

PRACTICE EXAM 2

1. The need for a barter system diminishes when money is used as a
A) medium of exchange. B) store of value.
C) unit of account. D) measure of value.

2. Tippi received a rebate of \$2,000 for a hybrid car she purchased in May 2008. Tippi put this money in a saving account so that she could spend it when she went on safari in September 2008. This is an example of money serving as a(n)
A) medium of exchange. B) store of value.
C) unit of account. D) investment good.

3. Which of the following is NOT a form of commodity money?
A) checks B) cigarettes
C) precious stones D) none of the above

4. M1
A) is the sum of currency plus travelers checks.
B) is the narrowest definition of the money supply.
C) includes small time deposits.
D) includes credit cards.

5. Serena transfers \$8,000 from her checking account to her savings account. This transaction will
A) not change M1 and decrease M2. B) decrease M1 and not change M2.
C) increase both M1 and M2. D) decrease both M1 and M2.

6. _____ in a bank is considered a liability of that bank.
A) Excess reserves B) A bank loan
C) A checking deposit D) Required reserves

7. The voting members of the Federal Open Market Committee are
A) all of the members of the Board of Governors and all of the presidents of the 12 Federal Reserve banks.
B) all of the members of the Board of Governors and five of the presidents of the 12 Federal Reserve banks.
C) the presidents of the 12 Federal Reserve banks and three members of the Board of Governors.
D) only the members of the Board of Governors.

8. Members of the Federal Reserve Board of Governors
A) are appointed to 4 year terms.
B) are confirmed by the House of Representatives.
C) are members of the Federal Open Market Committee.
D) All of the above

9. The Federal Reserve System
 A) controls the Treasury Department.
 B) oversees the Congress and Senate.
 C) is the central bank of the United States.
 D) is a branch of the Commerce Department.

10. First Bank of Davis has deposits of \$8 million and has borrowed \$1,200,000. First Bank of Davis' total assets are
 A) \$1.2 million. B) \$8 million. C) \$6.8 million. D) None of the above

Use the following balance sheet information for Wells Fargo Bank to answer the questions below
Figure 1

Wells Fargo Bank	
Assets	Liabilities
Reserves: \$2 million	Deposits: \$4 million
Required: \$800,000	Bank Borrowing: \$500,000
Excess:	
Loans:	
<div style="display: flex; justify-content: space-between;"> Total Assets: Total Liabilities: </div>	

11. Refer to Figure 1. Wells Fargo Bank's excess reserves equals \$_____.
 A) 1,200,000 B) 2,000,000 C) 2,800,000 D) None of the above
12. Refer to Figure 1. The required reserve ratio is
 A) 15%. B) 10%. C) 12.5%. D) None of the above
13. Refer to Figure 1. Wells Fargo Bank's total loans equals \$_____.
 A) 2,800,000 B) 2,500,000 C) 1,700,000 D) None of the above
14. Suppose the required reserve ratio is 10%. A \$75 million cash deposit will allow commercial banks to create at most
 A) \$750,000. B) \$7.5 million. C) \$75 million. D) \$750 million.
15. The required reserve ratio is 12.5%. The money multiplier is
 A) 7.5. B) 2.5. C) 6. D) 8.
16. Assume that banks become less conservative in their lending policies and start holding no excess reserves. Compared to a situation in which banks are holding excess reserves, the size of the money supply will be
 A) zero. B) larger. C) the same. D) smaller.

The following table shows the changes in deposits, reserves, and loans of 4 banks as a result of a \$100,000 initial deposit in Bank No. 1. Assume that all banks do not hold any excess reserves.

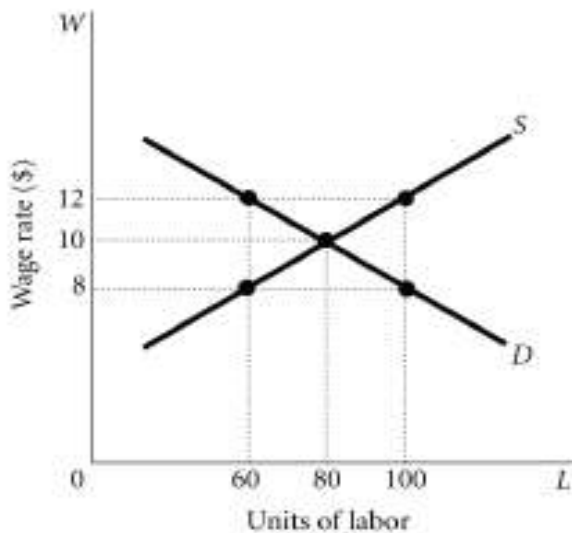
Figure 2

	New Deposit	Required Reserve	Loans
Bank No. 1	\$100,000.00	\$10,000.00	\$90,000.00
Bank No. 2	\$90,000.00	\$9,000.00	\$81,000.00
Bank No. 3	\$81,000.00	\$8,100.00	\$72,900.00
Bank No. 4	\$72,900.00	\$7,290.00	\$65,610.00

