1. At equilibrium in the simple Keynesian model, income is $6 million and consumption spending is $5 million. Which of the following is correct?
   A) Investment is $1 million.
   B) There is no saving in this economy.
   C) The economy will go into disequilibrium because consumption is not equal to income.
   D) The information provided is insufficient to determine the level of investment spending.

2. Assume that the multiplier is 10. Full employment is considered to be at a GDP level of $500 billion. The current GDP is $400 billion. According to Keynesian macroeconomics, what should the government do to achieve full employment?
   A) increase spending by $25 billion
   B) increase spending by $10 billion
   C) reduce spending by $25 billion
   D) reduce spending by $100 billion

3. When withdrawals equal injections, the economy:
   A) is losing money.
   B) still has to adjust to bring both down to zero.
   C) is in a recession.
   D) is in equilibrium.

4. Along the 45-degree line in the graph of consumption and disposable income:
   A) consumption is equal to disposable income.
   B) consumption is equal to total saving.
   C) consumption is equal to marginal saving.
   D) the interest rate is zero.

5. Spending by federal, state, and local government has grown from ___ of GDP in the 1930s to more than _____ today.
   A) 5%; 50%.
   B) 10%; 30%.
   C) 30%; 70%.
   D) 5%; 10%.
6. If the marginal propensity to save is 0.25 and income increases by $7,540, what is the increase in consumption?
   A) $5,655
   B) $1,885
   C) $10,053
   D) $30,160

7. Decreases in government spending ____ equilibrium income, and increases in taxes ____ equilibrium income.
   A) increase; increase
   B) increase; decrease
   C) decrease; increase
   D) decrease; decrease

8. Which one of the following helps determine consumption and saving in the Keynesian model?
   A) wealth
   B) imports
   C) technology
   D) government regulations

9. The collapse of home values that began in 2008 led to ____ in Americans' saving rates, shifting aggregate demand to the ____.
   A) a decrease; left
   B) a decrease; right
   C) an increase; left
   D) an increase; right

10. Which of the following statements regarding the short-run aggregate supply curve is TRUE?
    A) The short-run aggregate supply curve shifts to the left when tax rates on businesses are lowered.
    B) The short-run aggregate supply curve shifts to the right when the costs of capital rise.
    C) The short-run aggregate supply curve shifts to the left when business expectations become more positive.
    D) The short-run aggregate supply curve shifts to the right with a reduction in burdensome regulations.
11. (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\(_2\); \(P_2\)

12. Which of the following tends to make aggregate demand decrease by more than the amount that consumer spending decreases?
   A) crowding-out
   B) the multiplier effect
   C) the wealth effect
   D) the interest rate effect
13. 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.

14. _______ taxes and _______ interest rates in the United States, along with ______ incomes in other countries, will shift the U. S. aggregate demand curve to the right.
   A) Decreasing; rising; rising
   B) Increasing; falling, rising
   C) Decreasing; falling, rising
   D) Decreasing; falling, falling

15. Which of the following factors will cause the aggregate demand curve to shift to the right?
   A) reduction in the aggregate price level
   B) reduction in personal income taxes
   C) increase in interest rates
   D) drop in foreign income

16. At high domestic price levels compared to other countries, Americans:
   A) sell more exports.
   B) buy more imported goods.
   C) buy the same amount of foreign goods.
   D) try to buy American.

17. Transfer payments are:
   A) monies paid directly to individuals by the government.
   B) not part of the government budget.
   C) a vital part of discretionary fiscal policy.
   D) payments made to government officials who transfer them back to private companies.

18. The solution to simultaneous deflation and unemployment is to shift the:
   A) aggregate demand curve to the right.
   B) aggregate demand curve to the left.
   C) short run aggregate supply curve to the right.
   D) short run aggregate supply curve to the left.
19. When government spending increases, the aggregate demand curve shifts to the _______ and the multiplier effect is dampened by a ______ in the aggregate price level.
   A) right; fall  
   B) right; rise  
   C) left; fall  
   D) left; rise

20. The developed nation with the highest debt-to-GDP ratio in 2012 was:
   A) the United States.  
   B) Italy.  
   C) Germany.  
   D) Japan.

21. When an economy is at full employment, an expansionary fiscal policy:
   A) has the same multiplier effect as if the economy were in a recession.  
   B) does not affect the aggregate price level.  
   C) yields no temporary increase in output.  
   D) produces no long-run improvement in real output.

