1. A useful economic model
   a. deals only with possibilities that actually occurred.
   b. makes only realistic assumptions.
   c. may make some unrealistic assumptions in order to simplify a complex reality.
   d. should avoid drawing conclusions that have public policy implications, since economics is not equipped to make value judgments.

2. If a person can produce greater quantities of a good than another person in a given amount of time, he as a(n)
   a. comparative advantage.
   b. absolute advantage.
   c. declarative advantage.
   d. entire advantage.

3. Which of the following would be most likely to cause an outward shift of the demand curve for electricity?
   a. a decrease in the price of electricity
   b. an increase in the price of air conditioners
   c. an increase in the price of heating oil
   d. a decrease in the price of natural gas

4. If price rises, what happens to the quantity supplied of a product?
   a. It increases.
   b. It decreases.
   c. It does not change.
   d. Quantity supplied is constant, but supply increases.

5. At an equilibrium price for gasoline,
   a. everyone with the desire and the income to buy gasoline at that price can do so.
   b. surpluses are inevitable.
   c. inherent market forces will eventually change the quantities demanded and supplied.
   d. suppliers must be using the most efficient oil-drilling equipment available.
6. The silverware industry has been in serious decline since the 1980s. Family dining habits are less formal so people purchase less silverware. Also, in 1979-1980, the price of silver increased from $5 to $21 per ounce. Which graph in Figure 5-12 best illustrates these developments?

a. 1  
b. 2  
c. 3  
d. 4

7. Real GDP

a. is nominal GDP adjusted for changes in the price level.  
b. is also called nominal GDP.  
c. measures GDP minus depreciation of capital.  
d. will always change when prices change.

8. In Figure 6-2, if the aggregate demand curve shifts inward over time, the economy will

a. experience inflation.  
b. see a sustained increase in the price level.  
c. experience a significant decrease in unemployment.  
d. experience economic recession.

9. According to the text, the government can use aggregate demand management policies to reduce unemployment rates. A byproduct of this policy will be

a. an increase in the price level.  
b. a decrease in real GDP.  
c. a decrease in the price level.  
d. an increase in the budget surplus.
10. If the discouraged workers were included in the labor force,
   a. the unemployment rate would fall.
   b. the labor force would decrease.
   c. the employment rate would rise.
   d. the unemployment rate would rise.

11. If borrowers and lenders expect a higher rate of inflation,
   a. nominal interest rates should decrease.
   b. nominal interest rates should remain constant.
   c. nominal interest rates should increase.
   d. real interest rates should increase.

12. Consumption spending accounts for what share of GDP?
   a. about one third
   b. about half
   c. about two thirds
   d. about three fourths
   e. about four fifths

13. Which of the following would be most likely to shift the consumption function upward?
   a. a stock market crash
   b. a price level increase
   c. increased corporate layoffs
   d. a stock market boom

14. Investment spending
   a. accounts for about 50 percent of GDP.
   b. is remarkably stable and cushions the swings in GDP.
   c. is extraordinarily variable.
   d. follows movements in disposable income with great reliability.

15. In the circular flow model of an economy, total output equals total income
   a. only at equilibrium.
   b. always.
   c. only at non-equilibrium levels of income.
   d. never.

16. If the price level rises due to a shift in AS, the effect on the expenditure schedule and equilibrium real GDP is to
   a. increase both.
   b. decrease both.
   c. shift the expenditure schedule upward and decrease equilibrium real GDP.
   d. shift the expenditure schedule downward and increase equilibrium real GDP.
17. As a result of the Balkan wars, the populations of Serbia and Kosovo as well as their capital stocks were reduced. This can be illustrated by the aggregate supply curve
   a. shifting outward.
   b. becoming flatter.
   c. shifting inward.
   d. becoming more elastic.

