Econ 212 Sec 1
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ECONOMICS 212 A
EXAM II

Jan. 13, 2001

NAME:------------------------------------INSTRUCTOR:------------------------------

100% Multiple Choice (50 questions, 6 pages)

1. Equilibrium real output increases while the equilibrium price level does not change. This could occur as a result of a simultaneous
   A) increase in both aggregate demand and short-run aggregate supply.
   B) decrease in both aggregate demand and short-run aggregate supply.
   C) increase in aggregate demand and decrease in short-run aggregate supply.
   D) decrease in aggregate demand and increase in short-run aggregate supply.

2. When the aggregate demand curve shifts to the left in relation to an upward-sloping short-run aggregate supply curve, the simple multiplier effect
   A) is shown by the horizontal distance between the two points of intersection.
   B) cannot be determined when the short-run aggregate supply curve is upward sloping.
   C) is illustrated by the horizontal shift of the aggregate demand curve.
   D) is shown by the vertical distance between the two points of intersection.

3. If the short-run aggregate supply curve is vertical and aggregate demand increases, then we expect that the aggregate expenditure curve will
   A) shift to a higher level and stay there.
   B) shift to a higher level, but then shift part of the way down to the original position.
   C) shift to a higher level, but then return to the original position.
   D) shift down to a lower level.

4. A point where current output exceeds aggregate desired expenditure
   A) will cause an outward shift of the AD curve.
   B) will cause an upward movement along the AD curve.
   C) is not a point on the AD curve.
   D) will cause a downward shift of the AD curve.
   E) will cause a downward movement along the AD curve.

5. If desired aggregate expenditure is less than actual output, the economy is at a point __________ the 45-degree line and to the __________ of the aggregate demand curve.
   A) above; right B) above; left C) below; right D) below; left

6. An increase in autonomous expenditure will cause aggregate expenditure to shift by __________ this increase and aggregate demand to shift by __________ this increase.
   A) the amount of; more than B) more than; the amount of
   C) the amount of; the amount of D) more than; more than

7. Which of the following items will change with a movement along the aggregate demand function?
   A) induced imports B) autonomous consumption
   C) marginal productivity of labor D) marginal propensity to consume

8. Under which set of circumstances will a decrease in the money supply lead to the greatest reduction in desired investment?
   A) an interest-sensitive demand for money and an interest-sensitive marginal efficiency of investment
   B) an interest-insensitive demand for money and an interest-sensitive marginal efficiency of investment
   C) an interest-sensitive demand for money and an interest-insensitive marginal efficiency of investment
   D) an interest-insensitive demand for money and an interest-insensitive marginal efficiency of investment

9. An outward shift in aggregate demand is associated with a(n) _________ shift in aggregate expenditure and will result in a(n) _________ price level.

A) upward; decreased
B) upward; increased
C) downward; decreased
D) downward; increased

10. When the economy is at potential income, an increase in aggregate demand will, in the short run

A) increase prices and increase real national income.
B) shift the aggregate supply schedule outward.
C) only affect the price level.
D) lead to an excess supply of goods, since additional product is not forthcoming.

11. [redacted]) A depreciation of the currency should lead to

A) increased imports and an inward shift in aggregate demand.
B) an upward movement along the aggregate demand schedule.
C) an outward shift in the aggregate demand schedule.
D) less domestic employment.

12 [redacted]) Suppose that an economic expansion is underway, and as a result, actual output exceeds the potential output for the economy. Inflationary pressures are building. An appropriate fiscal policy would most likely result in

A) a reduction in the government's budget surplus.
B) an increase in the government's budget deficit.
C) an increase in the government's budget surplus or at least a reduction in its deficit.
D) either an increase in the government's budget deficit or a decrease in its surplus, depending on whether taxes increased or spending decreased.

13. [redacted]) Under which of the following cases would the use of automatic stabilizers be a disadvantage?

A) The economy's actual output is approaching its potential output.
B) The economy is beginning to recover from a serious recession and is in the recovery phase of the business cycle.
C) Aggregate demand is greater than short-run aggregate supply.
D) The economy is experiencing severe inflationary pressures on prices and wages.

14. [redacted]) With the paradox of thrift, a decrease in savings

A) will lower the short-run and long-run output.
B) benefit the economy with increased long-run investment and growth.
C) will increase the short-run price level and output.
D) will reduce the positive output gap and increase unemployment.

15. [redacted]) A fall in investment spending disturbs an initial equilibrium. Because of this change

A) there will be upward pressure on wages.
B) firms will seek to lower output prices.
C) actual output will exceed potential output.
D) there will be an inflationary gap.

16. [redacted]) A fall in autonomous investment is accompanied by rising unit wage costs. This will most likely cause the _________ level to _________

A) price; rise.
B) price; fall.
C) output; rise.
D) output; fall.

17. ●) If rising productivity is accompanied by higher autonomous investment, the net result will most likely be

A) higher prices. B) lower prices. C) higher output. D) lower output.

18. ●) "Sticky wages" refers to wages which do not __________ as fast during recessionary gaps as they __________ during inflationary gaps.

A) rise; fall B) rise; rise C) fall; rise D) fall; fall

19. ●) If a recessionary gap exists, a rapid return to full employment, given sticky wages, is most likely to be achieved through

A) a rightward shift in short-run aggregate supply.
B) a leftward shift in short-run aggregate supply.
C) a rightward shift in aggregate demand.
D) a leftward shift in aggregate demand.

20. ●) A reduction in Bank A's reserves following a withdrawal should lead to which result?

A) Bank A may now be in a situation where reserves are less than those required by law.
B) There will be a multiple reduction in the nation's money supply.
C) Bank A may well have to convert some loans to reserves to satisfy minimum reserve requirements.
D) All of the above would result.

21. ●) A New York bank receives new deposits of $10 million from foreign citizens. If the required reserve ratio is 10 percent, we know that

A) the bank's excess reserves have increased by $10 million.
B) the banking system can create additional deposits of $10 million.
C) the bank's excess reserves have increased by $9 million.
D) the New York bank can create additional deposits of $90 million.

22. ●) Assume that a first-generation bank loans $200 to a new customer, who purchases a boat. The boat dealer deposits this $200 in her bank. If the required reserve ratio is 15 percent, what amount of new loans may the second generation bank make?

A) $30 B) $60 C) $170 D) $200

23. ●) If a first-generation bank has been able to increase its loans by $160 following a new deposit, what was the amount of the new deposit if the required reserve ratio is 20 percent?

A) $100. B) $160. C) $200. D) $320.

24. ●) If the required reserve ratio is 20 percent, a $200 new deposit can result in a maximum increase in the money supply of

A) $40. B) $200. C) $500. D) $1000.

25. ●) A $150 withdrawal from a commercial bank, when the required reserve ratio is 10 percent, can lead to a maximum reduction in the money supply of

A) $15. B) $150. C) $1,500. D) $15,000.

26. ●) The negative slope of the aggregate demand function can be partially explained by which answer below.

A) An increase in the price level increases the rate of interest and lowers investment.
B) An increase in the price level decreases the demand for bonds and lowers the rate of interest, reducing aggregate demand.
C) A decrease in the price level increases the supply of bonds and increases the rate of interest, reducing aggregate demand.
D) A decrease in the price level reduces the profitability of firms and lowers their level of investment.