

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 2

- 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.

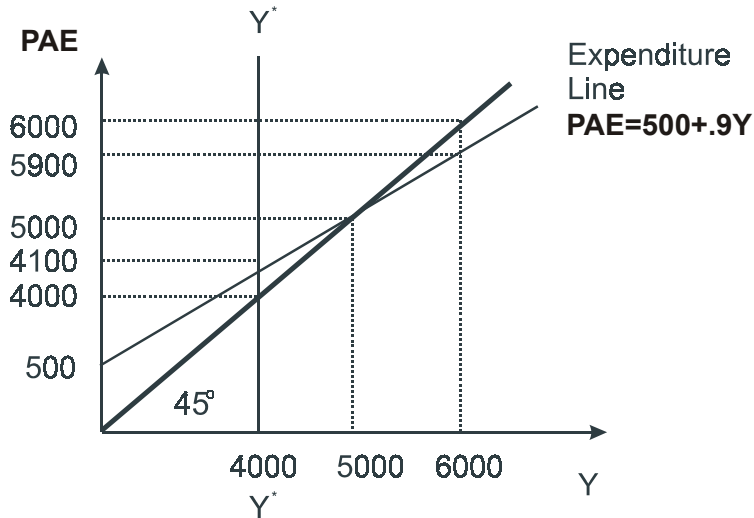
April 14, 2004

4:35 p.m. – 5:40 p.m.

BA 2-210

Multiple-Choice Questions (100 points)

Use the following to answer questions 1-2:



- Based on the Keynesian cross diagram, at short-run equilibrium output autonomous expenditure equals _____ and induced expenditure equals _____.
 a) 500, 5000 b) 500, 5900 c) 5450, 5500 d) 5900, 6000 e) 500, 4500
- Based on the Keynesian cross diagram, if output equals 4,000 planned aggregate expenditure is _____ output and firms will _____ production.
 a) less than; decrease d) greater than; increase
 b) less than; increase e) equal to; not change
 c) greater than; decrease
- In the long run, total spending only influences:
 a) potential output. d) actual output.
 b) productive capacity. e) labor supply and demand.
 c) inflation.

4. A recession occurs when either _____ and/or _____.
- a) potential output grows slowly; actual output rises above potential output
 - b) potential output grows rapidly; actual output rises above potential output
 - c) potential output grows rapidly; actual output falls below potential output
 - d) potential output grows slowly; actual output falls below potential output
 - e) potential output grows rapidly; actual output equals potential output
5. 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) 9%. b) 6%. c) 0%. d) 5%. e) 7%.
6. The practice of spreading one's wealth over a variety of different financial investments in order to reduce overall risk is called:
- a) risk reservation.
 - b) allocation.
 - c) the credit crunch.
 - d) diversification.
 - e) following the risk premium.
7. In Macroland potential output equals \$100 billion and the natural rate of unemployment is 5 percent. If the actual unemployment rate is 3 percent, then the output gap equals:
- a) \$2 billion. b) \$4 billion. c) -\$4 billion. d) -\$2 billion. e) -\$1 billion.
8. 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 autonomous expenditure.
 - b) no induced expenditure.
 - c) a recessionary gap.
 - d) no output gap.
 - e) an expansionary gap.
9. A fiscal policy action to close an expansionary gap is to:
- a) increase the marginal propensity to consume.
 - b) increase government purchases.
 - c) increase taxes.
 - d) increase potential output.
 - e) increase transfer payments.

10. In the Keynesian model, a \$1 billion decrease in autonomous consumption leads to _____ in short-run equilibrium output.
- a) no change
 - b) a \$1 billion decrease
 - c) a greater than \$1 billion increase
 - d) more than a \$1 billion decrease
 - e) a \$1 billion increase
11. All of the following would be included in planned aggregate expenditure EXCEPT:
- a) social security payments.
 - b) purchases of services provided by government employees.
 - c) planned changes in inventories.
 - d) consumer spending on services.
 - e) sales of domestically produced goods to foreigners.
12. In the Keynesian model, a \$5 billion increase in autonomous planned investment leads to _____ in short-run equilibrium output.
- a) a \$5 billion decrease
 - b) a \$5 billion increase
 - c) more than a \$5 billion decrease
 - d) no change
 - e) a greater than \$5 billion increase
13. Stock prices increase when expected future dividends _____, interest rates _____, and/or the risk premium _____.
- a) increase; increase; decreases
 - b) decrease; decrease; increases
 - c) increase; decrease; decreases
 - d) decrease; increase; decreases
 - e) increase; increase; increases
14. 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) 8 %
 - b) 11 %
 - c) 5 %
 - d) 6 %
 - e) 7 %
15. 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.
16. Regular interest payments made to bondholders are called _____ payments.
- a) dividend
 - b) principal
 - c) diversification
 - d) reserve
 - e) coupon

