Practice Exam 3

1. Michael’s Marginal Propensity to Consume is .95 and his autonomous consumption is $8,000. How much is Michael dissaving if his income $80,000?
(a) He is dissaving $2,000
(b) He is dissaving $4,000
(c) He is dissaving $6,000
(d) He is dissaving $8,000

2. Alexandra’s Marginal Propensity to Consume is .88. When her income increases, she increases her savings by $720. By how much did her income increase?
(a) By $3,200
(b) By $4,400
(c) By $5,200
(d) By $6,000

3. In the Keynesian model with no trade, if the marginal propensity to consume is .85 and the government increases spending by $20 billion, by how much will output rise?
(a) $85.0 billion
(b) $133.3 billion
(c) $167.7 billion
(d) $170.0 billion

4. Sally trades her homemade muffins for lemonade that her friend Jen made. Sally is using muffins as:
(a) A medium of exchange
(b) A unit of divisibility
(c) A store of value
(d) A unit of account

5. Which school of thought would argue that the Fed should buy government bonds during a recession?
(a) Keynesian economists
(b) Classical economists
(c) Monetarists
(d) None of the above
6. It takes time to accumulate the statistics that are necessary to make sound policy decisions. This is known as:
(a) A recognition lag
(b) A legislative lag
(c) A political lag
(d) An impact lag

7. If John’s income is $90,000, his Marginal Propensity to Save is .10 and his consumption is $88,000, what does John’s autonomous consumption equal?
(a) $2,000
(b) $5,000
(c) $7,000
(d) $10,000

8. The government lowered taxes during a recession in 2001, which according to many economists helped the economy recover more quickly. This best supports the view of:
(a) Supply-side economists
(b) Keynesian economists
(c) Classical economists
(d) Monetarists

9. If the government currently has a balanced budget, which one of these actions will lead to a surplus in the government’s budget?
(a) A decrease in taxes
(b) Printing out more money
(c) A decrease in government spending
(d) The Fed selling government bonds

10. Which of the following actions can the Fed take to raise investment?
(a) Lower the required reserve ratio
(b) Raise the Federal Funds Rate
(c) Sell government bonds
(d) Lower taxes

11. Which one of these assets is the LEAST liquid one?
(a) A money market mutual fund
(b) A government bond
(c) A corporate stock
(d) A time deposit

12. Which one of these jobs is NOT a role that the Fed has?
(a) Act as the bank for the Federal government
(b) Manage the country’s monetary policy
(c) Regulate savings and loans institutions
(d) Issue new government bonds
13. **Which one of these actions will lower the amount of money in M2 and will leave the amount of money in M1 unchanged?**
   (a) Martha uses money from her saving account to buy a government bond
   (b) Marvin transfers money from a saving account to a checking account
   (c) Mary transfers money from her checking account to a time deposit
   (d) Michael sell a stock and places the money in a checking account

14. **Tomatoes would make a poor form of money because:**
   (a) They are a poor medium of exchange
   (b) They are a poor unit of account
   (c) They need a long time to grow
   (d) They are a poor store of value

15. **Assuming that banks lend out all their excess reserves and individuals deposit all their money. If an increase of $4 billion in the monetary base increases the supply of money by $16 billion, what does the Required Reserve Ratio equal?**
   (a) .25
   (b) .20
   (c) .18
   (d) .15

16. **Which one of these policies should the Fed engage in if the unemployment rate is well below the natural rate of unemployment?**
   (a) Lower the Required Reserve Ratio
   (b) Reduce the Federal Funds Rate
   (c) Sell government bonds
   (d) Increase taxes

17. **Assume that banks lend out all their excess reserves and individuals deposit all their money. If the Required Reserve Ratio is .2, what does the Fed have to do to decrease the supply of money by $50 billion?**
   (a) Sell $10 billion worth of government bonds
   (b) Sell $20 billion worth of government bonds
   (c) Buy $10 billion worth of government bonds
   (d) Buy $20 billion worth of government bonds

18. **Which of the following is an example of a pro-cyclical policy?**
   (a) Raising the Federal Funds Rate during a recession
   (b) Buying government bonds during a recession
   (c) Raising the discount rate during an expansion
   (d) Increasing taxes during an expansion
Use the following information to answer problems 19 and 20:
Price level = 120, Supply of Money = $600 billion and Velocity of Money = 4.

19. What does real GDP equal?
(a) 8 billion           (b) 20 billion
(c) 12 billion           (d) 30 billion

20. Assuming that the velocity of money and real GDP stay the same, what will happen to the price level if the supply of money increases to $650 billion?
(a) It will increase to 125
(b) It will increase to 130
(c) It will increase to 138
(d) It will increase to 142

21. Mark places his money in a depository institution that is regulated by the Fed. After a year, when Mark attempts to take his money out, the institution informs Mark that the account lost 12%. Mark must have deposited his money in:
(a) Money market mutual fund
(b) Saving & Loan Institute
(c) Commercial Bank
(d) Credit Union

22. Classical economists believe that if unemployment is very high the government should:
(a) Increase the supply of money
(b) Lower the interest rate
(c) Reduce taxes
(d) Do nothing

23. In 2000 the government reduced its debt by $50 billion and it received $300 in revenue. How much money did the government spend in 2000?
(a) $300 billion           (b) $350 billion
(c) $250 billion           (d) $200 billion

24. In 2000 the government made $200 billion in revenue and spent $160 billion while in 2001 the government revenue increased to $220 billion and its spending increased to $270 billion. Assuming that the government did not have any debt at the beginning of 2000, how much debt would it incur by the end of 2001?
(a) $10 billion           (b) $40 billion
(c) $60 billion           (d) $90 billion

25. Where did Dr. Wachsman complete his Ph.D. in Economics?
(a) The University of Puerto Rico
(b) The University of Tahiti
(c) The University of Waikiki
(d) The University of Hawaii