17. Refer to Figure 2. What is the required reserve ratio?
 A) 4% B) 5% C) 8% D) 10%
18. Refer to Figure 2. What is the money multiplier in this economy?
 A) 20 B) 10 C) 50 D) 16.67
19. Refer to Figure 2. How much money will be created based on the initial \$100,000 deposit?
 A) \$1 million B) \$2 million C) \$50 million D) None of the above
20. Refer to Figure 2. If the required reserve ratio were changed to 20%, total loans of Bank No. 2 will change to
 A) \$64,000. B) \$72,000. C) \$74,250. D) \$80,000.
21. Which of the following is an example of a Federal Reserve action that increases the money supply?
 A) an increase in the required reserve ratio
 B) a decrease in the discount rate
 C) an increase in the federal funds rate
 D) the Fed selling government bonds in the open market
22. Total deposits in the banking system are \$800 million. The required reserve ratio is decreased. The money supply will
 A) decrease.
 B) increase.
 C) not change because there was no change in deposits.
 D) not change because the required reserve ratio has no impact on money supply.
23. Assume that the required reserve ratio is 25%. If the Fed sells \$5 million worth of government securities to the public, the change in the money supply will be
 A) \$100 million. B) -\$5 million. C) \$25 million. D) -\$20 million.

24. Which of the following would be likely to lead to a decrease in the natural rate of unemployment?
- A) an increase in the number of teenage workers in the workforce
 - B) a decrease in the length of time during which people can receive unemployment benefits
 - C) a prolonged recession
 - D) all of the above
25. If you hear a person saying "I lost my job at the Gateway plant because computer manufacturing is slow due to a slowdown in the economy," you should conclude that this person is _____ unemployed.
- A) cyclically
 - B) structurally
 - C) frictionally
 - D) seasonally

Figure 3



26. Refer to Figure 3. A minimum wage of \$10
- A) will lead to unemployment of 20.
 - B) will lead to unemployment of 40.
 - C) will lead to unemployment of 60.
 - D) will have no effect on the number of unemployed
27. Refer to Figure 3. In an attempt to increase worker productivity, a firm should offer an efficient wage of _____ per hour.
- A) \$10
 - B) an amount greater than \$10
 - C) \$8
 - D) an amount less than \$8
28. A government policy that will increase frictional unemployment is a(n):
- A) extension of job training programs
 - B) increase the unemployment insurance benefits
 - C) increase the minimum wage
 - D) Both B and C are correct

29. According to various efficiency wage theories, higher wages make workers more productive for all of the following reasons EXCEPT:

- A) higher wages allow workers to afford more nutritious diets.
- B) higher wages attract higher quality workers
- C) higher wages move people into higher tax brackets, so they have to work harder to have the same after-tax income
- D) higher wages may improve worker effort by increasing the cost of losing one's job.

30. If Lola is classified as a discouraged worker, she is

- A) part of the labor force.
- B) structurally unemployed.
- C) frictionally unemployed.
- D) not part of the labor force.

31. In September there are 10,000 people classified as unemployed and the size of the labor force is 400,000. The only change between September and October is that 4,000 of the unemployed give up looking for work. Which of the following is true?

- A) In September the unemployment rate was 1.75% and in October the unemployment rate was 0.75%.
- B) In September the unemployment rate was 2.5% and in October the unemployment rate was 1.5%.
- C) In September the unemployment rate was 4% and in October the unemployment rate was 1%.
- D) In September the unemployment rate was 5% and in October the unemployment rate was 4%.

Figure 4

Labor force participation rate	60%
Total population 16 years of age and older	200 million
Unemployment rate	5%

32. Refer to Figure 4. The labor force

- A) equals 200 million.
- B) equals 130 million.
- C) equals 120 million
- D) is none of the above

33. Refer to Figure 4. The total number of people unemployed is

- A) 10 million.
- B) 8 million.
- C) 6 million.
- D) none of the above

34. Refer to Figure 4. The total number of people employed is

- A) 190 million.
- B) 120 million.
- C) 114 million.
- D) 57 million.

