1. In the Keynesian model, the price level is ___________; in the aggregate demand and supply model, the price level is _______________.
   A) fixed; fixed
   B) flexible; flexible
   C) flexible; fixed
   D) fixed; flexible

2. A falling aggregate price level ____ demand for a country's exports and therefore ____ output demanded.
   A) increases; increases
   B) increases; reduces
   C) reduces; increases
   D) reduces; reduces

3. Which of the following events causes a decrease in aggregate demand?
   A) consumer confidence improves
   B) taxes increase
   C) interest rates fall
   D) government spending increases

4. Which of the following best illustrates the wealth effect?
   A) Jacob saved $25,000, which he put in the stock market. The market suddenly did very well, and though Jacob is not yet aware of it, his stock portfolio value rose to $36,000.
   B) Simon felt he needed at least $800,000 to retire comfortably. He increased his saving to build up his wealth.
   C) The Jones family has $50,000 in a bank. Price at the stores rose dramatically, so the purchasing power represented by that $50,000 diminished.
   D) Margaret had her savings in Treasury bonds. She thought that stocks might offer her a better opportunity to increase her wealth, so she sold her bonds to buy stocks.

5. Which of the following would NOT cause a shift in the aggregate demand curve?
   A) a change in consumption spending
   B) a change in the price level
   C) a change in investment
   D) a change in net exports
6. Which of the following partly explains why the aggregate demand curve is negatively sloped?
   A) When the price of cars manufactured in the United States increases, people buy more cars manufactured abroad.
   B) When the price of cars manufactured abroad increases, people buy fewer cars manufactured in the United States.
   C) When the interest rate increases, people borrow more money.
   D) When the interest rate decreases, people borrow less money.

7. Which of the following events will shift the aggregate demand curve to the right?
   A) a catastrophic hurricane hitting the northeastern United States
   B) an increase in household debt
   C) decreased taxes
   D) decrease in military spending

8. Which of the following factors will cause the aggregate demand curve to shift to the left?
   A) rise in consumer confidence
   B) fall in excess capacity at businesses
   C) increase in foreign income
   D) appreciation of the dollar

9. In the long run, attempts to expand beyond an economy's natural rate of unemployment tend to result in:
   A) increased inflation.
   B) increased output.
   C) both increased output and increased inflation.
   D) neither increased output nor increased inflation.

10. In the short run, the aggregate supply curve is ____ because input prices are _____.
    A) positively sloped; not completely flexible
    B) positively sloped; completely flexible
    C) vertical; not completely flexible
    D) vertical; completely flexible

11. In the short run, the aggregate supply curve is:
    A) horizontal.
    B) negatively sloped.
    C) positively sloped.
    D) vertical.
12. If oil prices decrease, the short-run aggregate supply curve shifts _____ and output supplied will be ______.
   A) left; increased
   B) left; reduced
   C) right; increased
   D) right; reduced

13. If the amount of regulation in an economy increases, the aggregate supply curve shifts _____ and output supplied will be ______.
   A) left; increased
   B) left; reduced
   C) right; increased
   D) right; reduced

14. A(n) _______ in oil prices and a(n) _______ in taxes will shift short-run aggregate supply to the left.
   A) increase; increase
   B) increase; reduction
   C) reduction; increase
   D) reduction; reduction

15. A(n) _______ in productivity and a(n) _______ in taxes will shift short-run aggregate supply to the right.
   A) decrease; decrease
   B) decrease; increase
   C) increase; decrease
   D) increase; increase

16. The short-run aggregate supply curve is positively sloped because:
   A) a short-run increase in GDP usually is accompanied by an increased rise in the price level.
   B) many input prices are slow to change in the short run.
   C) all variables are fixed in the short run.
   D) a short-run increase in GDP usually is accompanied by a slower rise in the price level.
17. Aggregate supply increases when:
   A) input prices rise.
   B) subsidies are reduced.
   C) there is a decrease in firms' market power.
   D) business expectations tend toward the negative.

18. (Figure: Determining SRAS Shifts)

   If the government raises taxes or increases regulations, the short-run aggregate supply curve will shift from SRAS$_0$ to _____ and the price level will be at _____.
   A) SRAS$_1$; $P_0$
   B) SRAS$_1$; $P_1$
   C) SRAS$_2$; $P_1$
   D) SRAS$_2$; $P_2$

19. A breakthrough in solar energy research that halves the cost of electricity will:
   A) have no effect on the aggregate supply curve.
   B) shift the aggregate supply curve to the right.
   C) shift the aggregate supply curve to the left.
   D) cause the aggregate supply curve to become vertical.
20. If a pill is discovered that allows people to work twice as fast as they would ordinarily work, then the aggregate supply curve will:
   A) shift to the left.
   B) shift to the right.
   C) not change.
   D) become vertical.

