

Sol drescher



**ASSIGN
BUSTER**

Quiz 4 Econ 430 Money & Banking Spring 2012 Prof. Drescher MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question. Please place your answers for this section on the answer sheet for Quiz 2 template (see Course Content for the answer sheet).

1 An increase in autonomous consumer expenditure causes the equilibrium level of aggregate output to _____ at any given interest rate and shifts the _____ curve to the _____, everything else held constant. A) rise; LM; right B) rise; IS; right C) fall; LM; left D) fall; IS; left

2 An autonomous depreciation of the U. S. dollar makes American goods _____ relative to foreign goods and results in a _____ in U. S. net exports, everything else held constant. A) cheaper; decline B) cheaper; rise C) more expensive; decline D) more expensive; rise

3 If the Federal Reserve conducts open market purchases, the money supply _____, shifting the LM curve to the _____, everything else held constant. A) decreases; right B) decreases; left C) increases; right D) increases; left

4 Everything else held constant, an expansionary _____ policy will cause the interest rate to rise, while an expansionary _____ policy will cause the interest rate to fall.

A) monetary; monetary B) monetary; fiscal C) fiscal; monetary D) fiscal;

fiscal 5 The situation in which expansionary fiscal policy does not lead to a rise in aggregate output is referred to as _____. A) fiscal neutrality B) a recession C) complete crowding out D) inflation

6 In the long-run ISLM model and with everything else held constant, as long as the level of output _____ the natural rate level, the price level will continue to _____, shifting the LM curve to the _____, until finally output is back at the natural rate level. A) exceeds; rise; right B) exceeds; rise; left

C) remains below; fall; left D) remains below; rise; right 7 Everything else held constant, a decrease 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 8 By analyzing aggregate demand through its component parts, we can conclude that, everything else held constant, a decline in the price level causes A) a decline in the real money supply, an increase in interest rates, a decline in investment spending, and a decline in aggregate output demand.

B) a decline in the real money supply, a decline in interest rates, an increase in investment spending, and an increase in aggregate output demand. C) an increase in the real money supply, a decline in interest rates, an increase in investment spending, and an increase in aggregate output demand. D) an increase in the real money supply, an increase in interest rates, a decline in investment spending, and a decline in aggregate output demand. 9

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 10 Suppose the economy is producing at the natural rate of output. An increase in consumer and business confidence will cause _____ in real GDP in the long run and _____ in the aggregate price level in the long run, everything else held constant.

A) an increase; an increase.....?? B) a decrease; a decrease C) no change; an increase D) no change; a decrease 11 Suppose the economy is producing

below the natural rate of output and the government is suffering from large budget deficits. To deal with the deficit problem, suppose the government takes a policy action to reduce the size of the deficits. This policy action will cause _____ in the unemployment rate in the short run and _____ in the aggregate price level in the short run, everything else held constant. A) an increase; an increase B) a decrease; a decrease???? C) a decrease; an increase

D) an increase; a decrease 12 Suppose the U. S. economy is operating at potential output. A negative supply shock that is accommodated by an open market purchase by the Federal Reserve will cause _____ in real GDP in the long run and _____ in the aggregate price level in the long run, everything else held constant. A) no change; an increase B) no change; a decrease C) an increase; an increase D) a decrease; a decrease 13 The Lucas supply function indicates that deviations of unemployment from the natural rate level respond to A) any increase in aggregate demand. B) unanticipated inflation. C) a supply shock.

D) expected changes in inflation. 14 A sharp stock market decline increases moral hazard incentives A) since borrowing firms have less to lose if their investments fail. B) because it is immoral to profit from someone's loss. C) since lenders are more willing to make loans. D) reducing uncertainty in the economy and increasing market efficiency. 15 The originate-to-distribute business model has a serious _____ problem since the mortgage broker has little incentive to make sure that the mortgagee is a good credit risk. A) principal-agent B) debt deflation C) democratization of credit D) collateralized debt 16

At the time of the South Korean financial crisis, the government allowed many chaebol owned finance companies to convert to merchant banks.

Finance companies _____ allowed to borrow abroad and merchant banks _____. A) were not; could borrow abroad B) were not; could not borrow abroad C) were; could borrow abroad D) were; could not borrow abroad 17 In emerging market countries, many firms have debt denominated in foreign currency like the dollar or yen. A depreciation of the domestic currency A) results in increases in the firm's indebtedness in domestic currency terms, even though the value of their assets remains unchanged.

B) results in an increase in the value of the firm's assets. C) means that the firm does not owe as much on their foreign debt. D) strengthens their balance sheet in terms of the domestic currency. 18 A _____ pays out cash flows from subprime mortgage-backed securities in different tranches, with the highest-rated tranche paying out first, while lower ones paid out less if there were losses on the mortgage-backed securities. A) Discount bond B) Adjustable-rate mortgage C) Negotiable CD D) Collateralized debt obligation (CDO) 19

The economy recovers quickly from most recessions, but the increase in adverse selection and moral hazard problems in the credit markets caused by _____ led to the severe economic contraction known as The Great Depression. A) debt deflation B) illiquidity C) an improvement in banks' balance sheets D) increases in bond prices 20 When financial intermediaries deleverage, firms cannot fund investment opportunities resulting in A) a contraction of economic activity. B) an economic boom. C) an increased opportunity for growth. D) a call for government regulation. [pic][pic][pic]