increase in political instability, leads to a(n) _____ in the equilibrium domestic real interest rates and to a(n) _____ in the quantity of domestic investment.
- a) increase; decrease
 - b) decrease, decrease
 - c) increase; increase
 - d) decrease; increase
 - e) increase; no change
28. A fiscal policy action to close an expansionary gap is to:
- a) increase transfer payments.
 - b) increase the marginal propensity to consume.
 - c) increase taxes.
 - d) increase potential output.
 - e) increase government purchases.
29. In Macroland potential output equals \$100 trillion and the natural rate of unemployment is 5 percent. If the actual unemployment rate is 7 percent, then the output gap equals:
- a) \$5 trillion. b) \$1 trillion. c) \$7 trillion. d) \$4 trillion. e) \$2 trillion.
30. The interest rate promised when a bond is issued is called the:
- a) dividend rate.
 - b) coupon rate.
 - c) discount rate.
 - d) real after-tax rate of interest.
 - e) real rate of interest.

37. In Macroland potential GDP equals \$500 billion and real GDP equals \$485 billion. Macroland has a(n) _____ gap equal to _____ percent of potential GDP.
- a) expansionary; 3
 - b) recessionary; -3
 - c) recessionary; 15
 - d) expansionary; -3
 - e) recessionary; 3
38. In Okunland, a country that operates according to Okun's law, real GDP equals \$7,520 billion, potential GDP equals \$8,000 billion and the actual unemployment rate is 8 percent. What is the natural rate of unemployment in Okunland?
- a) 6 %
 - b) 11 %
 - c) 8 %
 - d) 5 %
 - e) 7 %
39. Stock prices increase when expected future dividends _____, interest rates _____, and/or the risk premium _____.
- a) increase; increase; decreases
 - b) decrease; increase; decreases
 - c) increase; decrease; decreases
 - d) increase; increase; increases
 - e) decrease; decrease; increases
40. If the frictional rate of unemployment equals 3 percent, the structural rate of unemployment equals 4 percent, and the cyclical rate of unemployment equals 2 percent, then the natural rate of unemployment equals:
- a) 5%.
 - b) 9%.
 - c) 0%.
 - d) 6%.
 - e) 7%.
41. If planned aggregate expenditure (PAE) in an economy equals $2,000 + .8Y$ and potential output (Y^*) equals 11,000, then this economy has:
- a) no output gap.
 - b) an expansionary gap.
 - c) no autonomous expenditure.
 - d) no induced expenditure.
 - e) a recessionary gap.
42. All of the following would be included in planned aggregate expenditure EXCEPT:
- a) planned changes in inventories.
 - b) social security payments.
 - c) purchases of services provided by government employees.
 - d) consumer spending on services.
 - e) sales of domestically produced goods to foreigners.
43. When an American buys stock in a French company, from the perspective of the United States this is a(n):
- a) export.
 - b) capital outflow
 - c) capital inflow.
 - d) import.
 - e) trade balance.

- 44.** The coupon rate is the:
- a)** the growth rate of interest payments on a bond.
 - b)** interest rate promised when a bond is issued.
 - c)** maximum interest rate that can be paid on a bond.
 - d)** amount originally lent.
 - e)** regular payment of interest to a bondholder.
- 45.** In the short-run Keynesian model, to close an expansionary gap of \$1 billion dollars government purchases must be:
- a)** decreased by \$1 billion.
 - b)** increased by less than \$1 billion.
 - c)** increased by \$1 billion.
 - d)** decreased by less than \$1 billion.
 - e)** increased by more than \$1 billion.

Answer Key

1. a
2. d
3. d
4. a
5. a
6. e
7. d
8. b
9. e
10. b
11. e
12. e
13. b
14. a
15. b
16. c
17. b
18. e
19. a
20. a
21. a
22. b
23. a
24. d
25. a
26. b
27. a
28. c
29. d
30. b
31. e
32. c
33. d
34. c
35. d
36. b
37. e
38. d
39. c
40. e
41. e
42. b
43. b
44. b
45. d