

1. Unlike a market economy, a command economy uses
 - a) more centralized planning in economic decision making
 - b) consumer sovereignty to make production decisions
 - c) its resources more efficiently
 - d) price signals in economic decision making
 - e) the popular vote in making resource allocation decisions

2. For an economy consisting of households and businesses only, which of the following is consistent with the circular flow of income and production?
 - a) Households are producers of goods and services and consumers of resources.
 - b) Households are users of resources, and businesses are sources of saving.
 - c) Households are suppliers of resources and consumers of goods and services.
 - d) Businesses are users of taxes, and households are sources of taxes.
 - e) Businesses are suppliers of resources and consumers of goods and services.

3. The table below shows the production alternatives of Country A and Country B for producing computers and cars with equal amounts of resources that are fully and efficiently employed.

<u>Country</u>	<u>Computers</u>	<u>Cars</u>
A	24 0	0 12
B	45 0	0 15

Which of the following is true according to the data in the table?

- a) Country A has an absolute and comparative advantage in the production of computers.
 - b) Country B has an absolute and comparative advantage in the production of computers.
 - c) Country B should import computers and export cars.
 - d) Since Country B has an absolute advantage in the production of both goods, it will not trade with Country A.
 - e) Neither country can benefit from trade.
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4. Which of the following changes in the supply of and the demand for a good will definitely result in a decrease in both the equilibrium price and quantity of the good?

<u>Supply</u>	<u>Demand</u>
a) Increase	Increase
b) Increase	No change
c) No change	Decrease
d) Decrease	Increase
e) Decrease	Decrease

 5. Which of the following best illustrates an improvement in a country's standard of living?
 - a) An increase in real per capita gross domestic product
 - b) An increase in nominal per capita gross domestic product
 - c) Price stability
 - d) A balanced budget
 - e) An increase in the consumer price index

6. The official unemployment rate understates the unemployment level in the economy because the official unemployment rate
- ignores the duration of unemployment
 - ignores underemployed and discouraged workers
 - includes jobs created by the underground economy
 - excludes all unemployed teenagers
 - excludes frictionally unemployed workers

7. Which of the following individuals is considered officially unemployed?

- Chris, who has not worked for more than three years and has given up looking for work
- Kim, who is going to school full-time and is waiting until graduation before looking for a job
- Pat, who recently left a job to look for a different job in another town
- Leslie, who retired after turning 65 only five months ago
- Lee, who is working 20 hours per week and is seeking full-time employment

	National Economic Figures (billions of dollars)
Consumption	\$ 3,000
Government purchases of goods and Services	1,000
Gross private domestic investment	700
Depreciation	300
Exports	300
Imports	500
Indirect business taxes	0

8. Based on the economic figures in the table above, what is the value of gross domestic product, in billions of dollars?

- \$4,500
- \$4,700
- \$4,900
- \$5,150
- \$5,950

9. Which of the following statements is true of unanticipated inflation?

- It decreases the economic well-being of all members of society proportionately.
- It decreases the economic well-being of all members of society equally.
- It increases the economic well-being of net creditors.
- It increases the economic well-being of net debtors.
- It increases the economic well-being of workers with long-term labor contracts.

10. The consumer price index (CPI) is designed to measure changes in the

- spending patterns of urban consumers only
- spending patterns of all consumers
- wholesale price of manufactured goods
- prices of all goods and services produced in an economy
- cost of a select market basket of goods and services

11. If a reduction in aggregate supply is followed by an increase in aggregate demand, which of the following will definitely occur?

- a) Output will increase.
- b) Output will decrease.
- c) Output will not change.
- d) The price level will increase.
- e) The price level will decrease.

12. With an increase in the real interest rate, consumption and real gross domestic product will most likely change in which of the following ways?

<u>Consumption</u>	<u>Real Gross Domestic Product</u>
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- | | |
|--------------|----------|
| a) Increase | Increase |
| b) Increase | Decrease |
| c) Decrease | Increase |
| d) Decrease | Decrease |
| e) No change | Increase |

13. An increase in which of the following would cause the aggregate demand curve to shift to the left?

- a) Consumer optimism
- b) Population
- c) Cost of resources
- d) Income taxes
- e) Net exports

14. Which of the following are the most likely short-run effects of an increase in government expenditures?

<u>Unemployment Rate</u>	<u>Inflation Rate</u>	<u>Real Gross Domestic Product</u>
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- | | | |
|--------------|----------|----------|
| a) Increase | Increase | Increase |
| b) Increase | Increase | Decrease |
| c) Decrease | Increase | Increase |
| d) Decrease | Decrease | Increase |
| e) No change | Decrease | Increase |

15. In the short run, an expansionary monetary policy would most likely result in which of the following changes in the price level and real gross domestic product (GDP)?

