Econ 330 Final Exam

There are 50 multiple choice questions to this exam, each worth 2 points for a total of 100. You have 2 hours to complete the 50 questions. Good luck.

1) Suppose that the latest Consumer Price Index (CPI) release shows a higher inflation rate in the U.S. than was expected. Everything else held constant, the release of the CPI report would immediately cause the demand for U.S. assets to ________ and the U.S. dollar would ________.
   A) increase; appreciate
   B) increase; depreciate
   C) decrease; appreciate
   D) decrease; depreciate
   Answer: D
   Ques Status: New

2) A decrease in the expected future domestic exchange rate causes the demand for domestic assets to shift to the ________ and the domestic currency to ________, everything else held constant.
   A) right; appreciate
   B) right; depreciate
   C) left; appreciate
   D) left; depreciate
   Answer: D
   Ques Status: New

3) ________ in the foreign interest rate causes the demand for domestic assets to ________ and the domestic currency to appreciate, everything else held constant.
   A) An increase; increase
   B) An increase; decrease
   C) A decrease; increase
   D) A decrease; decrease
   Answer: C
   Ques Status: New

4) Everything else held constant, when the current value of the domestic exchange rate increases, the ________ of domestic assets ________.
   A) quantity supplied; does not change
   B) supply; decreases
   C) quantity supplied; increases
   D) supply; increases
   Answer: A
   Ques Status: New
5) 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.
   A) appreciation; 4
   B) appreciation; 2
   C) depreciation; 2
   D) depreciation; 4
   Answer: C
   Ques Status: Revised

6) With a 10 percent interest rate on dollar deposits, and an expected appreciation of 7 percent over the coming year, the expected return on dollar deposits in terms of the dollar is
   A) 3 percent.
   B) 10 percent.
   C) 13.5 percent.
   D) 17 percent.
   Answer: B
   Ques Status: Revised

7) 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 Francois the Frenchman the expected rate of return on peso-denominated assets is
   A) 11 percent.
   B) 15 percent.
   C) 17 percent.
   D) 19 percent.
   Answer: A
   Ques Status: Revised

8) When Americans or foreigners expect the return on ________ assets to be high relative to the return on ________ assets, there is a ________ demand for dollar assets, everything else held constant.
   A) dollar; foreign; constant
   B) dollar; foreign; higher
   C) foreign; dollar; higher
   D) foreign; dollar; constant
   Answer: B
   Ques Status: Revised

9) The condition that states that the domestic interest rate equals the foreign interest rate minus the expected appreciation of the domestic currency is called
   A) the purchasing power parity condition.
   B) the interest parity condition.
   C) money neutrality.
   D) the theory of foreign capital mobility.
   Answer: B
   Ques Status: Previous Edition
10) Lower tariffs and quotas cause a country's currency to ________ in the ________ run, everything else held constant.
   A) depreciate; short
   B) appreciate; short
   C) depreciate; long
   D) appreciate; long
   Answer: C
   Ques Status: Revised

11) In a liquidity trap, monetary policy has ________ effect on aggregate spending because a change in the money supply has ________ effect on interest rates.
   A) no; no
   B) no; a large
   C) no; a small
   D) a large; a large
   Answer: A
   Ques Status: Revised

12) In the liquidity trap, the money demand curve
   A) is horizontal.
   B) is vertical.
   C) is negatively sloped.
   D) is positively sloped.
   Answer: A
   Ques Status: Revised

13) The evidence on the interest sensitivity of the demand for money suggests that the demand for money is ________ to interest rates, and there is ________ evidence that a liquidity trap exists.
   A) sensitive; substantial
   B) sensitive; little
   C) insensitive; substantial
   D) insensitive; little
   Answer: B
   Ques Status: Previous Edition

14) If interest rates do not affect the demand for money, then velocity is _____ likely to be _____.
   A) more; stable
   B) more; unstable
   C) more; procyclical
   D) less; stable
   Answer: A
   Ques Status: Previous Edition

15) In Friedman's modern quantity theory, velocity is procyclical because
   A) money demand depends on permanent income, which is more stable than actual income.
   B) money demand depends on actual income, which is more stable than permanent income.
   C) velocity depends upon interest rates, which are stable over the business cycle.
   D) velocity depends upon interest rates, which move procyclically.
   Answer: A
   Ques Status: Revised
16) According to Milton Friedman, the demand for money is insensitive to interest rates because
   A) the demand for money is insensitive to changes in the opportunity cost of holding money.
   B) competition among banks keeps the opportunity cost of holding money relatively constant.
   C) people base their investment decisions on expected profits, not interest rates.
   D) transactions are not subject to scale economies as wealth increases.
   Answer: B
   *Ques Status: Revised*