21. Which of the following will shift the aggregate supply curve to the right?
   A) the development of a cartel in the production of soybeans
   B) an increase in corporate taxes
   C) increased investment in human capital
   D) an increase in the price of garbage collection

22. Suppose consumers spend more than usual. In the short run, output will ____; in the long run, output will ____ from its starting point.
   A) increase; remain unchanged
   B) increase; increase
   C) remain unchanged; decrease
   D) remain unchanged; increase

Use the following to answer questions 23-25:

**Figure: Determining SRAS Shifts**
23. (Figure: Determining SRAS Shifts) If there is a decrease in input prices, the short-run aggregate supply curve will shift from SRAS\(_0\) to _____ and the price level will become _____.
   A) SRAS\(_1\); P\(_0\)
   B) SRAS\(_1\); P\(_1\)
   C) SRAS\(_2\); P\(_1\)
   D) SRAS\(_2\); P\(_2\)

24. (Figure: Determining SRAS Shifts) If there are advances in technology, the short-run aggregate supply curve will shift from SRAS\(_0\) to _____ and the price level will become _____.
   A) SRAS\(_1\); P\(_0\)
   B) SRAS\(_1\); P\(_1\)
   C) SRAS\(_2\); P\(_1\)
   D) SRAS\(_2\); P\(_2\)

25. (Figure: Determining SRAS Shifts) Which statement is NOT correct?
   A) Equilibrium output is $3,000 worth of goods and services.
   B) An increase in aggregate demand would lead to deflation.
   C) Full employment occurs when the economy produces $3,000 worth of goods and services.
   D) In the short-run equilibrium, output can be greater than or less than $3,000.

26. In Productovia, aggregate demand increases and aggregate supply decreases. Based on the shifts in these two curves, what is a likely outcome?
   A) deflation
   B) higher taxes
   C) lower imports
   D) inflation

27. If the marginal propensity to save is 0.25, the multiplier is:
   A) 4.
   B) 1.33.
   C) 3.
   D) 3.33.
28. Suppose when John's income increased from $10,000 to $15,000, his consumption increased from $3,000 to $4,500. What is the value of his marginal propensity to save?
   A) 0.7  
   B) 0.3  
   C) 0.2  
   D) 0.8

29. Suppose a booming stock market encourages consumption spending to rise dramatically. What would be the most likely short-run impact?
   A) recession and falling prices  
   B) inflation and rising GDP  
   C) recession and rising prices  
   D) The impact cannot be determined from the information given.

30. Suppose a booming stock market encourages consumption spending to rise dramatically. What would be the most likely long-run impact?
   A) Prices fall.  
   B) GDP first rises, and then falls back to long-run equilibrium.  
   C) A recession occurs.  
   D) The impact cannot be determined from the information given.
31. (Figure: Shifting the AD and SRAS)

Starting in long-run equilibrium when the aggregate demand curve is AD\(_0\) and the short-run aggregate supply curve is SRAS\(_0\), if there is a supply shock, such as a drastic increase in the price of oil, this will cause _____ and a movement to a short-run equilibrium at point _____.
A) a leftward shift in AD\(_1\); a
B) a rightward shift in AD\(_1\); c
C) a rightward shift in SRAS\(_2\); c
D) a leftward shift in SRAS\(_2\); a

32. If the marginal propensity to consume is 0.6, then the spending multiplier is:
A) 6.
B) 4.
C) 2.5.
D) 2.

33. The drop in aggregate demand that occurred during the Great Depression caused a drop in real GDP:
A) and deflation.
B) but an increase in the price level.
C) but no change in the price level.
D) but a modest rise in inflation.

34. What would cause the price level to decrease and employment to increase?
A) a shift to the left of the AD curve
B) a shift to the right of the AD curve
C) a shift to the left of the SRAS curve
D) a shift to the right of the SRAS curve
35. Demand-pull inflation scenarios took place in the:
   A) 1960s for the United States and from 1985 to 1995 for Japan.
   B) 1930s for the United States and from 1985 to 1995 for Japan.
   C) 1960s for the United States and in the 1930s for Japan.
   D) 1930s for both the United States and Japan.

36. Increased consumer confidence will shift the aggregate demand curve to the _____ and _____ output demanded.
   A) left; decrease
   B) left; increase
   C) right; increase
   D) right; decrease

37. Decreased interest rates will shift the aggregate demand curve to the _____ and _____ output demanded.
   A) left; decrease
   B) left; increase
   C) right; increase
   D) right; decrease

38. Increased taxes will shift the aggregate demand curve to the _____ and _____ output demanded.
   A) left; decrease
   B) left; increase
   C) right; increase
   D) right; decrease
Use the following to answer questions 39-40:

**Figure: Predicting Aggregate Demand Shifts**

39. (Figure: Predicting Aggregate Demand Shifts) Which of the following would shift the aggregate demand curve from \( AD_1 \) to \( AD_2 \)?
   A) a tax increase
   B) a decrease in interest rates
   C) a decrease in government purchases
   D) a worsening of consumer expectations about the future

40. (Figure: Predicting Aggregate Demand Shifts) Which of the following would shift the aggregate demand curve from \( AD_2 \) to \( AD_1 \)?
   A) a tax cut
   B) an increase in interest rates
   C) an increase in government purchases
   D) an improvement of consumer expectations about the future

41. If the marginal propensity to consume is 0.9, by how much will $100 of government spending increase GDP?
   A) $90
   B) $100
   C) $1,000
   D) $900
42. _________ government spending, ______ transfer payments, and ____ taxes are all examples of contractionary fiscal policy.
   A) Reducing; increasing; raising
   B) Reducing; reducing; raising
   C) Reducing; reducing; reducing
   D) Raising; increasing; raising

43. _________ government spending, ______ transfer payments, and ____ taxes are all examples of expansionary fiscal policy.
   A) Increasing; increasing; lowering
   B) Increasing; reducing; raising
   C) Reducing; increasing; lowering
   D) Reducing; increasing; raising

44. The $787 billion stimulus package passed in the United States in 2009 focused more on spending than on taxes partly because:
   A) increased spending leads to a larger increase in GDP than the same reduction in taxes.
   B) increased spending leads to a smaller increase in GDP than the same reduction in taxes.
   C) the government tax multiplier is more than the government spending multiplier.
   D) the government revenue multiplier is about the same as the government tax multiplier.

