

Dr. Fadi Asrawi
 Dr. Hratch Hadjetian
 Mrs. Nicole Baker

Haigazian University
Faculty of Business Administration & Economics

Macroeconomic Principles (ECO 202)
Exam II (Spring 2008-2009)

Name: _____

Time: 55 minutes

Please answer the following 45 Multiple Choice questions.

1. A C ✓		24. C ✓
2. B ✓		25. A ✓
3. B ✓		26. B ✓
4. B ✓		27. B ✓
5. B ✓		28. C ✓
6. BC C ✓ ✓		29. D ✓
7. B ✓		30. B ✓
8. D ✓		31. E ✓
9. A ✓		32. A ✓
10. A ✓		33. C ✓
11. A ✓		34. A ✓
12. C ✓		35. C ✓
13. C ✓		36. A ✓
14. C ✓		37. B ✓
15. B ✓		38. B ✓
16. C ✓		39. E ✓
17. D ✓		40. B ✓
18. B ✓		41. C ✓
19. D ✓		42. D ✓
20. B ✓		43. C ✓
21. A ✓		44. D ✓
22. B ✓		45. C ✓
23. D ✓		

Eco 202 exam#2

Student: _

Dr.Fadi Asrawi
Dr. Hratch Hadjetian
Mrs.Nicole Baker

1. One trend in labor markets is:

- A. increasing wage inequality in the United States.
- B. low rates of unemployment in Western Europe.
- C. strong rates of job creation in Western Europe.
- D. a decrease in average real wages in the United States and other industrial countries.
- E. very slow rates of employment growth in the United States.

2. One trend in labor markets is:

- A. a decrease in average real wages in the United States and other industrial countries.
- B. high rates of unemployment in Western Europe.
- C. substantial decreases in employment in the United States.
- D. decreasing wage inequality in the United States.
- E. strong rates of job creation in Western Europe.

3. The real wage is the:

- A. supply of labor.
- B. price of labor.
- C. marginal product of labor .
- D. demand for labor.
- E. ratio of wage of unskilled workers to the wage of skilled workers.

4. The marginal product of labor and the price of the output produced determine the:

- A. the quantity of labor employed.
- B. demand for labor.
- C. the price of labor.
- D. the amount of worker mobility..
- E. supply of labor. .

5. The principle of diminishing returns to labor is based on the:

- A. cost-benefit principle.
- B. principle of increasing opportunity cost.
- C. equilibrium principle.
- D. principle of comparative advantage.
- E. scarcity principle.

6. The following table provides information about production at the XYZ-TV Company.

Number of Workers	TVs Produced	Marginal Product	Value of Marginal Product
0	0	--	--
1	35	35	\$35,000
2	68	33	\$33,000
3	99	31	\$31,000
4	128	29	\$29,000
5	155	27	\$27,000

How many workers will the XYZ-TV Company hire if the going wage for TV production workers is \$30,000?

- A. 2
- B. 3
- C. 4
- ☒ D. 1
- E. 5

7. High Tech, Inc. produces plastic chairs that sell for \$10 each. The following table provides information about how many plastic chairs can be produced per hour. For simplicity assume that labor is the only input.

Number of Workers	Chairs Produced per Hour
0	0
1	10 100 70
2	18 180 140
3	24 240 210
4	28 280 280
5	30 300

How many workers will be hired, if the hourly wage for workers is \$70?

- A. 2
- ☒ B. 4
- C. 1
- D. 3
- E. 5

8. Firms will hire additional workers as long as the wage:

- A. is greater than the value of the marginal product of labor.
- B. equals the marginal product of labor.
- C. is less than the marginal product of labor.
- D. is less than the value of the marginal product of labor.
- E. is greater than the marginal product of labor.

9. An increase in the price of the output produced by labor will:

- A. increase the demand for labor.
- B. decrease the supply of labor.
- C. increase the supply of labor.
- D. decrease the demand for labor.
- E. increase the marginal product of labor.

