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Eco. 202 Exam 2

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Use the following to answer question 1:

Use the following balance sheet for XYZ Bank, which is one of many banks in a banking system.

Table 13.1 — XYZ Bank balance sheet

<u>Assets</u>		<u>Liabilities</u>	
Total reserves	\$ 50,000	Transactions accounts	\$200,000
Other assets	150,000		

1. Refer to Table 13.1. With total reserves of \$50,000 and a required reserve ratio of 10 percent, potential deposit creation for the banking system is equal to:
☒ A) \$300,000.
B) \$20,000.
C) \$50,000.
D) \$80,000.
2. A decrease in the average level of prices of goods and services is known as:
A) A depression.
☒ B) Deflation.
C) Inflation.
D) A recession.
3. If the MP of an additional unit of labor is 6 units per hour, product price is constant at \$10 per unit, and the wage rate is \$20 per hour, then:
A) An additional unit of labor should not be employed because it costs more than it is worth.
B) The employer should lower wages and accept less employment of labor.
C) Product price must be increased if profits are to be made.
☒ D) An additional unit of labor should be employed.

4. The growth and contraction in the production of goods and services over time define:
- A) Inflation.
 - B) The business cycle.
 - C) Macro policy.
 - ☒ D) Unemployment.
5. The labor demand curve is downward sloping because:
- A) The amount of available labor declines as the wage rate declines.
 - B) Each individual worker tends to be more valuable as more workers are hired.
 - ☒ C) Each individual worker tends to be less valuable as more workers are hired.
 - D) Marginal physical product increases as more workers are hired. x
6. When there is no deflation or inflation in an economy:
- A) Full employment is achieved.
 - B) Prices of all goods change by the same percentage.
 - ☒ C) Relative prices remain unchanged.
 - ☒ D) Average prices remain unchanged.
7. MRP(value of MP) for a perfectly competitive firm is equal to:
- A) MP divided by marginal revenue.
 - ☒ B) MP times the price of the product.
 - C) MP divided by the wage rate.
 - D) MP times the wage rate.
8. When an individual deposits cash or coins in a transactions account, there is:
- ☒ A) No change in the composition of the money supply, but the size does change.
 - B) A change in the composition of the money supply, but not the size.
 - ☒ C) A change in both the composition and the size of the money supply.
 - D) No change in either the composition or the size of the money supply.
9. If there is only one bank in an economy:
- A) Loans equal bank reserves.
 - B) Loans equal transaction accounts.
 - ☒ C) Transactions accounts equal bank reserves.
 - ☒ D) Reserves never leave the bank.

10. An increase in the labor productivity is best illustrated by:
- A) A rightward shift of the labor-supply curve.
 - ☒ B) A rightward shift of the MRP(value of MP) curve.
 - C) A leftward shift of the MPP(value of MP) curve.
 - D) A leftward shift of the labor-supply curve.
11. If the MP of the last worker hired is 2 units per hour, product price is constant at \$3 per unit, and the wage rate is \$8 per hour, then:
- ☒ A) The last worker hired should not be employed because he costs more than he is worth.
 - B) The employer should raise wages and hire more workers.
 - C) Product price must be decreased if profits are to be made.
 - D) The last worker hired is profitable for the firm.
12. If the banking system has demand deposits of \$200,000, total reserves of \$70,000, and a reserve ratio of 25 percent, potential deposit creation is equal to:
- A) \$20,000.
 - ☒ B) \$80,000.
 - C) \$130,000.
 - D) \$70,000.
13. Ana's nominal annual income in 2002 was \$60,000. Suppose that the rate of inflation is constant at 10 percent. To keep Ana's real income constant, her nominal income in the year 2003 should be:
- A) \$54,000.
 - B) \$70,000.
 - C) \$60,000.
 - ☒ D) \$66,000.
14. The basic money supply(M1) includes:
- A) Currency, transactions accounts, and savings account balances. ✗
 - B) Currency, transactions accounts, and credit card balances. ✗
 - C) Currency, savings account balances, and traveler's checks. ✗
 - ☒ D) Currency, transactions accounts, and traveler's checks. ✓
15. If the Fed wants to reduce the money supply, it can:
- ☒ A) Sell bonds.
 - B) Lower the discount rate.
 - C) Decrease the minimum reserve ratio.
 - D) All of the above.