35. When a radiologist quits her job at a hospital and starts looking for a better job in another hospital, she is

- A) cyclically unemployed.
- B) frictionally unemployed.
- C) structurally unemployed.
- D) naturally unemployed.

36. If the labor market becomes less efficient so that the unemployed are more slowly matched with jobs, then
- A) the natural rate of unemployment will increase.
 - B) the natural rate of unemployment will decrease.
 - C) the natural rate of unemployment will not change.
 - D) the natural rate of unemployment could either increase or decrease.
37. _____ capital creation has been suggested as an explanation for the _____ economic growth in many poor nations.
- A) Insufficient; lack of
 - B) Increases in; rapid
 - C) Outsourced; negative
 - D) Subsidized; slow
38. If a developing economy restricts the amount of money its citizens can invest abroad, it has a greater chance of _____ by forcing its citizens to invest in their own country.
- A) alienating trade partners
 - B) increasing capital
 - C) slowing down its economy
 - D) increasing unemployment
39. All of the following are factors that limit a poor nation's economic growth EXCEPT
- A) lack of capital per worker
 - B) lack of human capital.
 - C) lack of natural resources.
 - D) increased urbanization.
40. Suppose that factory output rose from 50,000 units to 55,000 units while labor hours rose from 1100 to 1200. Which of the following is true?
- A) Labor productivity remained unchanged.
 - B) Labor productivity increased slightly.
 - C) Labor productivity decreased slightly.
 - D) Labor productivity increased sharply.
41. The productivity of U.S. workers is higher than that of workers in many of the less developed countries. Which of the following arguments could help explain this fact?
- A. U.S. workers has less capital per worker than developing countries. According to diminishing marginal productivity, the less capital one has the higher the productivity level.
 - B) Productivity in the United States is higher because the United States has more workers than those countries having low productivity.
 - C) The United States could have greater productivity because its workers have more human capital per worker.
 - D) All of the above are true statements
42. The catch-up effect is the
- A) tendency for countries that start off poor to grow more rapidly than countries that start off rich.
 - B) property whereby the benefits of an extra unit of an input declines as the quantity of the input increases.
 - C) tendency for the growth rate of the capital stock of a country to match its population growth rate.
 - D) property whereby the benefits of different inputs move toward each other over time.

43. A nation's standard of living is measured by its
- A) real GDP.
 - B) real GDP per person.
 - C) nominal GDP.
 - D) nominal GDP per person
44. In comparison to other countries, Japan had a high growth rate over the last 100 years. Japan's average annual growth rate of real GDP per person was a bit less than
- A) 0.5 percent.
 - B) 1.0 percent.
 - C) 2.0 percent
 - D) 3.0 percent
45. Which of the following is human capital?
- A) a company's cafeteria
 - B) employees' knowledge of the production process
 - C) the exercise equipment in a company's gym
 - D) All of the above are correct.
46. Which of the following would increase productivity?
- A) an increase in the amount of equipment per-worker
 - B) an increase in the knowledge and skills of workers
 - C) the discovery of new raw materials
 - D) All of the above are correct
47. Across countries, investment and growth rates are
- A) unrelated.
 - B) negatively related.
 - C) negatively related for rich countries, but positively related for poor countries.
 - D) positively related.
48. If there are diminishing returns to capital,
- A) capital produces fewer goods as it ages.
 - B) increases in the capital stock eventually decrease output.
 - C) the smaller the capital stock, the less an increase in the capital stock increases output.
 - D) the larger the capital stock, the less an increase in the capital stock increases output.
49. A large and sudden increase in the number of workers is likely to
- A) raise real GDP per person, but decrease real GDP.
 - B) decrease both real GDP and real GDP per person.
 - C) raise both real GDP and real GDP per person.
 - D) raise real GDP, but decrease real GDP per person
50. What are the two basic categories of financial institutions?
- A) the foreign exchange markets and the stock markets
 - B) the financial markets and financial intermediaries
 - C) the market for loanable funds and the market for capital
 - D) the lending market and the deposit market