21. Short-term economic fluctuations are _____ in length and severity and _____ to predict.
- a) regular; easy
 - b) irregular; difficult
 - c) irregular; easy
 - d) constant; easy
 - e) regular; difficult
22. 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) \$2 trillion.
 - b) \$7 trillion.
 - c) \$1 trillion.
 - d) \$4 trillion.
 - e) \$5 trillion.
23. If the natural rate of unemployment is 4 percent, what is the actual rate of unemployment if output is 2 percent below potential?
- a) 4%
 - b) 8%
 - c) 2%
 - d) 5%
 - e) 6%
24. Coca Cola's "smart" vending machine is designed to provide:
- a) greater sensitivity to consumer complaints and concerns.
 - b) more flexible pricing of products.
 - c) a less expensive vending machine.
 - d) output at preset prices.
 - e) higher levels of output.
25. The coupon rate is the:
- a) interest rate promised when a bond is issued.
 - b) maximum interest rate that can be paid on a bond.
 - c) the growth rate of interest payments on a bond.
 - d) amount originally lent.
 - e) regular payment of interest to a bondholder.
26. In the short-run Keynesian model, to close an expansionary gap of \$1 billion dollars government purchases must be:
- a) increased by less than \$1 billion.
 - b) increased by more than \$1 billion.
 - c) decreased by less than \$1 billion.
 - d) decreased by \$1 billion.
 - e) increased by \$1 billion.
27. When an American buys stock in a French company, from the perspective of the United States this is a(n):
- a) capital outflow
 - b) capital inflow.
 - c) import.
 - d) trade balance.
 - e) export.

- 28.** Since the end of World War II, recessions in the U.S have _____ than expansions.
- a) been shorter in duration, on average,
 - b) been longer in duration, on average,
 - c) generated more inflation
 - d) been more predictable
 - e) occurred more frequently
- 29.** The portion of planned aggregate expenditure that depends on output is called _____ expenditure.
- a) actual
 - b) potential
 - c) induced
 - d) planned
 - e) autonomous
- 30.** 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) unfair protectionist policies imposed by America's major trade partners.
 - d) a decline in national saving caused largely by rapidly rising government budget deficits.
 - e) a decline in private saving that resulted from an upsurge in consumption.
- 31.** Market oriented financial systems in countries such as the United States improve the allocation of savings by:
- a) raising interest rates and helping savers assume risk.
 - b) eliminating risk and raising interest rates for savers.
 - c) maximizing allocations to risky projects and allowing noneconomic conditions to influence decisions.
 - d) providing information to savers and helping savers share risks.
 - e) centralizing decision making and lowering costs for borrowers.
- 32.** Capital inflows used to finance capital investment in some developing countries have:
- a) had economic benefits without costs.
 - b) caused debt crises because the returns on the investments were greater than the interest cost of the capital.
 - c) decreased domestic saving.
 - d) caused debt crises because the returns on the investments were less than the interest cost of the capital.
 - e) benefited domestic savers because of higher interest rates paid on saving accounts.

39. When firms preset prices in the short-term, economywide spending changes are the primary cause of:
- a) output gaps.
 - b) the growth of potential output.
 - c) frictional unemployment.
 - d) structural unemployment.
 - e) inflation.
40. 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
41. The interest rate promised when a bond is issued is called the:
- a) discount rate.
 - b) dividend rate.
 - c) coupon rate.
 - d) real after-tax rate of interest.
 - e) real rate of interest.
42. In the short-run Keynesian model, to close a recessionary gap of \$1 billion dollars taxes must be:
- a) increased by more than \$1 billion.
 - b) increased by \$1 billion.
 - c) decreased by less than \$1 billion.
 - d) decreased by \$1 billion.
 - e) increased by less than \$1 billion.
43. When an American buys stock in a French company, from the perspective of France this is of a(n):
- a) capital outflow
 - b) trade balance.
 - c) capital inflow.
 - d) import.
 - e) export.
44. 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) recessionary; 3
 - b) recessionary; 15
 - c) expansionary; 3
 - d) recessionary; -3
 - e) expansionary; -3
45. 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) decrease; increase
 - b) increase; increase
 - c) decrease, decrease
 - d) increase; decrease
 - e) increase; no change

Answer Key

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