45. Most studies estimate the overall multiplier of the 2009 stimulus to be between:
   A) 0 and 1.
   B) 1.5 and 2.
   C) 3 and 3.5.
   D) 5 and 6.
Figure: Effects of Policy Shifts

46. (Figure: Effects of Policy Shifts) If government spending increases, shifting aggregate demand from _____ to _____, aggregate output will increase from _____ to _____.
   A) AD\(_1\); AD\(_0\); Q\(_f\); Q\(_0\)
   B) AD\(_1\); AD\(_0\); Q\(_0\); Q\(_f\)
   C) AD\(_0\); AD\(_1\); Q\(_0\); Q\(_f\)
   D) AD\(_0\); AD\(_1\); Q\(_f\); Q\(_0\)

47. (Figure: Effects of Policy Shifts) If the economy starts below full employment, an expansionary fiscal policy will move the aggregate demand curve from _____ to _____, and the equilibrium will move from _____ to _____.
   A) AD\(_1\); AD\(_0\); a; b
   B) AD\(_1\); AD\(_0\); b; a
   C) AD\(_0\); AD\(_1\); b; a
   D) AD\(_0\); AD\(_1\); a; b
48. (Figure: Determining Fiscal Policy) Expansionary fiscal policies could:
   A) move the economy to full employment.
   B) move the economy away from full employment.
   C) lead to a lower price level.
   D) lead to a lower price level and lower unemployment.

49. Which U.S. presidents reduced marginal tax rates to promote work and business risk taking?
   A) Obama and Reagan
   B) Kennedy and Clinton
   C) Reagan and Kennedy
   D) Clinton and Obama

50. Which economist promoted the idea that reducing tax rates can increase tax revenue?
   A) Robert Solow
   B) Adam Smith
   C) James Buchanan
   D) Arthur Laffer
51. The Laffer curve has which variables on its axes?
   A) price and quantity
   B) CPI and GDP
   C) tax rates and tax revenue
   D) aggregate expenditure and income

52. __________ marginal tax rates and ____________ are commonly used to increase aggregate supply.
   A) Lowering; increasing government transfer payments
   B) Lowering; offering investment tax credits
   C) Raising; increasing government transfer payments
   D) Raising; reducing government spending

53. **Figure: Laffer Curve**

(Figure: Laffer Curve) The graph shows a hypothetical Laffer curve. If the tax rate is 80%:
   A) the government should reduce the rate to about 50% to maximize tax revenue.
   B) the tax rate should be increased to 100% (all income taken in taxes) to maximize tax collection.
   C) the tax rate is at its optimal level.
   D) the tax rate should be reduced to zero to maximize tax revenue.
54. **Figure: Laffer Curve 3**

(Figure: Laffer Curve 3) A supply-side economist is advocating reducing income tax rates. She is probably assuming that the economy is at point ______ in the graph.

A) a  
B) b  
C) c  
D) d

55. When a firm can _____ its capital equipment over a shorter period, it cuts its taxes ______.

A) appreciate; later  
B) appreciate; now  
C) depreciate; now  
D) depreciate; later

56. Which of the following policies do supply-side economists believe is the best for increasing the standard of living?

A) redistributing income from the wealthy to the poor  
B) raising taxes to support government public works projects  
C) increasing investment in capital that boosts worker productivity  
D) increasing the supply of labor
57. An automatic stabilizer:
   A) injects money into the economy during booms.
   B) extracts money from the economy during recessions.
   C) is exemplified by a program such as unemployment compensation.
   D) is exemplified by a program such as the Corps of Engineers dam-building program.

58. The _____ lag is the time policymakers must wait for economic data to be collected, processed, and reported.
   A) information
   B) recognition
   C) implementation
   D) decision

59. Which of the following illustrates the information lag?
   A) The economy is predicted to increase at 0.1% in July, but the numbers are revised in August to reflect an actual 2% decrease.
   B) Current data have been provided to policymakers, but they decide to wait and see what happens in the next quarter.
   C) The government responds to the 2% decrease in the economy, and private investment is crowded out of the investment market.
   D) The government decides not to respond to the 2% decrease in the economy because it is worried about the possibility of inflation.

60. Legislators debate for six months on which spending programs to utilize to manipulate the business cycle. This is an example of the:
   A) recognition lag.
   B) information lag.
   C) decision lag.
   D) implementation lag.

