Homework Assignment III  
**Due Date:** November 2

Solve the following multiple-choice problems and mark the answers on the scantron provided. Make sure to include your name and section number on the scantron (Each problem is worth 2 points).

1. **Eric’s Marginal Propensity to Save is .15. When his income increases, Eric increases his savings by $30, by how much does Eric increase his consumption?**
   (a) $85  
   (b) $120  
   (c) $170  
   (d) $200

2. **Which of the following government policy would help shorten recessions**
   (a) A balance budget amendment that requires that government spending equals government revenue  
   (b) Labor laws that prevent companies from reducing wages during recessions  
   (c) A law that requires that the Fed to keep the interest rate fixed  
   (d) None of the above

3. **Which of the followings would increase the money multiplier effect?**
   (a) If banks kept more excess reserves in the vault in order to be on the safe side  
   (b) If more people used debit cards and kept more money in the bank  
   (c) If banks invested more money in government bonds  
   (d) If people held more money as cash

4. **Nina’s disposable income is $80,000, her autonomous consumption is $12,000 and her Marginal Propensity to Consume is .8, how much money is Nina saving?**
   (a) She is saving $4,000  
   (b) She is saving $8,000  
   (c) She is saving $12,000  
   (d) She is saving $16,000

5. **Based on the Keynesian model with no trade, if the equilibrium output increases by $20 billion when government spending increases by $4 billion, what is the Marginal Propensity to Consume in the economy?**
   (a) .50  
   (b) .70  
   (c) .75  
   (d) .80
6. According to monetarists what should the government do if employment is well above the full level of employment?
   (a) Reduce government spending
   (b) Tighten the supply of money
   (c) Appreciate the currency
   (d) Lower the interest rates

7. Stan puts 5% of his income in a saving account every month in order to save money for a down payment on a sailboat. Stan is using money:
   (a) As a medium of exchange
   (b) As a unit of projection
   (c) As a unit of account
   (d) As a store of value

8. Congress passes a new amendment that requires that at least half of the state governors sign on each federal bill before it becomes a law. Which lag is this amendment likely to increase?
   (a) Recognition lag
   (b) Legislative lag
   (c) National lag
   (d) Impact lag

9. Which of the following is true if the government is required to balance its budget (spending must equal revenue)?
   (a) Government spending would decrease during recessions
   (b) Government revenue would decrease during expansions
   (c) Government spending would decrease during expansions
   (d) Government revenue would increase during recessions

10. In 2001 the government debt increased from $550 billion to $600 billion and it received $200 billion in revenue via taxes and fees. How much money did the government spend in 2001?
    (a) $150 billion
    (b) $200 billion
    (c) $250 billion
    (d) $300 billion

11. When the economy is in a recession automatic stabilizers tend to:
    (a) Enlarge the budget deficit (or reduce the budget surplus)
    (b) Enlarge the budget surplus (or reduce the budget deficit)
    (c) Ensure the budget remains balanced
    (d) Raise the interest rates
12. Which of the following actions can the Fed take to reduce unemployment?
(a) Increase the discount rate and raise the Required Reserve Ratio
(b) Increase the Required Reserve Ratio and sell bonds
(c) Lower the Federal Funds Rate and buy bonds
(d) Issue new bonds and print more money

13. Which of the following is NOT a function of the Fed?
(a) Determine that interest rates that banks charge
(b) Regulating Savings and Loans Institutions
(c) Determining the required reserve ratio
(d) Selling government bonds

14. Which one of these assets is the LEAST liquid one?
(a) A government bond
(b) A time deposit
(c) A corporate stock
(d) A car

15. Lisa sells corporate stocks, worth $10,000, and places the money in a checking account. What would happen to M1 and M2 as a result of Lisa’s actions?
(a) M1 will increase by $10,000 and M2 will remain unchanged
(b) M2 will increase by $10,000 and M1 will remain unchanged
(c) M1 will increase by $10,000 and M2 will decrease by $10,000
(d) M1 and M2 will both increase by $10,000

16. Assume that banks lend out all their excess reserves and individuals deposit all their money. If the Required Reserve Ratio is .20, how many bonds does the Fed have to purchase in order to increase the supply of money by $20 billion?
(a) $2 billion worth of bonds
(b) $4 billion worth of bonds
(c) $5 billion worth of bonds
(d) $10 billion worth of bonds

17. Houses would make a poor form of money because:
(a) They are a poor medium of exchange
(b) They are a poor store of value
(c) They are too abundant
(d) Anyone can build them

18. According to Keynesians, which one of these policies should the government use if the unemployment rate is well below the natural rate of unemployment?
(a) Decrease the required reserve ratio
(b) Sell government bonds
(c) Increase government spending
(d) Increase taxes
Use the following information to answer problems 19 and 20:
Price level = 10, Supply of Money = $250 billion, Real GDP = $100 billion.

19. What does the velocity of money equal?
(a) 4
(b) 5
(c) 10
(d) 20

20. Assuming that the velocity of money stays the same and that real GDP increases by 15%, what will happen to the price level if the supply of money increases to $350 billion?
(a) It will increase to 12.17
(b) It will increase to 14.36
(c) It will increase to 15.55
(d) It will increase to 17.42