18. The typical result of a decrease in aggregate supply is
   a. falling output accompanied by accelerating inflation.
   b. falling output accompanied by decelerating inflation.
   c. rising output accompanied by accelerating inflation.
   d. rising output accompanied by decelerating inflation.

19. In Figure 11.3, if full employment occurs at 5,000 and the price level is currently 130, then we can expect the
   a. aggregate supply curve to shift to the left until a new equilibrium is established at an output level of 4,000.
   b. aggregate demand curve to shift to the right until a new equilibrium is established at an output level of 6,000.
   c. price level to fall to 110.
   d. aggregate demand to shift to the left and aggregate supply to shift to the right until the price level reaches 130.

20. According to Baumol and Blinder, government transfer payments act as automatic stabilizers because as labor income decreases,
   a. transfer payments decrease as well.
   b. transfer payments remain constant.
   c. transfer payments increase.
   d. transfer payments to the government increase.

21. The primary goal of supply-side fiscal policies is to
   a. balance the federal budget.
   b. reduce the balance of payments deficit.
   c. reduce the money supply.
   d. reduce inflation and increase growth at the same time.
22. If the demand-side effects of supply-side tax cuts are greater the supply-side effects, then we can expect the result to be a(n)
   a. decrease in output and prices.
   b. decrease in output and an increase in prices.
   c. increase in output and prices.
   d. increase in output and a decrease in prices.

23. Credit cards are
   a. included in the M1 definition of the money supply.
   b. included in the M2 definition of the money supply.
   c. included in the M3 definition of the money supply.
   d. not included in the definition of the money supply.

24. Which of the following would be an asset to a bank?
   a. Cash in its vault.
   b. A loan to a university student.
   c. A government security.
   d. All of the above are correct.

25. When a banker accepts a deposit of $1,000 in cash and puts $200 aside as required reserves and then makes a loan of $800 to a new borrower, this set of transactions
   a. decreases the money supply by $1,000.
   b. decreases the money supply by $200.
   c. does not change the money supply.
   d. increases the money supply by $200.
   e. increases the money supply by $800.

26. The required reserve ratio is 10 percent, but banks actually keep 20 percent on reserve. The money supply multiplier in this case is
   a. 10.
   b. 9.
   c. 5.
   d. 2.
   e. 1.

27. If the banking system has $5 million in excess reserves and the required reserve ratio is 25 percent, what is the maximum amount by which the money supply can be increased?
   a. $25 million
   b. $20 million
   c. $5 million
   d. $2.5 million

28. Milly Miser removes $250,000 from her mattress and opens a checking account. This single transaction increases the money supply by
   a. $250,000
   b. $50,000
   c. $0
   d. -$250,000
29. Figure 14-1 shows a money demand schedule. If real GDP decreases, all else equal, the MD schedule will

a. shift outward.

b. shift inward.

c. become steeper.

d. become flatter.

e. remain unchanged.

30. The correct chain of causation illustrating the effects of monetary policy is

a. money, interest rates, AD, I.

b. money, interest rates, I, AD.

c. AD, I, interest rates, money.

d. AD, money, interest rates.

31. In Figure 14-2, which panel shows the effect on the interest rate of an open market purchase by the Fed?

a. 1

b. 2

c. 3

d. 4

32. In Figure 14-2, which panel shows the effect on the interest rate of a decrease in nominal GDP?

a. 1

b. 2

c. 3

d. 4
33. In 1996, nominal GDP was $7,576 billion and M1 was $1,117 billion. Velocity was
   a. 738.6.
   b. .546.
   c. 6.78.
   d. 111.7.

34. The velocity of circulation is the
   a. speed at which the multiplier takes effect.
   b. speed at which money circulates.
   c. speed at which tax cuts get spent.
   d. rate at which money creation takes place.

35. If the aggregate supply curve is flat,
   a. expansionary fiscal or monetary policy will cause a good deal of inflation with little increase in real output.
   b. expansionary fiscal or monetary policy will buy large gains in real output at low cost in terms of inflation.
   c. a contractionary stabilization policy is an effective way to increase real output.
   d. decreasing the income tax will not shift aggregate demand.