10. The demand for labor decreases when the:

- A. value of the marginal product of labor decreases.
- B. value of the marginal product of labor increases.
- C. real wage decreases.
- D. nominal wage decreases.
- E. price of the output produced by labor increases.

11. If the price of tables sold by All-Oak Table Co. decreases from \$500 to \$400, then the:

- A. demand for labor by All-Oak Table Co. decreases.
- B. marginal product of labor employed by the All-Oak Table Co. increases.
- C. supply of labor to All-Oak Table Co. increases.
- D. supply of labor to All-Oak Table Co. decreases.
- E. demand for labor by All-Oak Table Co. increases.

12. Production data for Joe's Pizza Parlor are as follows. For simplicity assume that labor is the only input. Each pizza sells for \$5.

Number of Workers	Pizzas baked per day
0	0
1	10 $50 > 25$
2	18 $90 > 50$
3	24 $120 > 75$
4	30 $150 > 100$
5	32 160

How many workers will Joe hire if he must pay each one \$25 a day?

- A. 4
- B. 1
- C. 5
- D. 2
- E. 3

13. The compensation level that leaves you just indifferent between working and not working is called the:

- A. real wage.
- B. value of marginal product of labor.
- C. reservation price.
- D. marginal product of labor.
- E. nominal wage.

14. As the real wage increases the quantity of labor demanded _____ and the quantity of labor supplied _____.

- A. does not change; does not change
- B. increases; decreases
- C. decreases; increases
- D. decreases; decreases
- E. increases; increases

15. Holding other factors constant, if food prices decline relative to the prices of other products, then the real wages of agricultural workers will _____ and employment of agricultural workers will _____.

- A. decrease; increase
- B. decrease; decrease
- C. decrease; not change
- D. increase; increase
- E. increase; decrease

16. Holding other factors constant, if the working-age population increases as a result of a post-war baby boom year before, then the real wages of workers will _____ and employment of workers will _____.

- A. decrease; not change
- B. increase; decrease
- C. decrease; increase
- D. increase; increase
- E. decrease; decrease

17. If robots are introduced that do most of the poultry processing, then the real wage of unskilled workers in poultry processing plants is predicted to _____ and the employment of unskilled workers in poultry processing plants is predicted to _____.

- A. increase; increase
- B. decrease; not change
- C. increase; decrease
- D. decrease; decrease
- E. increase; not change

18. When a baker exchanges a pie for dollars, this is an example of dollars serving as:

- A. barter.
- B. a medium of exchange.
- C. a store of value.
- D. bank reserves.
- E. a unit of account.

19. Which of the following is the best example of money used as a medium of exchange?

- A. A plumber unclogs a drain for a carpenter, who repairs broken steps for the plumber. .
- B. Prices of products in a store in Mexico are marked in terms of U.S. dollars. .
- C. A farmer stores \$100 dollar bills in a strong box under the floor in a barn. .
- D. The prices of construction jobs on the island of Yap are quoted in cases of beer.
- E. In a prisoner of war camp cigarettes are traded for socks, candy and/or food, even by nonsmokers. .

20. The main disadvantage of using money as a store of value is that:

- A. other assets provide greater anonymity than cash.
- B. other assets pay relatively higher rates of interest than money. .
- C. unlike other assets, money serves as a medium of exchange.
- D. other assets are more difficult to trace than cash. .
- E. barter is a more efficient way to conduct transactions than using money. .

21. Money performs each of the functions listed EXCEPT serving as a(n):

- A. liability of the nonbank public.
- B. medium of exchange.
- C. unit of account.
- D. asset used in making purchases.
- E. store of value.

22. Money serves as a unit of account when:

- A. there is direct trade of goods and services .
- B. it is a basic measure of economic value.
- C. it is used to purchase goods and services .
- D. there is a double coincidence of wants. .
- E. it is a means of holding wealth. .

