MULTIPLE CHOICE (5 points each): Write the letter of the alternative that *best* answers the question in the blank. Make sure you read all four alternatives before making your choice.

__C__ 1. Which of the following is *not* true about the marginal propensity to consume (MPC)?

(A) Theoretically, someone could have an MPC greater than 1
(B) The MPC is the reciprocal of the marginal propensity to save
(C) The MPC refers to the amount that will be spent from each $1 of income
(D) The 'fundamental psychological law' implies that the MPC is greater than zero

__A__ 2. According to the misperceptions theory of aggregate supply, if a firm thought than inflation was going to be 5 percent and actual inflation was 6 percent, then the firm would believe that the relative price of what they produce had

(A) Increased, so the would increase production
(B) Increased, so the would decrease production
(C) Decreased, so the would increase production
(D) Decreased, so the would decrease production

__A__ 3. According to the liquidity preference theory:

(A) An increase in the interest rate reduces the quantity of money demanded. This is shown as a movement along the curve. An increase in the price level shifts money demand to the right
(B) An increase in the interest rate increases the quantity of money demanded. This is shown as a movement along the curve. An increase in the price level shifts money demand to the left
(C) An increase in the price level reduces the quantity of money demanded. This is shown as a movement along the curve. An increase in the interest rate shifts money demand to the right
(D) An increase in the price level increases the quantity of money demanded. This is shown as a movement along the curve. An increase in the interest rate shifts money demand to the left

__D__ 4. If Robert (a successful American publisher as he wanted stated in this exam) opens a U.S. textbook publishing company that sells texts overseas, then U.S. net exports

(A) Decrease, and U.S. net capital outflow decreases
(B) Decrease, and U.S. net capital outflow increases
(C) Increase, and U.S. net capital outflow decreases
(D) Increase, and U.S. net capital outflow increases

__D__ 5. The *long-run* aggregate supply curve shows that, if international speculators cause the exchange rate to depreciate, then this situation would lead to

(A) A decrease in the price level and real GDP
(B) A decrease in the price level, keeping real GDP unchanged
(C) An increase in the price level and real GDP
(D) An increase in the price level, keeping real GDP unchanged

__C__ 6. Chong, president of Brahma, decides to reduce government expenditure, moving from a budget deficit to a budget surplus. Then, it is true that domestic investment

(A) And the real exchange rate will rise
(B) And the real exchange rate will fall
(C) Will rise and the real exchange rate will fall
(D) Will fall and the real exchange rate will rise

__B__ 7. Which of the following is correct about business cycles?

(A) Over the business cycle, consumption fluctuates more than investment
(B) There are increased claims for unemployment insurance
(C) A particular year is considered to be in recession real GDP growth was negative for two quarters
(D) After the cycle hits the trough, the time in which real GDP grows beyond the previous cycle's peak is called recovery

__B__ 8. Which of the following statements is *best* related to a supply-side argument?

(A) A reduction in taxes will stimulate consumption, and thus, aggregate demand
(B) Higher technology will increase potential output
(C) If the FED reduces the money supply, the higher interest rates will decrease consumption and investment
(D) Lower savings are beneficial in the short-run because they stimulate aggregate demand

__A__ 9. Which of the following could be a consequence of a depreciation of the U.S. real exchange rate?

(A) Austin, a U.S. citizen, decides to import fewer windshield wipers for his auto parts company
(B) Alik, a Russian citizen, decides that Iowa pork has become too expensive and cancels his order
(C) Daniel, a U.S. citizen, decides that the trip to Iraq that he has been dreaming about is now made affordable by the depreciation
(D) All of the above are correct

__C__ 10. Other things the same, automatic stabilizers tend to

(A) Raise expenditures during expansions and recessions
(B) Lower expenditures during expansions and recessions
(C) Raise expenditures during recessions and lower expenditures during expansions
(D) Lower expenditures during recessions and raise expenditures during expansions

__C__ 11. Stacey, a U.S. citizen, buys a bond issued by an Italian pasta manufacturer.

(A) This purchase is foreign direct investment. By itself it increases U.S. net capital outflow
(B) This purchase is foreign direct investment. By itself it decreases U.S. net capital outflow
(C) This purchase is foreign portfolio investment. By itself it increases U.S. net capital outflow.
(D) This purchase is foreign portfolio investment. By itself it decreases U.S. net capital outflow.