61. Which are examples of automatic stabilizers?
   A) income tax revenues and transfer payments
   B) sales tax rates and transfer payments
   C) sales tax revenues and income security
   D) sales tax rates and income security
62. As GDP increases, tax revenues _____, which in turn ______ GDP growth.
   A) decline; restrains
   B) decline; expands
   C) increase; restrains
   D) increase; expands

63. As GDP decreases, tax revenues _____, causing a ______ to aggregate demand.
   A) decline; restraint
   B) decline; stimulus
   C) increase; restraint
   D) increase; stimulus

64. Which economist promoted public choice theory?
   A) Robert Solow
   B) Adam Smith
   C) James Buchanan
   D) Arthur Laffer

65. Which two important leakages helped reduce the real life spending multiplier during the stimulus that was implemented during 2009?
   A) exports and saving
   B) imports and saving
   C) exports and taxes
   D) imports and taxes

66. Under a cyclically balanced budget, a government should _____ when the economy is growing and _____ when GDP is declining.
   A) raise taxes; raise spending
   B) raise taxes; reduce spending
   C) reduce taxes; raise spending
   D) reduce taxes; reduce spending

67. In what year did the United States have a federal budget surplus?
   A) 2000
   B) 2004
   C) 2006
   D) 2010
68. The _____ is the sum of past _____.
   A) public debt; national debts
   B) public debt; budget deficits
   C) budget deficit; public debts
   D) budget deficit; national debts

69. During which decade did the U.S. public debt exceed its GDP?
   A) the 1930s
   B) the 1940s
   C) the 1970s
   D) the 2010s

70. The U.S. public debt fell during the _____ and rose during the _____.
   A) 1940s; 1950s
   B) 1950s; 2010s
   C) 2010s; 1960s
   D) 1950s; 1960s

71. Suppose the Treasury sells $10 billion worth of securities to the Social Security
    Administration and $15 billion to the general public. This sale added _______ billion to
    gross public debt and _______ billion to the debt held by the public.
   A) $15; $15
   B) $10; $15
   C) $15; $25
   D) $25; $15

72. Suppose that at the end of 2014, the government holds debt of $150 billion, has collected
    tax revenue of $50 billion, and has spent $75 billion. The national debt at the beginning of
    2015 is:
   A) $25 billion.
   B) $125 billion.
   C) $175 billion.
   D) $275 billion.

73. Public debt owned by U.S. banks, corporations, mutual funds, pension plans, and
    individuals is called _______ debt.
   A) internally held
   B) personal
   C) proper
   D) national
74. If interest rates rise, the burden of a nation's public debt will _____ and it will be _____ difficult to service its debt.
   A) fall; less
   B) fall; more
   C) rise; less
   D) rise; more

75. If interest rates fall, the burden of a nation's public debt will _____ and it will be _____ difficult to service its debt.
   A) fall; less
   B) fall; more
   C) rise; less
   D) rise; more

76. In recent years, countries such as China have been _____ U.S. debt as a way to keep their currencies from _____ against the U.S. dollar.
   A) buying; falling
   B) buying; rising
   C) selling; falling
   D) selling; rising

77. Public debt held by foreigners is known as ________ debt.
   A) out-of-country
   B) internally held
   C) externally held
   D) improper

78. What type of government spending would be most effective in mitigating the crowding-out effect?
   A) education subsidies
   B) subsidies to private airports
   C) military spending
   D) increased salaries for the presidential staff
79. Which of the following program(s) is (are) most likely to have a large generational imbalance?
   A) road or dam building
   B) agricultural price supports
   C) Medicare
   D) All of the answers are correct.

80. Generational imbalance would not be a problem if:
   A) all government programs were financed on a pay-as-you-go basis.
   B) all government projects were short-term.
   C) all government projects were long-term.
   D) Social Security and Medicare were a larger percentage of the federal budget.

81. Barter as a system tends to work only:
   A) in small U.S. towns and villages.
   B) in primitive economies with little product variety.
   C) when agricultural products are exchanged.
   D) among large, multinational corporations.

82. Which is an example of money being used as a unit of account?
   A) A customer buys a burger, fries, and medium diet cola for $6.95.
   B) A restaurant's profits for the week of October 3 to October 10 are $1,250.
   C) A customer receives $3.05 in change and returns the next day to make another purchase.
   D) A restaurant sells a large ice cream sundae and charges the customer's debit card.

83. Which is an example of money being used as a store of value?
   A) A customer buys a burger, fries, and medium diet cola for $6.95.
   B) A restaurant's profits for the week of October 3 to October 10 are $1,250.
   C) A customer receives $3.05 in change and returns the next day to make another purchase.
   D) A restaurant sells a large ice cream sundae and charges the customer's debit card.

84. Rank these components in order from the SMALLEST share of M1 to the largest.
   A) coins, banknotes, demand deposits
   B) banknotes, coins, demand deposits
   C) demand deposits, coins, banknotes
   D) demand deposits, banknotes, coins
85. M2 is ____ in dollar value than M1; it also contains ____ assets.
   A) larger; less liquid
   B) larger; more liquid
   C) smaller; less liquid
   D) smaller; more liquid

86. Which of the following is the LEAST liquid?
   A) money in a savings account
   B) a Picasso painting
   C) a U.S. Treasury bond
   D) $100 in cash

87. Yolanda took $5,000 from her checking account and put the money in her savings account at the same bank.
   A) Both M1 and M2 were reduced by $5,000.
   B) M1 went down by $5,000, but M2 was unchanged.
   C) Neither M1 nor M2 changed because the transfer was done at the same bank.
   D) M1 and M2 both rose by $5,000.