22. The crowding out effect recognizes that if the government sells bonds to finance spending, it can cause interest rates to _______ investment.
   A) fall, reducing  
   B) fall, stimulating  
   C) rise, reducing  
   D) rise, stimulating

23. The crowding-out effect can drive up interest rates, which _______ consumer spending on durable goods and ______ business investment.
   A) reduces; increases  
   B) reduces; reduces  
   C) increases; reduces  
   D) increases; increases

24. Changes in taxes first cause changes in _______________, and thus the government tax multiplier is ______________ than the government spending multiplier.
   A) aggregate spending; larger  
   B) aggregate spending; smaller  
   C) disposable income; larger  
   D) disposable income; smaller
25. Which of the following statements is NOT a characteristic of good money?
   A) Money is easily standardized.
   B) Money must have historic value.
   C) Money must be durable.
   D) Money must be portable.

26. How many prices must a consumer know in a barter economy that produces exactly 20 goods?
   A) 20
   B) 40
   C) 95
   D) 190

27. The quantity of loanable funds demanded by ________ is ________ related to the real interest rate.
   A) savers; negatively
   B) savers; positively
   C) borrowers; negatively
   D) borrowers; positively

28. All of the following are included in the definition of M2 EXCEPT:
   A) coins.
   B) large time deposits.
   C) savings deposits.
   D) demand deposits.

29. The demand for loanable funds slopes ______ because an increase in the interest rate induces ________.
   A) upward; more saving
   B) downward; less saving
   C) downward; less investment
   D) upward; more investment
30. In the first century and a half of the United States' existence, paper money was backed by precious metals. Today, the U.S. dollar is no longer backed by gold or silver. The dollar today is:
   A) commodity money.
   B) fiat money.
   C) pseudo-commodity money.
   D) unbacked money.

31. 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%

32. What is likely to happen if the government runs a budget surplus?
   A) Additional loanable funds are provided to the market, leading to higher interest rates.
   B) Loanable funds are removed from the market, leading to higher interest rates.
   C) Additional loanable funds are provided to the market, leading to lower interest rates.
   D) Loanable funds are removed from the market, leading to lower interest rates.

Use the following to answer question 33:

**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>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>Vault Cash</td>
</tr>
<tr>
<td>Deposits at the Federal Reserve</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Deposits</td>
</tr>
</tbody>
</table>

33. Vanessa has a checking account at Empathy State Bank. If she writes a check for $5,000 to pay for her new car and if the bank has a reserve requirement of 5%, this bank's excess reserves will be:
   A) $250.
   B) $5,250.
   C) 0; Empathy State Bank will be all loaned up.
   D) negative; Empathy State Bank will need to acquire $2,250 in reserves.
34. If a bank's required reserve ratio is 10%, an initial injection of $2,000 would increase the overall money supply by up to:
   A) $200.
   B) $2,000.
   C) $10,000.
   D) $20,000.

35. The ______________________________ oversee(s) the main tool of monetary policy.
   A) 12 regional Federal Reserve banks
   B) Federal Open Market Committee
   C) Council of Economic Advisers
   D) Congressional Budget Office

36. If the reserve requirement is 25%, then a $500 increase in deposits means that the money supply:
   A) will increase by $2,000.
   B) has the potential to increase by $2,000.
   C) will increase by $125.
   D) has the potential to increase by $125.

37. What is the interest rate for money borrowed to satisfy daily reserve requirements?
   A) federal funds rate
   B) discount rate
   C) prime rate
   D) subprime rate

38. The financial panic and credit freeze in late 2008 pointed to the Fed's important role as:
   A) lender of last resort.
   B) creator of inflation.
   C) promoter of price stability.
   D) promoter of full employment

39. Assume that the reserve requirement is 20%. A bank has $20 billion in demand deposits. How much money does the bank have to keep in reserves?
   A) $20 billion
   B) $10 billion
   C) $4 billion
   D) $2 billion
40. The Fed's monetary policies, like fiscal policy, are subject to _____ lags.
   A) information
   B) implementation
   C) decision
   D) All of the answers are correct.
1. A  
2. B  
3. D  
4. A  
5. B  
6. A  
7. D  
8. A  
9. C  
10. D  
11. B  
12. B  
13. B  
14. C  
15. B  
16. B  
17. A  
18. A  
19. B  
20. D  
21. D  
22. C  
23. B  
24. D  
25. B  
26. D  
27. C  
28. B  
29. C  
30. B  
31. D  
32. C  
33. A  
34. D  
35. B  
36. B  
37. A  
38. A  
39. C  
40. D