36. If the Fed decides to stabilize the money supply,
   a. it loses control over interest rates.
   b. it is fully cooperative with fiscal policy.
   c. it is following a Keynesian approach.
   d. it loses control over aggregate demand.

37. If Brazil voluntarily ships coffee to the United States in return for airplanes,
   a. Brazil will benefit, but the United States will lose.
   b. one of the two nations will benefit and the other nation will lose since the trade does not increase the physical quantities of coffee and airplanes available.
   c. both Brazil and the United States will benefit since the trade allows each nation to acquire more items.
   d. both Brazil and the United States will lose since there is no increase in the production of coffee or airplanes and the trade will involve certain transactions costs.

38. If a nation has "cheap labor,"
   a. it can still benefit from trade.
   b. other nations can still compete with it.
   c. it cannot have a comparative advantage in everything.
   d. All of the above are true.

39. A restriction of imports that is accomplished by a quota normally
   a. can be accomplished also by a tariff.
   b. cannot be replicated exactly by imposing a tariff.
   c. can be accomplished also by an export subsidy.
   d. none of the above are correct.
40. The infant industry argument is valid when

a. a new industry is suffering financial losses.
b. a new industry is less efficient than foreign competitors.
c. the industry's prospective gains are sufficient to repay the social losses incurred while it is being protected.
d. the industry is not likely to be profitable in the future.

41. Economics is a social science in the sense that

a. it rigorously examines human behavior.
b. it is not as scientific as physics.
c. it relies on historical data instead of mathematical data.
d. it relies on statistics instead of mathematics.

42. It's spring cleaning time in Nashville! Johnny and Willie have to clean windows and fix screens at their houses. The following table presents their productivities in each task.

<table>
<thead>
<tr>
<th></th>
<th>Fixed Screens</th>
<th>Washed Windows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willie</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Johnny</td>
<td>9</td>
<td>15</td>
</tr>
</tbody>
</table>

Suppose that they voluntarily agree on a trading ratio of 60 fixed screens for 60 washed windows. What are the gains from trade for these guys at this trading ratio?

a. Johnny gets 60 windows washed and Willie gets 60 screens fixed.
b. Willie gets 60 windows washed and Johnny gets 60 screens fixed.
c. Johnny gets 24 screens fixed and Willie gets 15 windows washed.
d. Willie gets 36 screens fixed and Johnny gets 45 windows washed.

43. Paulette is a student at Minnesota State. She is an honors student and receives a scholarship that pays her tuition. She must pay for her school books ($300/year) and her living expenses ($5,000/year). If she did not go to school, she could work at Square D and earn $26,000 per year. Assume that she will live on her own if she works and her living expenses will be the same as if she goes to school. Paulette's opportunity cost of going to school for a year is

a. $300
b. $31,300
c. $26,300
d. $26,000

44. In the AD - AS model, economic growth can be illustrated by

a. an outward shift of the AD curve.
b. an inward shift of the AD curve.
c. an inward shift of the AS curve.
d. an outward shift of the AS curve.
e. both a and d are correct.

45. The growth rate of potential GDP is affected by

a. the growth rate of the input of labor.
b. the growth rate of labor productivity.
c. the growth rate of technology.
d. all of the above.
46. During 1993, the retail price of a gallon of gasoline was $1.04. During 2001, the retail price of a gallon of gasoline was $1.41. Both prices are given in nominal terms. The CPI in 1993 was 81.6 (base year = 2001). Using 2001 as the base year, by how much did the real price of gasoline change from 1993 to 2001?

   a. It rose by approximately 37 cents.
   b. It rose by approximately 9 cents.
   c. It rose by approximately 14 cents.
   d. It rose by approximately 56 cents.