<u>Price Level</u>	<u>Real GDP</u>
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- | | |
|--------------|-----------|
| a) Decrease | Increase |
| b) No change | Decrease |
| c) Increase | No change |
| d) Increase | Decrease |
| e) Increase | Increase |

BANK A

<u>Assets</u>		<u>Liabilities</u>	
Actual reserves	\$1,000	Demand deposits	\$5,000
Loans	\$4,000		

BANK B

<u>Assets</u>		<u>Liabilities</u>	
Actual reserves	\$ 100	Demand deposits	\$ 600
Loans	\$ 500		

BANK C

<u>Assets</u>		<u>Liabilities</u>	
Actual reserves	\$ 10	Demand deposits	\$ 100
Loans	\$ 90		

16. Based on the balance sheets above for three different banks, which of the following is true, if the reserve requirement is 10 percent?
- a) Bank A has no excess reserves.
 - b) Bank B has no excess reserves.
 - c) Bank B can increase its loans by \$500.
 - d) Bank B can increase its loans by \$40.
 - e) Bank C has excess reserves.
17. A country's government runs a budget deficit when which of the following occurs in a given year?
- a) The amount of new loans to developing nations exceeds the amount of loans paid off by developing nations.
 - b) Government spending exceeds tax revenues.
 - c) The debt owed to foreigners exceeds the debt owed to the country's citizens.
 - d) The amount borrowed exceeds the interest payment on the national debt.
 - e) Interest payments on the national debt exceed spending on goods and services.
18. The amount of money that the public wants to hold in the form of cash will
- a) be unaffected by any change in interest rates or the price level
 - b) increase if interest rates increase
 - c) decrease if interest rates increase
 - d) increase if the price level decreases
 - e) decrease if the price level remains constant
19. Which of the following will lead to a decrease in a nation's money supply?
- a) A decrease in income tax rates
 - b) A decrease in the discount rate
 - c) An open market purchase of government securities by the central bank
 - d) An increase in reserve requirements
 - e) An increase in government expenditures on goods and services

20. Assume that an economy is currently in long-run equilibrium and the short-run aggregate supply curve is upward sloping. An adverse supply shock, such as a drought, will most likely cause which of the following to the economy in the short run?
- A decrease in the price level and a decrease in the nominal wage
 - A decrease in the price level and an increase in the nominal wage
 - An increase in the price level and an increase in the nominal wage
 - An increase in the price level and an increase in the real wage
 - An increase in the price level and a decrease in the real wage
21. An increase in the government budget deficit is most likely to result in an increase in which of the following?
- The supply of loanable funds
 - Exports
 - The real interest rate
 - The money supply
 - The money multiplier
22. A commercial bank's ability to create money depends on which of the following?
- The existence of a central bank
 - A fractional reserve banking system
 - Gold or silver reserves backing up the currency
 - A large national debt
 - The existence of both checking accounts and savings accounts
23. In the short run, which of the following would occur to bond prices and interest rates if a central bank bought bonds through open-market operations?
- | <u>Bond Prices</u> | <u>Interest Rates</u> |
|--------------------|-----------------------|
| a) No change | Increase |
| b) Increase | Increase |
| c) Increase | Decrease |
| d) Decrease | Increase |
| e) Decrease | Decrease |
24. Assume that the required reserve ratio is 10 percent, banks keep no excess reserves, and borrowers deposit all loans made by banks. Suppose you have saved \$100 in cash at home and decide to deposit it in your checking account. As a result of your deposit, the money supply can increase by a maximum of
- \$800
 - \$900
 - \$1,000
 - \$1,100
 - \$1,200

25. The shifting of a country's production possibilities curve to the right will most likely cause

- a) net exports to decline
- b) inflation to increase
- c) the aggregate demand curve to shift to the left
- d) the long-run aggregate supply curve to shift to the left
- e) the long-run aggregate supply curve to shift to the right

26. In the narrowest definition of money, M1, savings accounts are excluded because they are

- a) not a medium of exchange
- b) not insured by federal deposit insurance
- c) available from financial institutions other than banks
- d) a store of purchasing power
- e) interest-paying accounts

27. For which of the following sets of unemployment and inflation rates will a central bank be most reluctant to increase the rate of growth in the money supply?

<u>Unemployment Rate</u>	<u>Inflation Rate</u>
a) 10%	2%
b) 10%	5%
c) 10%	10%
d) 5%	5%
e) 5%	10%