23. The M2 measure of money consists of the sum of:

- A. M1, savings deposits, and money market mutual funds.
- B. currency, checking and savings deposits, and small time deposits.
- C. currency, checking and savings deposits.
- D. M1, savings deposits, small time deposits, and money market mutual funds.
- E. savings deposits, small time deposits, and money market mutual funds.

24. Demand deposits and other checkable deposits are _____ the M1 measure of money and _____ the M2 measure of money.

- A. excluded from; excluded from
- B. included in; included in
- C. excluded from; included in
- D. included in; excluded from
- E. equal to; excluded from

25. Travelers' checks are _____ the M1 measure of money and _____ the M2 measure of money.

- A. included in; included in
- B. excluded from; excluded from
- C. excluded from; included in
- D. equal to; excluded from
- E. included in; excluded from

26. Credit card balances are not considered to be money primarily because they:

- A. are an asset used in making transactions. •
- B. are not part of people's wealth. ✓
- C. do not represent an obligation to pay someone else. •
- D. are rarely used to make purchases. •
- E. are not available to people with poor credit ratings. •

27. Based on the following information, compute the value of the M2 measure of the money supply.

Assets	Billions of Dollars
M1	530 ✓
Money market mutual funds	800
Savings deposits	1,800 ✓
Demand deposits	200
Small denomination time deposits	1,100

- A. \$3,700 billion
- B. \$4,230 billion
- C. \$4,520 billion
- D. \$2,900 billion
- E. \$3,900 billion

28. Based on the following information, compute the value of the M1 measure of the money supply.

Assets	Billions of Dollars
Currency	20 ✓
Demand deposits	30
Money market mutual funds	80 ✓
Travelers' checks	5 ✓
Savings deposits	180 ✓
Other checkable deposits	20 ✓
Small denomination time deposits	110 ✓

- A. \$55 billion
- B. \$370 billion
- C. \$75 billion
- D. \$445 billion ✓
- E. \$255 billion

29. Cash and similar assets held to meet depositor withdrawals or payments are called:

- A. bank liabilities.
- B. checking accounts.
- C. money.
- D. bank reserves.
- E. deposits.

30. The consolidated balance sheet of the all banks in Macroland is presented below:

Assets		Liabilities	
Currency	\$1,000	Deposits	\$1,000
Loans	\$ 900		

Based on this balance sheet the banking system of Macroland can be described as a(n) _____ banking system.

- A. barter
- B. fractional-reserve
- C. 100-percent-reserve
- D. M1
- E. government-insured

31. Bank reserves divided by bank deposits is called:

- A. fractional reserve banking.
- B. the asset/liability ratio.
- C. 100% reserve banking.
- D. the banking system unit of account.
- E. the reserve/deposit ratio.

32. In Econland all \$15,000,000 in currency is held by banks as reserves. The public does not hold any currency. If the banks' desired reserve/deposit ratio is 5%, the money supply in Econland equals:

- A. \$300,000,000
- B. \$15,000,000
- C. \$15,7500,000
- D. \$315,000,000
- E. \$14,285,714

33. When the actual reserve/deposit ratio exceeds the desired reserve/deposit ratio banks:

- A. send the extra reserves to the central bank.
- B. make more loans in order to earn interest.
- C. stop making loans.
- D. do nothing because this is a profitable situation.
- E. request that customers withdraw deposits from the bank.

34. If the actual reserve/deposit ratio equals 8% and the desired reserve/deposit ratio for this bank is 10%, the bank should:

- A. stop making loans.
- B. request that customers withdraw deposits from the bank.
- C. send the extra reserves to the central bank.
- D. do nothing because this is a profitable situation.
- E. make more loans in order to earn interest.

35. If the Central Bank of Macroland puts an additional 1,000 units of currency into the economy, the public deposits all currency into the banking system, and banks have a desired reserve/deposit ratio of .20, then the banks will eventually make new loans totaling _____ and the money supply will increase by _____.