51. If Microsoft sells a bond they are
- borrowing directly from the public.
 - borrowing indirectly from the public.
 - lending directly to the public.
 - lending indirectly to the public.
52. Rudolph has the choice of two bonds, one that pays 5 percent interest and the other that pays 10 percent interest. Which of the following is most likely?
- The 10 percent bond is less risky than the 5 percent bond
 - The 10 percent bond has a shorter term than the 5 percent bond
 - The 10 percent bond is a U.S. government bond, and the 5 percent bond is a junk bond
 - The 10 percent bond is a corporate bond, and the 5 percent bond is a U.S. government bond
53. A mutual fund
- is a financial market where small firms sell stocks and bonds to raise funds.
 - is money set aside by local governments to lend to small firms who want to invest in projects that are mutually beneficial to the firm and community.
 - sells stocks and bonds on behalf of small and not-very-well-known firms who would otherwise have to pay high interest to obtain credit.
 - sells shares to the public and uses the proceeds to buy a selection of various types of stocks, bonds, or both stocks and bonds.
54. Which of the following equations represents national saving in a closed economy?
- $Y - I - G - NX$
 - $Y - C - G$
 - $Y - I - C$
 - $G + C - Y$
55. Suppose that in a closed economy GDP is equal to 9,000, taxes are equal to 1,000, Consumption equals 6,000, and government expenditures equal 2,000. What are private saving and public saving?
- 2000 and -1000
 - 2000 and 1000
 - 1000 and -1000
 - 1000 and 2000
56. A budget surplus is created when the government
- sells more bonds than it buys back.
 - spends more than it receives in tax revenue.
 - receives more tax revenue than it spends.
 - None of the above is correct.
57. Other things the same, an increase in taxes necessarily means
- the government has a surplus.
 - public savings increases.
 - private savings increases.
 - None of the above is correct.
58. The supply of loanable funds slopes
- downward because an increase in the interest rate induces people to save less.
 - downward because an increase in the interest rate induces people to invest less.
 - upward because an increase in the interest rate induces people to save more.
 - upward because an increase in the interest rate induces people to invest more.

59. If the current market interest rate for loanable funds is below the equilibrium level, then the quantity of loanable funds

- A) demanded exceeds the quantity of loanable funds supplied and the interest rate will fall.
- B) demanded exceeds the quantity of loanable funds supplied and the interest rate will rise.
- C) supplied exceeds the quantity of loanable funds demanded and the interest rate will fall.
- D) supplied exceeds the quantity of loanable funds demanded and the interest rate will rise

60. What would happen in the market for loanable funds if the government were to decrease the tax on interest income?

- A) The supply of loanable funds would shift right.
- B) The supply of loanable funds would shift left.
- C) The demand for loanable funds would shift right.
- D) The demand for loanable funds would shift left.

61. Suppose that Congress were to institute an investment tax credit. What would happen in the market for loanable funds?

- A) The supply of loanable funds would shift left.
- B) The supply of loanable funds would shift right.
- C) The demand for loanable funds would shift left.
- D) The demand for loanable funds would shift right.

62. An increase in the budget deficit shifts the

- A) demand for loanable funds left.
- B) demand for loanable funds right.
- C) supply of loanable funds left.
- D) supply of loanable funds right

63. Roth Individual Retirement Accounts allow people to save a limited amount of money without paying taxes on the interest when funds are withdrawn. Government programs like these should increase the

- A) demand for loanable funds and lower the interest rate.
- B) demand for loanable funds and raise the interest rate.
- C) supply of loanable funds and lower the interest rate.
- D) supply of loanable funds and raise the interest rate.

64. If the government wanted to decrease interest rates and increase investment it could

- A) raise the government deficit.
- B) reduce taxes on interest income.
- C) provide investment tax credits.
- D) None of the above is correct.

ANSWER KEY

- | | |
|-------|-------|
| 1) A | 47) D |
| 2) B | 48) D |
| 3) A | 49) D |
| 4) B | 50) B |
| 5) B | 51) A |
| 6) C | 52) D |
| 7) B | 53) D |
| 8) C | 54) B |
| 9) C | 55) A |
| 10) D | 56) C |
| 11) A | 57) B |
| 12) D | 58) C |
| 13) B | 59) B |
| 14) D | 60) A |
| 15) D | 61) D |
| 16) B | 62) C |
| 17) D | 63) C |
| 18) B | 64) B |
| 19) A | |
| 20) A | |
| 21) B | |
| 22) B | |
| 23) D | |
| 24) B | |
| 25) A | |
| 26) D | |
| 27) B | |
| 28) B | |
| 29) C | |
| 30) D | |
| 31) B | |
| 32) C | |
| 33) C | |
| 34) C | |
| 35) B | |
| 36) A | |
| 37) A | |
| 38) B | |
| 39) D | |
| 40) B | |
| 41) C | |
| 42) A | |
| 43) B | |
| 44) D | |
| 45) B | |
| 46) D | |