Final study guide – eco 372

ECO/372 Final Examination Study Guide This study guide prepares you for the Final Examination you complete in the last week of the course. It contains practice questions, which are related to each week's objectives. Highlight the correct response, and then refer to the answer key at the end of this Study Guide to check your answers. Use each week's questions as a self-test at the start of a new week to reflect on the previous week's concepts. When you come across concepts that you are unfamiliar with, refer to the Student Guide for that particular week. Week One: Fundamentals of Macroeconomics

Objective: Explain the economic interaction of resources among households, government, and businesses. 1. Which group has ultimate control over the U. S. economy? a. Business b. Households c. Multinationals d. Government 2. When a government intervenes in an economy in a way that influences the relationship between households and businesses, it is a. serving as an economic actor b. serving as an economic referee c. serving the public good d. reducing social welfare by interfering with the invisible hand Objective: Describe gross domestic product, inflation rate, unemployment rate, and interest rate. . Per capita real output would most likely increase if a. both real GDP and population increase b. both real GDP and population decrease c. real GDP increases and population decreases d. real GDP decreases and population increases 4. In 2006, U. S. real GDP increased by 3. 3 percent. Based on this information, we can infer that the U. S. experienced a. a recession in 2006 b. an expansion in 2006 c. adepressionin 2006 d. a trough in 2006 Objective: Identify sources of historical economic data and economic forecasts. 5. The Bureau of Economic Analysis is responsible for which of the following? a.

Setting interest rates b. Managing themoneysupply c. Calculating U. S. gross domestic product d. Paying unemployment benefits. 6. The Federal Reserve will most likely _______ the money supply when the economy is experiencing a recession a. increase b. decrease c. stabilize d. manage Week Two: Aggregate Demand and Supply Models Objective: Analyze the impact of various factors on aggregate demand and supply. 7. The AD curve a. will shift as much as the initial shift factor when the multiplier is greater than one b. will shift by more than initial shift factor when the multiplier is greater than one c. ill shift by less than the initial shift factor due to leakages d. could shift by more or less than the initial shift factor 8. Theparadox paradox of thrift occurs when a. an increase in saving raises output b. an increase in saving reduces output c. saving is unrelated to output d. a decrease in saving reduces output 9. Suppose output exceeds potential output and a contractionary fiscal policy is enacted. According to the AS/AD model, in the long run, this fiscal policy will produce a. a lower output level and a lower price level than would otherwise have occurred b. lower price level than would otherwise have occurred c. a lower output level than would otherwise have occurred d. neither a lower price level nor a lower output level than would otherwise have occurred 10. According to the AS/AD model, an expansionary monetary policy a. increases interest rates, raises investment, and increases income b. decreases interest rates, raises investment, and increases income c. increases interest rates, reduces investment, and decreases income d. decreases interest rates, reduces investment, and decreases income

Objective: Evaluate the effectiveness of changes in fiscal policies using Keynesian and Classical models 11. According to Keynes, the economy could become stuck at a low income level if a. declines in aggregate demand and aggregate supply reinforce one another b. declines in aggregate demand are not accompanied by declines in aggregate supply c. declines in aggregate supply are not accompanied by declines in aggregate demand d. aggregate demand and aggregate supply are independent of one another 12. The Classical economists argued that: a. market economy will not experience unemployment. b. if unemployment occurs, it will cure itself because wages and prices will fall. c. aggregate expenditures may be too low. d. if inflation occurs it will cure itself because prices, wages, and interest rates will rise. Week Three: Monetary Policy Objective: Assess the factors contributing to the establishment of general and specific rates of interest. 13. When the Federal Reserve targets a higher interest rate, this change in policy involves open market a. purchases of government securities that reduced reserves b. urchases of government securities that increased reserves c. sales of government securities that reduced reserves d. sales of government securities that increased reserves 14. When the Federal Reserve sells bonds, the a. Federal funds rate increases b. reserve requirement falls c. discount rate increases d. discount rate decreases Objective: Explain the role of the Federal Reserve System in designing and implementing U. S. monetary policies. 15. Who buys and sells in the Federal Reserve funds market? a.

Commercial banks and depository institutions b. Large financial institutions c.