- A. \$4,000; \$4,000
- B. \$1,000; \$1,000
- C. \$1,000; \$5,000
- D. \$4,000; \$5,000
- E. \$5,000; \$5,000

36. The money supply will increase by a multiple of the increase in bank reserves created by the central bank unless:

- A. there is 100 percent reserve banking.
- B. banks' desired reserve/deposit ratio is .20.
- C. the public holds no currency.
- D. banks' desired reserve/deposit ratio is .10.
- E. there is fractional reserve banking.

37. In Macroland there is \$2,000,000 in currency. The public holds half of the currency and banks hold the rest as reserves. If banks' desired reserve/deposit ratio is 5%, deposits in Macroland equal _____ and the money supply equals _____.

- A. 2,000,000; 2,100,000
- B. 40,000,000; 42,000,000
- C. 40,000,000; 40,000,000
- D. 20,000,000; 21,000,000
- E. 20,000,000; 22,000,000

38. If the desired reserve/deposit ratio equals .20, then every dollar of currency in bank vaults supports _____ of the money supply, while every dollar of currency held by the public contributes _____ to the money supply.

- A. \$1; \$0.20
- B. \$5; \$1
- C. \$0.20; \$1
- D. \$1; \$1
- E. \$5; \$0.20

39. The two main responsibilities of the Federal Reserve System are to _____ and to _____.

- A. apprehend counterfeiters; regulate the stock market
- B. collect taxes; pay the government's expenses
- C. insure bank deposits; print currency
- D. enable banks to make affordable mortgages; control the exchange rate of the U.S. dollar
- E. conduct monetary policy; oversee financial markets

40. In an open-market purchase the Federal Reserve _____ government bonds and the supply of bank reserves _____.

- A. buys; does not change
- B. buys; decreases
- C. sells; decreases
- D. buys; increases
- E. sells; increases

41. In Macroland, currency held by the public is 2000 econs, bank reserves are 300 econs, and the desired reserve/deposit ratio is 10%. If the Central Bank prints an additional 200 econs and uses this new currency to buy government bonds from the public, the money supply in Macroland will increase from _____ econs to _____ econs assuming that the public does not wish to change the amount of currency it holds.

- A. 5,300; 7,500
- B. 5,000; 7,000
- C. 2,000; 2,200
- D. 2,300; 2,500
- E. 3,000; 5,000

42. The money supply in Macroland is currently 2,500, bank reserves are 200, currency held by public is 500, and banks' desired reserve/deposit ratio is 0.10. Assuming the values of the currency held by the public and the desired reserve/deposit ratio do not change, if the Central Bank of Macroland wishes to increase the money supply to 3,000, then it should conduct an open-market _____ government bonds to/from the public.

- A. purchase of 50
- B. sale of 500
- C. purchase of 500
- D. purchase of 250
- E. sale of 50

43. An episode when depositors, spurred by news or rumors of the imminent bankruptcy of one or more banks, rush to withdraw their deposits from the banking system is called a(n):

- A. reserve requirement crisis.
- B. open-market withdrawal.
- C. banking panic.
- D. credit crunch.
- E. open-market sale.

44. A system under which the government guarantees that customers will not lose any money if their bank goes bankrupt is called:

- A. open-market operations.
- B. the Federal Reserve System.
- C. bankruptcy protection.
- D. deposit insurance.
- E. reserve guarantees.

45. One of the serious drawbacks of the deposit insurance system instituted in the United States is that:

- A. bank failures continue to occur regularly.
- B. the system took away the Federal Reserve's ability to conduct open-market operations.
- C. the system took away the Federal Reserve's ability to change reserve requirements.
- D. it eliminated the policy of fractional-reserve banking.
- E. if insured intermediaries make bad loans, the taxpayers may be responsible for covering the losses.