88. An economist notices that M1 is rapidly rising. One conclusion she might draw is that:
   A) depositors want to save for the long term.
   B) interest rates on savings accounts are rising.
   C) consumers are preparing to make more purchases.
   D) banks are discouraging their customers from borrowing and spending.

89. If the government decrees that bottle tops will be treated as money, then a bottle top:
   A) can still never be money because it has so little intrinsic value.
   B) is called fiat money.
   C) will not function well as a unit of account.
   D) will serve well for international trade.

90. Sasha buys a pair of shoes for $200. She pays for it with 200, one-dollar bills. The dollar bills, in this case, are functioning as a:
   A) unit of account.
   B) store of value.
   C) medium of exchange.
   D) barter tool.
91. If Jack Sparrow buries a chest of gold bullion on a deserted island and plans to come back later, then the gold is functioning as a:
   A) unit of account.
   B) store of value.
   C) medium of exchange.
   D) barter tool.

92. If mangos were widely accepted for purposes of exchange:
   A) mangos would be money.
   B) mangos would lose value.
   C) people would not work for mangos.
   D) mango plantations would decrease in value.

Use the following to answer question 93:

**Money Measure Components, June 2010**

<table>
<thead>
<tr>
<th>Money Component</th>
<th>Amount (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>$883.6</td>
</tr>
<tr>
<td>Traveler's checks</td>
<td>4.8</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>467.0</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>5,086.1</td>
</tr>
<tr>
<td>Small-denomination time deposits</td>
<td>1,054.0</td>
</tr>
<tr>
<td>Other checkable deposits</td>
<td>382.0</td>
</tr>
<tr>
<td>Retail money funds*</td>
<td>746.6</td>
</tr>
</tbody>
</table>
*Includes money market accounts and money market mutual fund accounts

93. (Table) From the information in the table, M1 for June 2010 was:
   A) $1,737.4 billion.
   B) $1,355.4 billion.
   C) $1,350.6 billion.
   D) $1,732.6 billion.

94. The reward for saving is called ____, and this variable is placed on the _____ axis of the loanable funds market graph.
   A) interest; horizontal
   B) interest; vertical
   C) investment; horizontal
   D) investment; vertical
95. The supply curve for loanable funds is:
   A) positively sloped.
   B) negatively sloped.
   C) horizontal.
   D) vertical.

96. Suppose the government implements a policy reducing the rewards earned by savers. In this case the ________ loanable funds shifts ________.
   A) supply of; left
   B) supply of; right
   C) demand for; left
   D) demand for; right

97. Ceteris paribus, suppose an economy institutes reforms that reduce government regulations. In this case the demand for loanable funds shifts ______ and the equilibrium interest rate ______.
   A) left; rises
   B) right; rises
   C) left; falls
   D) right; falls

98. Financial institutions:
   A) reduce information costs, set interest rates for bonds, and diversify assets.
   B) reduce information costs, reduce transaction costs, and diversify assets.
   C) pool funds from lenders, reduce transaction costs, and diversify assets.
   D) reduce information costs, reduce transaction costs, and pool funds from lenders.

99. Checking deposits generally have a _____ return on investment than do certificates of deposit because checking deposits are _____.
   A) higher; less liquid
   B) higher; more liquid
   C) lower; less liquid
   D) lower; more liquid

100. Suppose a one-year bond with a face value of $200 is sold for $188. What is the bond's yield?
    A) 5.3%
    B) 6.0%
    C) 6.4%
    D) 12.0%
101. **Figure: Market for Loanable Funds**

(Figure: Market for Loanable Funds) The graph shows the supply and demand for loanable funds. If the market interest rate is 3%:

A) the market will reach equilibrium only if lenders decide to save more.  
B) more funds will be demanded by firms than supplied by households.  
C) there will be pressure for the interest rate to rise.  
D) there will be an excess supply of funds.

102. Suppose there is news of rising unemployment. Which scenario is most likely?

A) Firms invest more in automation; the demand for loanable funds rises; interest rates rise; borrowing drops, which makes the anticipated bad times a reality.  
B) Households save in anticipation of bad times; the supply of loanable funds rises; interest rates fall; firms take advantage of lower interest rates and make more investments, which stimulates the economy.  
C) Householders spend more in anticipation that they won't have the money if they lose their job; the supply of loanable funds falls; interest rates rise; firms cut back on borrowing and spending, which brings about more unemployment.  
D) Householders borrow more to prepare for unemployment; the demand for loanable funds rises; interest rates rise; business cuts back on investment, which slows the economy.
103. (Figure: Market for Loanable Funds 2) If households decide to save a larger portion of their income because they fear job loss due to a recession, the loanable funds supply curve will shift from _____ to _____, and the new equilibrium will be at point _____, holding demand constant at D₀.
   A) S₀; S₁; a  
   B) S₀; S₁; b  
   C) S₁; S₀; b  
   D) S₁; S₀; d