16. Long-term trends in demand that make some goods obsolete are likely to have their greatest impact on:
- ☒ A) Cyclical unemployment.
 - B) Frictional unemployment. ✓
 - C) Seasonal unemployment.
 - D) Structural unemployment. ✕
17. The amount of real output lost due to unemployment is:
- ☒ A) Equal to the value of the goods and services *not* produced due to unemployed resources.
 - B) The difference between potential GDP and actual GDP.
 - C) Equal to the GDP gap.
 - D) All of the above.
18. Frictional unemployment goes up when:
- A) A corporation transfers a worker to another city.
 - ☒ B) A worker quits one job in order to search for another.
 - C) There is inadequate demand for labor.
 - D) Students quit work to return to school at the end of the summer.
19. Suppose the entire banking system has a required reserve ratio of 0.20. How much could the money supply increase in response to a \$1 billion increase in excess reserves for the whole banking system?
- A) \$20 billion.
 - ☒ B) \$5 billion.
 - C) \$200 million.
 - D) \$1 billion.
20. Suppose a bank has \$150,000 in deposits and a required reserve ratio of 5 percent. Then required reserves are:
- A) \$157,500.
 - B) \$142,500.
 - ☒ C) \$7,500.
 - D) \$150,000.
21. An office worker who loses her job because she does not have the necessary computer skills is, *ceteris paribus*:
- A) Cyclically unemployed.
 - B) Frictionally unemployed.
 - ☒ C) Structurally unemployed.
 - D) Seasonally unemployed.

22. Who among the following would be counted as unemployed?
- A) Someone who is on strike. ✗
 - ☒ B) A student who just graduated and is looking for work.
 - C) Someone who is on vacation but will return to a job. ✗
 - D) All of the above.
23. Which of the following is the correct formula for calculating the marginal physical product of labor?
- A) The percentage change in total output divided by the percentage change in quantity of labor.
 - ☒ B) Total output divided by the quantity of labor.
 - C) MRP(value of MP) times price.
 - ☒ D) The change in total output divided by the change in quantity of labor.
24. When the Fed raises the discount rate, this policy initiative:
- A) Is a signal that the Fed is moving toward a slower growth rate for the money supply.
 - B) Is a signal that the Fed is reluctant to lend reserves.
 - C) Raises the cost of borrowing reserves to member banks.
 - ☒ D) All of the above.
25. If there is no minimum reserve requirement in the banking system, the potential ability of banks to create money is:
- ☒ A) Unlimited.
 - B) Limited by the number of banks in the banking system.
 - C) Zero.
 - ☒ D) Limited by the amount of deposits.
26. If the Fed wants to increase bank reserves, it can:
- A) Raise the reserve requirement.
 - ☒ B) Buy bonds.
 - C) Sell bonds.
 - D) Raise the discount rate.
27. According to the quantity equation of money, which of the following is a solution to reduce inflation?
- A) Raise taxes.
 - B) Decrease government spending.
 - ☒ C) Reduce the money-supply growth.
 - D) All of the above.

28. Suppose the banks in the Federal Reserve System have \$10 billion in transactions accounts, the minimum reserve ratio is 0.12, and there are no excess reserves in the system. If the minimum reserve ratio changes to 0.10, then the unused lending capacity becomes:

- A) \$1.2 billion.
- ☒ B) \$200 million.
- C) \$2 billion.
- D) \$12 billion.

29. The direct exchange of one good for another is known as:

- A) A trade permit.
- B) A debit.
- C) A basic transaction.
- ☒ D) Barter.