17) The speculative demand for money may not exist because
   A) banks now pay interest on some types of checkable deposits.
   B) there are alternative riskless assets paying higher returns than the return on money.
   C) the transactions demand can be shown to depend on interest rates.
   D) government regulations have eliminated risk in the financial markets.
   Answer: B
   *Ques Status: Revised*

18) The Keynesian demand for real balances can be expressed as
   A) $M_d = f(i,Y)$.
   B) $M_d/P = f(i)$.
   C) $M_d/P = f(Y)$.
   D) $M_d/P = f(i,Y)$.
   Answer: D
   *Ques Status: Revised*

19) Keynes’s theory of the demand for money is consistent with
   A) countercyclical movements in velocity.
   B) a constant velocity.
   C) procyclical movements in velocity.
   D) a relatively stable velocity.
   Answer: C
   *Ques Status: Revised*

20) If people expect nominal interest rates to be higher in the future, the expected return to bonds _____, and the demand for money _____.
   A) rises; increases
   B) rises; decreases
   C) falls; increases
   D) falls; decreases
   Answer: C
   *Ques Status: Previous Edition*

21) If the economy is on the IS curve, but is to the left of the LM curve, then the ________ market is in equilibrium, but the interest rate is ________ the equilibrium level.
   A) goods; below
   B) goods; above
   C) money; below
   D) money; above
   Answer: B
   *Ques Status: Previous Edition*
22) 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 _______.
   A) rise; rise  
   B) rise; fall  
   C) fall; rise  
   D) fall; fall  
   Answer: A

23) As aggregate output rises, the demand for money _______ and the interest rate _______, so that money demanded equals money supplied and the money market is in equilibrium.
   A) increases; rises  
   B) increases; falls  
   C) decreases; rises  
   D) decreases; falls  
   Answer: A

24) The money market is in equilibrium
   A) at any point on the IS curve.  
   B) at any point on the LM curve.  
   C) at only one point on the LM curve.  
   D) only at the intersection of the IS and LM curves.  
   Answer: B

25) A decrease in interest rates
   A) increases the value of the dollar, net exports, and equilibrium output.  
   B) increases the value of the dollar, reducing net exports and equilibrium output.  
   C) reduces the value of the dollar, net exports, and equilibrium output.  
   D) reduces the value of the dollar, increasing net exports and equilibrium output.  
   Answer: D

26) When interest rates rise in the United States (with the price level fixed), the value of the dollar _______. domestic goods become _______ expensive, and net exports _______.
   A) falls; less; fall  
   B) falls; more; rise  
   C) rises; more; fall  
   D) rises; less; fall  
   Answer: C

27) When the interest rate is _______, _______ investments in physical capital will earn more than the cost of borrowed funds, so planned investment spending is _______.
   A) high; few; high  
   B) high; few; low  
   C) low; few; high  
   D) low; many; low  
   E) high; many; high
28) If net exports increase by 100 and the mpc is 0.75, equilibrium aggregate output increases by
   A) 100.
   B) 250.
   C) 400.
   D) 750.
   Answer: C
   Ques Status: Revised

29) Keynes believed that changes in autonomous spending were dominated by changes in
   A) consumer expenditure.
   B) autonomous consumer expenditure.
   C) investment spending.
   D) taxes.
   E) none of the above.
   Answer: C
   Ques Status: Previous Edition

30) The ratio of the change in aggregate output to a change in planned investment spending is called
   A) the marginal propensity to consume.
   B) autonomous consumer expenditure.
   C) the expenditure multiplier.
   D) unplanned inventory accumulation.
   Answer: C
   Ques Status: Previous Edition

31) Everything else held constant, an increase in autonomous planned investment spending will cause the IS
    curve to shift to the ________ and aggregate demand will ________.
    A) right; increase
    B) right; decrease
    C) left; increase
    D) left; decrease
    Answer: A
    Ques Status: New