Financial institutions and large corporations d. Anyone with a computer and an Internet connection can participate 16. The Federal fund rate is always _______ compared to the discount a. higher b. lower c. equal d. comparable Objective: Analyze how the money multiplier effect facilitates the creation of money. 17. If the multiplier effect is 4, a $15 billion increase in government expenditures will shift the AD curve a. to the right by $15 billion b. to the left by $15 billion c. to the right by $60 billion d. to the left by $60 billion 18. Suppose the money multiplier in the U. S. s 4. If the Federal Reserve wants to expand the money supply by 600 it should: a. buy government securities worth 150. b. buy government securities worth 600. c. sell government securities worth 150. d. sell government securities worth 600. Week Four: Fiscal Policy: Politics, Deficits, and Debt Objective: Analyze the influence of deficit, surplus, and debt on thehealthof the U. S. macroeconomy. 19. When the government runs a deficit, it will a. buy bonds tofinancethe deficit b. sell bonds to finance the deficit c. reduce the money supply to finance the deficit d. raise taxes immediately 0. Deficits may be desirable in the short run if they a. help to stabilize the economy when the economy falls below potential output b. increase savings necessary for future investment and growth c. increase savings necessary for future consumption and demand d. help to stabilize the economy when the economy is above potential output 21. The structural deficit a. rises as the economy expands and falls when it contracts b. falls as the economy expands and rises when it contracts c. changes as actual income changes regardless of potential income d. oes not change when income changes, but changes only when potential income changes 22. Government debt is defined as a. a shortfall of incoming revenue under outgoing payment b. a shortfall of outgoing payments under incoming revenue c. accumulated deficits minus accumulated surpluses d. accumulated deficits plus accumulated surpluses Week Five: International Trade and Finance Objective: Analyze the effects of international trade on the U. S. macroeconomy. 23. According to comparative advantage, specialization means that a country is producing the goods a. that it wants to consume b. or which it has a relatively high opportunity cost c. for which it has a relatively low opportunity cost d. that it can produce at zero cost 24. Globalizationrepresents a. a return to isolationism b. the opposite of isolationism c. the economic complement of political isolationism d. the political complement of economic isolationism 25. If the U. S. wants to strengthen the value of the dollar, it should use a. contractionary fiscal policy b. expansionary fiscal policy c. contractionary monetary policy d. expansionary monetary policy 26. Which of the following would most likely cause an increase in the upply of dollars? a. An expansionary fiscal policy that raised U. S. income and increased U. S. imports b. An expansionary fiscal policy that raised U. S. income and reduced U. S. imports c. A contractionary fiscal policy that reduced U. S. income and lowered U. S. imports d. A contractionary fiscal policy that reduced U. S. income and increased U. S. imports Objective: Explain how foreign exchange rates are determined. 27. Suppose a basket of goods costs 60, 000 pesos in Mexico. If, at the existing exchange rate, it costs less than 60, 000 pesos to buy the same basket of goods in the U.

S. , then purchasing power parity implies that the a. dollar is overvalue b. peso is undervalue c. dollar should cost fewer pesos d. dollar should cost more pesos 28. If a basket of goods costs $10 in the U. S. and 100, 000 rubles in Russia, then purchasing power parity will exist if the exchange rate between the ruble and the dollar is a. 1, 000 rubles per dollar b. 10, 000 rubles per dollar c. 0. 01 dollars per ruble d. 0. 1 dollars per ruble Objective: Analyze the impact of trade restrictions, tariffs, and quotas on the U. S. macroeconomy. 29. A quota differs from a tariff in that quotas a. imit the volume of imports more than tariffs b. do not increase the price of imports as much as tariffs c. do not generate tax revenues, unlike tariffs d. reduce consumer welfare more than tariffs 30. Threats to put tariffs on a nation in an attempt to get that nation to reduce its restrictions on trade are called: a. strategic trade policies b. trade adjustment assistance programs c. learning by doing d. inertia and cachet Answer Key 1. b 2. b 3. c 4. b 5. c 6. a 7. b 8. b 9. b 10. b 11. a 12. b 13. c 14. a 15. a 16. b 17. c 18. a 19. b 20. a 21. d 22. c 23. c 24. b 25. c 26. a 27. d 28. b 29. c 30. a