__C__ 12. If saving is greater than domestic investment, then:

(A) there is a trade deficit and $Y > C + I + G$.
(B) there is a trade deficit and $Y < C + I + G$.
(C) there is a trade surplus and $Y > C + I + G$.
(D) there is a trade surplus and $Y < C + I + G$.

__A__ 13. In the U.S. a digital camera costs $150. The same camera in London sells for 60 pounds. If the exchange rate is .50 pounds per dollar, then which of the following is correct?

(A) The real exchange rate is greater than 1. A person in London with $150 could exchange them for pounds and have more than enough to buy the camera there.
(B) The real exchange rate is greater than 1. A person in London with $150 could exchange them for pounds but then wouldn't have enough to buy the camera there.
(C) The real exchange rate is less than 1. A person in London with $150 could exchange them for pounds and have more than enough to buy the camera there.
(D) The real exchange rate is less than 1. A person in London with $150 could exchange them for pounds but then wouldn't have enough to buy the camera.

__B__ 14. Which of the following could be a consequence of a depreciation of the U.S. real exchange rate?

(A) John, a French citizen, decides that Iowa pork has become too expensive and cancels his order.
(B) Roberta, a U.S. citizen, decides to import fewer windshield wipers for her auto parts company.

(C) Nick, a U.S. citizen, decides that the trip to Nepal he's been thinking about is now made affordable by the depreciation.
(D) All of the above are correct.

__D__ 15. Suppose a McDonalds Big Mac cost $4.00 in the United States and 3.20 euros in the euro area and 5.20 Australian dollars in Australia. If exchange rates are .75 euros per dollar and 1.3 Australian dollars per dollar, where does purchasing power parity hold?

(A) Both the euro area and Australia.
(B) Neither the euro area or Australia.
(C) The euro area but not Australia.
(D) Australia but not the euro area.

__B__ 16. According to purchasing power parity, if it took 1,100 Korean Won to buy a dollar this year, but it took 1,000 to buy it last year, then the dollar has

(A) appreciated, indicating inflation was higher in the U.S. than in Korea.
(B) appreciated indicating inflation was lower in the U.S. than in Korea.
(C) depreciated indicating inflation was higher in the U.S. than in Korea.
(D) depreciated indicating inflation was lower in the U.S. than in Korea.

__C__ 17. Suppose the real exchange rate is such that the market for foreign-currency exchange has a surplus. This surplus will lead to

(A) an appreciation of the dollar, an increase in U.S. net exports, and so an increase in the quantity of dollars demanded in the foreign exchange market.
(B) an appreciation of the dollar, a decrease in U.S. net exports, and so a decrease in the quantity of dollars demanded in the foreign exchange market.
(C) a depreciation of the dollar, an increase in U.S. net exports, and so an increase in the quantity of dollars demanded in the foreign exchange market.
(D) a depreciation of the dollar, a decrease in U.S. net exports, and so a decrease in the quantity of dollars demanded in the foreign exchange market.

__A__ 18. The country of Alikland is politically very stable and has a long tradition of respecting property rights. If several other countries suddenly became politically unstable, we would expect Alikland's

(A) net exports to fall.
(B) real interest rate to rise.
(C) real exchange rate to fall.
(D) None of the above is likely.

__C__ 19. Suppose the U.S. imposes an import quota on steel. U.S. exports

(A) increase, the real exchange rate of the U.S. dollar appreciates, and U.S. net capital outflow increases.
(B) increase, the real exchange rate of the U.S. dollar depreciates, and U.S. net capital outflow is unchanged.
(C) decrease, the real exchange rate of the U.S. dollar appreciates, and U.S. net capital outflow is unchanged.
(D) decrease, the real exchange rate of the U.S. dollar depreciates, and U.S. net capital outflow decreases.

__B__ 20. When the price level falls

(A) households want to lend more, so the interest rate rises making the quantity of goods and services demanded rise.
(B) households want to lend more, so the interest rate falls, making the quantity of goods and services demanded rise.
(C) households want to lend more, so the interest rate rises, making the quantity of goods and services demanded fall.
(D) None of the above are correct.

__B__ 21. Other things the same, if the U.S. price level falls, then

(A) the supply of dollars in the market for foreign-currency exchange increases, so the exchange rate rises.
(B) the supply of dollars in the market for foreign-currency exchange increases, so the exchange rate falls.
(C) the supply of dollars in the market for foreign-currency exchange decreases, so the exchange rate rises.
(D) the supply of dollars in the market for foreign-currency exchange decreases, so the exchange rate falls.