104. (Figure: Market for Loanable Funds 2) If technological advances increase productivity, the demand for loanable funds curve will shift from _____ to _____ and the new equilibrium will be at point _____, holding supply constant at S₀.
   A) D₀; D₁; c  
   B) D₀; D₁; b  
   C) D₁; D₀; a  
   D) D₁; D₀; d
105. (Figure: Market for Loanable Funds 2) If business taxes increase, the demand for loanable funds curve will shift from _____ to _____ and the new equilibrium will be at point _____, holding supply constant at S0.
A) D0; D1; c  
B) D0; D1; b  
C) D1; D0; a  
D) D1; D0; d

106. Suppose while households are deciding to increase saving, the demand by firms for investment funds falls. In the market for loanable funds the real interest rate will ___ and the quantity of loanable funds will ___.
A) rise; fall  
B) rise; rise  
C) fall; rise, fall, or stay the same  
D) rise, fall, or stay the same; rise.

107. Which one of the following will cause the supply of loanable funds curve to shift rightward?
A) an improvement in firms' expectations about the economy  
B) technological advances that result in new products  
C) a perceived peak in an asset index like the Dow Jones Industrial Average  
D) an increase in the government deficit

108. Jody purchases a stock from her employer, Acme Corporation. This is an example of ________ finance:
A) unregulated  
B) indirect  
C) direct  
D) investor

109. Suppose the ZZZ Corporation sells a one-year coupon bond for $1,000. Its coupon payment is $100 for the year. In this example, the yield is ________%. If instead the price of the bond is $500, the yield is ________.
A) 10; 10%  
B) 100; 200%  
C) 100; 100%  
D) 10; 20%
110. The yield on a perpetuity bond that has an interest payment of $60 and a price of $1,200 is:
   A) 5%.
   B) 6%.
   C) 12%.
   D) 25%.

111. If a perpetuity bond has an interest payment of $80 and your required yield is 10%, the most you would be willing to pay for the bond (the price) is:
   A) $80.
   B) $800.
   C) $1,000.
   D) $8,000.

112. The reason bond prices and interest rates are inversely related is that:
   A) bond prices are fixed for the life of a bond.
   B) market interest rates stay the same for the life of a bond.
   C) the coupon payment is fixed for the life of a bond.
   D) bonds are always perpetuities.

113. Assume initially that market interest rates are 7% and the bondholder is receiving a $70 coupon payment per year on a bond with a face value of $1,000. If market interest rates rise to 8%, the bond price:
   A) falls to $875.
   B) falls to $800.
   C) rises to $1,125.
   D) falls to $700.

114. Assume that market interest rates are 6% and the bondholder receives a $60 coupon payment per year on a bond with a face value of $1,000. If market interest rates fall to 4%, the bond price:
   A) rises to $1,400.
   B) rises to $2,000.
   C) falls to $500.
   D) rises to $1,500.
115. Kim recently purchased a perpetual bond for $1,000. The bond pays $50 in interest per year. Suppose market interest rates rise to 7% after the purchase. The price of the bond:
   A) falls to $700.
   B) rises to $1,700.
   C) falls to $714.
   D) rises to $1,070.

116. If a $1,000 bond has a coupon rate of 11% and the market interest rate drops to 7%, what would a person expect to pay for that bond?
   A) $1,000
   B) $1,571.43
   C) $636.36
   D) $1,371.33

117. Which of the following is NOT a financial intermediary?
   A) Citibank
   B) Schwab mutual funds
   C) Hartford Insurance
   D) Federal Reserve Bank

118. Suppose a perpetuity bond with a face value of $1,000 has a 10% coupon rate. If market interest rates fall to 8%, the price of the bond:
   A) rises to $1,250.
   B) falls to $750.
   C) rises to $1,080.
   D) stays at $1,000.

119. Suppose a perpetuity bond with a face value of $1,000 has a coupon rate of 8%. If market interest rates rise to 12%, the price of the bond:
   A) rises to $1,120.
   B) rises to $1,080.
   C) falls to $666.67.
   D) falls to $880.

120. How much is a bond worth if it pays $55 per year in interest and the market interest rate is 8%?
   A) $440
   B) $687.50
   C) $787.60
   D) $1,250
Use the following to answer questions 121-123:

**SCENARIO:** Assume that the Empathy State Bank begins with the balance sheet below and is fully loaned up.

<table>
<thead>
<tr>
<th>Empathy State Bank</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vault Cash</td>
<td>$2,500</td>
<td>Deposits</td>
</tr>
<tr>
<td>Deposits at the Federal Reserve</td>
<td>7,500</td>
<td>$100,000</td>
</tr>
<tr>
<td>Loans</td>
<td>90,000</td>
<td></td>
</tr>
</tbody>
</table>

121. This bank's reserve ratio is:
   A) 0.025.
   B) 0.075.
   C) 0.10.
   D) 0.25.

122. If this bank is subject to a reserve requirement of 5%, what is the amount of its excess reserves?
   A) $2,500
   B) $5,000
   C) $10,000
   D) Negative. This bank does not have excess reserves; it needs $2,500 to meet its reserve requirement.

123. If this bank is subject to a reserve requirement of 5%, how much more can it loan out if it wants to be fully loaned up?
   A) $2,500
   B) $5,000
   C) $10,000
   D) Nothing. This bank is already fully loaned up.