30. The demand for labor is derived in that it:

- A) Is affected by the number of people who are willing to work.
- B) Depends on the wage rate.
- C) Depends on the demand for the goods and services labor produces.
- ☒ D) Is affected by the incomes of individuals.

31. When the market value of goods and services is expressed in prices, money is functioning as a:

- ☒ A) Standard of value.
- B) Store of value.
- C) Type of barter.
- D) Medium of exchange.

32. If labor productivity rises, then wages:

- ☒ A) Can increase without a decrease in the number of jobs.
- B) Can increase, but only if the number of jobs decrease.
- C) Will decrease, but the number of jobs will not change.
- D) Will decrease and the number of jobs will decrease.

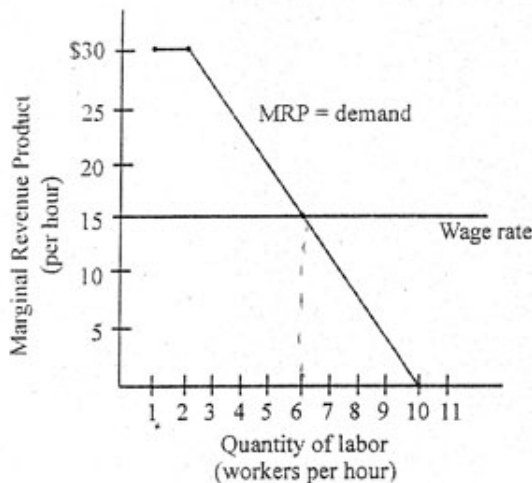
33. Labor supply is the willingness and ability of:

- A) Employers to hire workers at various wage rates.
- B) Sellers to produce goods at various prices.
- ☒ C) Individuals to offer their labor services at various wage rates.
- D) Buyers to purchase goods at various prices.

34. Which of the following is likely to reduce the level of structural unemployment?
- A) An increase in the number of youth and women in the labor force.
 - B) A lower GDP level for the economy.
 - C) Longer periods of unemployment between jobs.
 - ☒ D) Federally funded job-training programs.

Use the following to answer questions 35-36:

Figure 8.3



35. In Figure 8.3, for the 1st through the 6th worker:
- A) MRP(value of MP) is less than the equilibrium wage rate and these workers will not be hired.
 - B) MP is less than the equilibrium wage rate and these workers will not be hired.
 - C) The equilibrium wage rate is too high and the firm does not accept the wage.
 - ☒ D) MRP(value of MP) is greater than or equal to the equilibrium wage rate and these workers will be hired.
36. In Figure 8.3, for the 7th through the 10th worker:
- A) The equilibrium wage rate is too high and the firm does not accept the wage. ✗
 - B) MP is greater than the equilibrium wage rate and these workers will be hired. ✗
 - C) MRP(value of MP) is greater than or equal to the equilibrium wage rate and these workers will be hired.
 - ☒ D) MRP(value of MP) is less than the equilibrium wage rate and these workers will not be hired.

37. The reserve ratio is the:

- A) Number of deposit dollars the banking system can create.
- B) Percentage of excess reserves held by banks.
- ☒ C) Percentage of total deposits that are held as bank reserves.
- D) Fraction of deposits that banks hold as excess reserves.

38. The discount rate is the interest rate charged by:

- A) A private bank when it lends money to commercial customers.
- ☒ B) The Federal Reserve when it lends money to private banks.
- C) A regional Fed bank when it lends money to another regional Fed bank.
- D) A private bank when it lends money to another private bank.

39. Excess reserves:

- ☒ A) Are bank reserves beyond what the bank is required to hold.
- B) Change when the reserve requirement changes.
- C) Represent the dollars an individual bank can lend.
- ☐ D) All of the above.

40. Suppose a bank has \$500,000 in deposits, a required reserve ratio of 25 percent, and bank reserves of \$100,000. Then the bank can make new loans in the amount of:

- ☒ A) -\$25,000.
- B) -\$225,000.
- C) +\$100,000.
- ☐ D) -\$125,000.