32) Expansionary monetary policies, all else remaining the same, will cause
   A) the quantity of aggregate demand to increase.
   B) the quantity of aggregate demand to decrease.
   C) aggregate demand to decrease.
   D) aggregate demand to increase.
   Answer: D
   Ques Status: Revised

33) The aggregate demand curve has the usual downward slope, since a ________ price level ________ the real
    money supply, raises interest rates, and lowers the equilibrium level of aggregate output.
    A) lower; reduces
34) In the long-run the ISLM model predicts that
   A) only monetary policy can change real output.
   B) only fiscal policy can change real output.
   C) both monetary and fiscal policy can change real output.
   D) neither monetary nor fiscal policy can change real output.
   Answer: D
   Ques Status: Revised

35) The long-run neutrality of money refers to the fact that in the long run, monetary policy
   A) changes only real output.
   B) changes only the real interest rate.
   C) changes both real output and the real interest rate.
   D) has no effect on either real output or the real interest rate.
   Answer: D
   Ques Status: Revised

36) In the case of an expansionary ________ policy, the interest rate rises, while in the case of an expansionary ________ policy, the interest rate falls.
   A) monetary; monetary
   B) monetary; fiscal
   C) fiscal; monetary
   D) fiscal; fiscal
   Answer: C
   Ques Status: Previous Edition

37) In the money market, a condition of excess supply of money can be eliminated by a ________, in aggregate output or a ________ in the interest rate, everything else held constant.
   A) rise; rise
   B) rise; fall
   C) fall; rise
   D) fall; fall
   Answer: B
   Ques Status: Revised

38) A contractionary monetary policy shifts the LM curve to the ________, reducing ________, everything else held constant.
   A) left; output and increasing interest rates
   B) left; both real output and interest rates
   C) right; both interest rates and real output
   D) right; interest rates and increasing real output
   Answer: A
39) An autonomous increase in money demand, other things equal, shifts the ________ curve to the ________.
   A) IS; right
   B) IS; left
   C) LM; left
   D) LM; right
   Answer: C

40) When the central bank ________ the money supply, the LM curve shifts to the right, interest rates ________, and equilibrium aggregate output ________, everything else held constant.
   A) increases; fall; increases
   B) increases; rise; decreases
   C) decreases; rise; decreases
   D) decreases; fall; increases
   Answer: A

41) If workers demand and receive higher real wages (a successful wage push), the cost of production ________ and the short-run aggregate supply curve shifts ________.
   A) rises; leftward
   B) rises; rightward
   C) falls; leftward
   D) falls; rightward
   Answer: A

42) Everything else held constant, a decrease in the cost of production ________ aggregate ________.
   A) increases; demand
   B) decreases; demand
   C) increases; supply
   D) decreases; supply
   Answer: C

43) The short-run aggregate supply curve is upward sloping because in the short run, costs of many factors that go into producing goods and services are ________, meaning that the price for a unit of output will ________ relative to input prices and the profit per unit will rise.
   A) fixed; rise
   B) fixed; fall
   C) flexible; rise
   D) flexible; fall
   Answer: A

44) A decrease in government spending, other things equal, ________ aggregate ________.
   A) increases; demand
45) 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 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.
C) 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.
D) 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.

Answer: A

46) Suppose real GDP is equal to $100 trillion, the money supply is equal to $50 trillion and the price level is equal to 2. In this case, the velocity of money is equal to ________.

A) 1
B) 2
C) 4
D) 5

Answer: C

47) The quantity theory of money concludes that changes in aggregate spending are primarily determined by changes in

A) government spending and taxes.
B) the velocity of money.
C) interest rates.
D) the money supply.

Answer: D

48) The total quantity of an economy's final goods and services demanded at different price levels is

A) the aggregate supply curve.
B) the aggregate demand curve.
C) the Phillips curve.
D) the aggregate expenditure function.

Answer: B

49) According to the quantity theory of money, changes in the money supply are

A) unrelated to changes in the price level.
B) unrelated to changes in inflation.
C) unrelated to shifts in the aggregate demand curve.
D) the primary source of changes in aggregate spending.

Answer: D
50) Everything else held constant, a balanced budget increase in government spending (that is, an increase in government spending that is matched by an identical increase in net taxes) will
A) increase aggregate demand, but not by as much if just government spending increases.
B) increase aggregate demand by more than if just government spending increases.
C) will not affect aggregate demand.
D) decrease aggregate demand.
Answer: A
Ques Status: New