124. If a bank is subject to a reserve requirement of 15%, then it is required to:
   A) place 15% of its deposits in the vault.
   B) lend out 15% of its deposits.
   C) place 15% of its deposits in the account with its regional Federal Reserve bank.
   D) place 15% of its deposits in the account with its regional Federal Reserve bank or the vault.
125. Consider this T-account for your bank, showing that you deposited $100 into your checking account and that your bank then made a $75 loan to Michelle.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>+$100 (cash)</td>
<td>+$100 (increase in your checking account)</td>
</tr>
<tr>
<td>+$75 (loan to Michelle)</td>
<td>+$75 (increase in Michelle's checking account)</td>
</tr>
</tbody>
</table>

Your bank's reserve ratio is:
A) 57.14%
B) 75%
C) 125%.
D) 42.8%.

126. If Zachary deposits $500 cash into his checking account, then his bank's assets:
A) rise by $500, and its liabilities rise by $500.
B) rise by $500, but its liabilities do not change.
C) do not change, but its liabilities rise by $500.
D) rise by $500, and its liabilities fall by $500.

127. If Abigail withdraws $300 cash from her checking account, then her bank's assets:
A) do not change, but its liabilities fall by $300.
B) fall by $300, but its liabilities do not change.
C) fall by $300, and its liabilities fall by $300.
D) fall by $300, and its liabilities rise by $300.

128. Suppose a bank has $1 million in deposits, a reserve requirement of 10%, and bank reserves of $300,000. The bank has excess reserves of:
A) $50,000.
B) $100,000.
C) $200,000.
D) $300,000.

129. Sumit deposits $1,500 cash into his checking account. The reserve requirement is 25%. What is the change in his bank's excess reserves?
A) $1,500
B) $375
C) $1,125
D) $0
130. Sumit deposits $1,500 cash into his checking account. The reserve requirement is 25%. How much money can the banking system create?
   A) $1,500
   B) $0
   C) $1,125
   D) $6,000

131. If the reserve requirement is 2.5% and a bank initially receives $30,000 in deposits from the Fed, then the maximum amount of money that the banking system can create is:
   A) $750
   B) $1,500
   C) $30,000
   D) $1.2 million

132. At Christmas, people tend to draw money out of their checking accounts to pay for Christmas presents. As a result, the money multiplier will:
   A) increase.
   B) not change.
   C) decrease.
   D) become more volatile.

133. If the reserve requirement is 10% and a bank initially receives $20,000 in deposits, then the maximum amount of money that the banking system can create is:
   A) $20,000.
   B) $200,000.
   C) $180,000.
   D) $100,000.

134. The money multiplier is:
   A) interest payment divided by yield.
   B) yield divided by interest payment.
   C) 1/1 – MPS.
   D) 1 divided by reserve requirement.

135. If the reserve requirement is 20%, the money multiplier is:
   A) 4.
   B) 5.
   C) 0.2.
   D) 0.8.
136. Callie withdraws $600 from her bank account. If the reserve requirement is 15%, by how many dollars must her bank reduce its lending?
   A) $510
   B) $600
   C) $90
   D) $667

137. Assume the reserve requirement is 10% and all banks are fully loaned up. If a new deposit of $10,000 is made into Bank X, with this deposit Bank X can make new loans of:
   A) $9,000.
   B) $10,000.
   C) $1,000.
   D) $11,000.

138. If the reserve requirement is 25%, then a $1 increase in deposits means that the money supply:
   A) will increase by $4.
   B) has the potential to increase by $4.
   C) will increase by $25.
   D) has the potential to increase by $25.

139. If the reserve requirement is 20%, then a $1 decrease in deposits means that the money supply:
   A) will decrease by $5.
   B) has the potential to increase by $20.
   C) will increase by $5.
   D) has the potential to decrease by $5.

140. If a bank has assets of $5 billion and liabilities of $4.8 billion:
   A) its equity equals $200 million.
   B) its equity equals −$800 million.
   C) it faces a solvency crisis.
   D) its equity equals −$800 million and it faces a solvency crisis.
141. Sometimes the Fed's goals conflict, and the Fed must emphasize one goal over another. Which of the following is a goal of the Fed that might conflict with its goal of full employment?
A) promoting economic growth
B) promoting an equitable distribution of income
C) keeping the price level stable
D) keeping tax rates low

142. Which of the following is a provision of the Federal Reserve Act or subsequent legislation that weakens the independence of the Fed?
A) The Fed's actions are subject to executive branch control.
B) Members of the Federal Reserve Board serve 14-year terms.
C) Members of the Federal Reserve Board cannot be reappointed.
D) The Federal Reserve System is subject to Congressional oversight.

143. Sometimes the Fed's goals conflict, and the Fed must emphasize one goal over another. Which of the following is a goal of the Fed that does NOT conflict with its goal of full employment?
A) promoting economic growth
B) promoting an equitable distribution of income
C) keeping the price level stable
D) keeping tax rates low

144. Which of the following is a provision of the Federal Reserve Act or subsequent legislation that contributes to the independence of the Fed?
A) The Fed's actions are subject to executive branch control.
B) Appointments to the Federal Reserve Board are staggered so that one expires every other year.
C) Members of the Federal Reserve Board cannot be reappointed.
D) The Federal Reserve System is subject to Congressional oversight.