47. Which of the following do economists consider to be a durable good?

   a. a house.
   b. a car.
   c. gasoline.
   d. an orange.
   e. both a and b.

48. If the price level in the US falls relative to the price level in Canada,

   a. US exports to Canada will increase.
   b. Canadian exports to the US will increase.
   c. Canadian government spending will fall.
   d. Canadian net exports will rise.

49. Under certain restrictions, it can be shown that the multiple by which an initial change in spending becomes the total change in spending is equal to 1/MPL. If Americans spend 80% of each additional dollar they receive in disposable income, by how much will the economy expand if $1,000,000 of funds is injected into the economy?

   a. $5,000,000
   b. $1,000,000
   c. $1,250,000
   d. $10,000,000

50. Expansionary demand-side fiscal policies

   a. raise real GDP and raise the price level.
   b. lower real GDP and raise the price level.
   c. lower real GDP and lower the price level.
   d. raise real GDP and lower the price level.

51. Which of the following is a contractionary demand-side fiscal policy?

   a. lowering taxes.
   b. increasing defense spending.
   c. lowering transfer payments.
   d. increasing interest rates.

52. In a country without taxes, ignoring the effect of taxes on the supply-side of an economy,

   a. equilibrium real GDP is higher and the equilibrium price level is higher.
   b. equilibrium real GDP is lower and the equilibrium price level is higher.
   c. equilibrium real GDP is higher and the equilibrium price level is lower.
   d. equilibrium real GDP is lower and the equilibrium price level is lower.
53. If money is said to be "legal tender", then
   a. people accept it for payment for goods and services out of habit.
   b. by law, it must be accepted as payment for goods and services.
   c. by law, it is intrinsically valuable.
   d. barter systems are rendered illegal.
   e. some lawyer said it was soft.

54. Consider the following two questions.
   i. The Federal Reserve System is part of the Treasury Department.
   ii. The Federal Reserve System is completely independent of the Federal Government.
   a. both i and ii are true.
   b. both i and ii are false.
   c. i is true and ii is false.
   d. i is false and ii is true.

55. On May 7th, the Federal Open Market Committee met to discuss the appropriate monetary policy that the Federal Reserve System should pursue. They decided to
   a. hold the Federal Funds Target Rate constant.
   b. raise the Federal Funds Target Rate.
   c. lower the Federal Funds Target Rate.
   d. change the prime rate.

56. Which of the following is a contractionary monetary policy?
   a. buying government securities.
   b. selling government securities.
   c. raising taxes.
   d. lowering taxes.
   e. both b and c.

57. Suppose the Fed undertakes contractionary monetary policy. What effect does this have on equilibrium real GDP and the equilibrium price level?
   a. the equilibrium level of real GDP rises and the equilibrium price level rises.
   b. the equilibrium level of real GDP rises and the equilibrium price level falls.
   c. the equilibrium level of real GDP falls and the equilibrium price level rises.
   d. the equilibrium level of real GDP falls and the equilibrium price level falls.

58. Which of the following groups would be hurt by tariffs imposed by the American government on automobile imports into the U.S.?
   a. American consumers of domestic autos.
   b. American consumers of foreign autos.
   c. American workers in manufacturing industries that do not produces autos.
   d. all of the above.
59. Which of the following is not a function of the Federal Reserve System?

- a. Being the bank for commercial banks.
- b. Providing security for the president of the United States.
- c. Being the bank for the federal government.
- d. Producing research on the effects of monetary policy.
- e. All of the above are functions of the Federal Reserve system.

60. "Moonshine" is illegal home brew made by adding sugar to accelerate corn fermentation. Ten pounds of sugar are necessary to make a gallon of moonshine. In the mid-1970s, the price of sugar tripled and the price of moonshine skyrocketed from $6 to $15 a gallon. Which graph in Figure 5-9 best illustrates this?

- a. 1  
- b. 2  
- c. 3  
- d. 4