__D__ 22. Imagine the U.S. economy is in long-run equilibrium. Then suppose the value of the U.S. dollar increases. At the same time, people in the U.S. revise their expectations so that the expected price level falls. We would expect that in the short-run

(A) real GDP will rise and the price level might rise, fall, or stay the same.
(B) real GDP will fall and the price level might rise, fall, or stay the same.
(C) the price level will rise, and real GDP might rise, fall, or stay the same.
(D) the price level will fall, and real GDP might rise, fall, or stay the same.

__A__ 23. According to the liquidity preference theory, an increase in the overall price level of 10 percent

(A) increases the equilibrium interest rate, which in turn decreases the quantity of goods and services demanded.
(B) decreases the equilibrium interest rate, which in turn increases the quantity of goods and services demanded.
(C) increases the quantity of money supplied by 10 percent, leaving the interest rate and the quantity of goods and services demanded unchanged.
(D) decreases the quantity of money demanded by 10 percent, leaving the interest rate and the quantity of goods and services demanded unchanged.

__B__ 24. The economy is in long-run equilibrium. Suppose that automatic teller machines become cheaper and more convenient to use, and as a result the demand for money falls. Other things equal, we would expect that, in the short run,

(A) the price level and real GDP would rise, but in the long run they would both be unaffected.
(B) the price level and real GDP would rise, but in the long run the price level would rise and real GDP would be unaffected.
(C) the price level and real GDP would fall, but in the long run they would both be unaffected.
(D) the price level and real GDP would fall, but in the long run the price level would fall and real GDP would be unaffected.

__C__ 25. In a certain economy, when income is $200, consumer spending is $145. The value of the multiplier for this economy is 6.25. It follows that, when income is $230, consumer spending is

(A) $166.75. For this economy, an initial impulse of $10 in consumer spending translates into a $62.50 increase in aggregate demand.
(B) $166.75. For this economy, an initial impulse of $10 in consumer spending translates into a $66.75 increase in aggregate demand.
(C) $170.20. For this economy, an initial impulse of $10 in consumer spending translates into a $62.50 increase in aggregate demand.
(D) $170.20. For this economy, an initial impulse of $10 in consumer spending translates into a $70.20 increase in aggregate demand.

__B__ 26. Which of the following illustrates how the investment accelerator works?

(A) An increase in government expenditures increases the interest rate so that the Burgerville chain of restaurants decides to build fewer new restaurants.
(B) An increase in government expenditures increases aggregate spending so that Burgerville finds it profitable to build more new restaurants.
(C) An increase in government expenditures increases the interest rate so that the demand for stocks and bonds issued by Burgerville increases.

(D) An increase in government expenditures decreases the interest rate so that Burgerville decides to build more new restaurants.

__D__ 27. Which of the following policies would Keynes's followers support when an increase in business optimism shifts the aggregate demand curve away from long-run equilibrium?

(A) decrease taxes.
(B) increase government expenditures.
(C) increase the money supply.
(D) None of the above is correct.

__D__ 28. Which of the following leads to a lower level of unemployment in the long run?

(A) both an increase in the size of the money supply and an increase in the money supply growth rate
(B) an increase in the size of the money supply but not an increase in the money supply growth rate
(C) an increase in the money supply growth rate, but not an increase in the size of the money supply
(D) neither an increase in the size of the money supply nor an increase in the money supply growth rate

__A__ 29. Suppose expected inflation and actual inflation are both relatively high, and unemployment is at its natural rate. If the Fed then pursues a contractionary monetary policy, which of the following results would be expected in the short run?

(A) Expected inflation would exceed actual inflation, and unemployment would exceed its natural rate.
(B) Expected inflation would exceed actual inflation, and unemployment would be below its natural rate.
(C) Actual inflation would exceed expected inflation, and unemployment would exceed its natural rate.
(D) Actual inflation would exceed expected inflation, and unemployment would be below its natural rate.

__C__ 30. Which of the following is correct if there is a favorable supply shock?

(A) the short-run aggregate supply curve and the short-run Phillips curve both shift right.
(B) the short-run aggregate supply curve and the short-run Phillips curve both shift left.
(C) the short-run aggregate supply curve shifts right and the short-run Phillips curve shifts left.
(D) the short-run aggregate supply curve shifts left and the short-run Phillips curve shifts right.