145. Appointments to the Federal Reserve Board are staggered so that one expires every other year. This provision was enacted to ensure:
A) that Federal Reserve Board members would serve their entire term.
B) that the Fed would be accountable to Congress.
C) stability and continuity on the Board.
D) that regional considerations would not impact the Board's decisions.
146. Which of the following statements is CORRECT?
   A) The Fed's actions are subject to executive branch control.
   B) Politically controlled banks are better at fighting inflation than are independent central banks.
   C) The Federal Reserve is considered to be an independent central bank.
   D) The Federal Reserve System is not subject to Congressional oversight.

147. Which of the following is NOT a policy tool of the Federal Reserve?
   A) reserve requirements
   B) the discount rate
   C) open market operations
   D) fiscal policy

148. The 12 Federal Reserve banks and their branches do all of the following except:
   A) distribute coins and currency.
   B) regulate and supervise member banks.
   C) serve as the banker for the United States Treasury.
   D) accept deposits from U.S. citizens.

149. Federal Reserve board members serve for ______ years, but the chair serves for ______.
   A) 4; 14 years
   B) 14; 4 years
   C) 4; 4 years
   D) 14; life

150. The Federal Open Market Committee is responsible for:
   A) setting interest rates.
   B) running the check-clearing process.
   C) overseeing the buying and selling of government securities in the open market.
   D) reducing the Fed's reliance on open market operations.

151. In February 2010, the Central Bank of Brazil raised reserve requirements. By raising reserve requirements, Brazil was attempting to:
   A) increase its money supply.
   B) stabilize its money supply.
   C) decrease its money supply.
   D) improve the liquidity of its banks.
152. In September 2013, the Federal Open Market Committee said it would wait for more evidence that progress had been made on the economic recovery before it cut back on open market purchases. The Bureau of Economic Analysis did not release its advanced estimate of the third quarter's GDP growth until a month after the quarter ended. The second estimate was released two months after the quarter ended, and a third revised estimate was released about three months after the quarter ended. This wait for accurate data to be collected is known as the:
A) information lag.
B) recognition lag.
C) decision lag.
D) implementation lag.

153. Which of the following lists represents monetary policy actions that are consistent with one another?
A) buy government bonds, raise reserve requirements, raise the discount rate
B) sell government bonds, raise reserve requirements, lower the discount rate
C) sell government bonds, raise reserve requirements, raise the discount rate
D) buy government bonds, lower reserve requirements, raise the discount rate

154. Suppose a bank has $1 million in deposits, a reserve requirement of 20%, and bank reserves of $400,000. The bank has excess reserves of:
A) $50,000.
B) $100,000.
C) $200,000.
D) $300,000.

155. Assume that the reserve requirement is 20% and the Federal Open Market Committee buys a $10,000 bond. The impact on the banking system is a(n):
A) injection of $10,000 in new reserves.
B) reduction of $50,000 in reserves.
C) injection of $50,000 in new reserves.
D) injection of $2,000 in new reserves.

156. Assume that the reserve requirement is 20% and the Federal Open Market Committee buys a $100,000 bond. The money supply:
A) increases by a maximum of $100,000.
B) decreases by $100,000.
C) increases by a maximum of $20,000.
D) increases by a maximum of $500,000.
157. Assume the reserve requirement is 25% and the Federal Open Market Committee buys $4 million of U.S. government bonds from the public. As a result of this transaction the supply of money is:
   A) not directly affected but has the potential to be increased by a total of $12 million.
   B) directly increased by $4 million and has the potential to be increased by another $12 million.
   C) directly reduced by $4 million and has the potential to be reduced by another $12 million.
   D) directly increased by $4 million and has the potential to be increased by another $8 million.

158. A bank has excess reserves of $5,000 and demand deposits of $40,000; the reserve requirement is 20%. If the reserve requirement is increased to 25%, the maximum amount of new loans this bank can make is:
   A) $1,500.
   B) $2,000.
   C) $2,500.
   D) $3,000.

159. A bank has excess reserves of $4,000 and demand deposits of $40,000; the reserve requirement is 20%. If the reserve requirement is increased to 25%, the maximum amount of new loans this bank can make is:
   A) $1,500.
   B) $2,000.
   C) $2,500.
   D) $3,000.

160. Assume the reserve requirement is 10%. If the Federal Open Market Committee buys a $10,000 bond from Bank A, Bank A's reserves:
   A) decrease by $10,000.
   B) increase by $9,000.
   C) increase by $1,000.
   D) increase by $10,000.
Answer Key

1. D
2. A
3. B
4. C
5. B
6. A
7. C
8. D
9. A
10. A
11. C
12. C
13. B
14. A
15. C
16. B
17. C
18. D
19. B
20. B
21. C
22. A
23. B
24. B
25. B
26. D
27. A
28. A
29. B
30. B
31. D
32. C
33. A
34. D
35. A
36. C
37. C
38. A
39. B
40. B
41. C
42. B
43. A
44. A
45. B
46. C
47. D
48. A
49. C
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52. B
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54. D
55. C
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64. C
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147. D
148. D
149. B
150. C
151. C
152. A
153. C
154. C
155. A
156. D
157. B
158. D
159. B
160. D