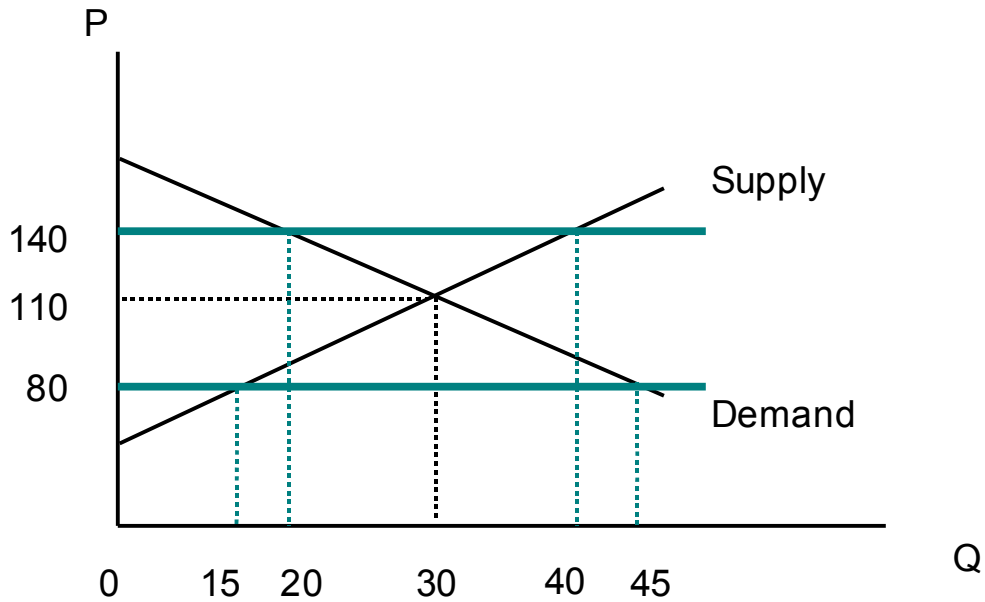


# Principles of Macroeconomics

## Final Exam

Mark the best answer on the answer sheet, NOT on the exam  
Be sure to show your calculations on the answer sheet.

1. Demand curve will increase due to a(n):
  - I. Increase in income
  - II. Decrease in production costs
  - III. Increase in supply
  - IV. Increase in complementary product prices
  - a) III
  - b) I
  - c) I, III
  - d) I, II, III
  - e) none of the above
  
2. A supply curve will decrease due to a(n):
  - a) increase in income
  - b) decrease in production costs
  - c) increase in supply
  - d) increase in complementary product prices
  - e) none of the above
  
3. Which of the following are assumptions of a competitive market?
  - I. Many buyers and sellers
  - II. No externalities
  - III. Perfect information
  - IV. No transactions costs
  - a) I, II, III, & IV
  - b) II, III, & IV
  - c) I, II, & IV
  - d) I, II
  - e) none of the above
  
4. There is a dramatic increase in college students, demand for pizza will \_\_\_\_\_.
  - a) decrease
  - b) increase
  - c) not change
  - d) increase then decrease
  - e) none of the above
  
5. As the price of pizza increases, quantity supplied will \_\_\_\_\_.
  - a) decrease
  - b) increase
  - c) not change
  - d) shift upward
  - e) none of the above



6. What is the slope of the demand line?
  - a) 2
  - b) -2
  - c) 3
  - d) -3
  - e) none of the above
7. What is the slope of the supply line?
  - a) 3
  - b) -3
  - c) 2
  - d) -2
  - e) none of the above
8. What is the quantity demanded of widgets at a price of \$80?
  - a) 0
  - b) 15
  - c) 30
  - d) 45
  - e) none of the above
9. What is the equilibrium price and quantity?
  - a) 110, 30
  - b) 140, 20
  - c) 80, 15
  - d) 80, 45
  - e) none of the above
10. What is the quantity supplied at a price of \$140?
  - a) 0
  - b) 20
  - c) 30
  - d) 40
  - e) none of the above

11. That consumption follows a predictable pattern through life is attributed to the \_\_\_\_\_.
- a) permanent income hypothesis
  - b) Kenyes's psychological theory
  - c) life cycle theory
  - d) paradox of thrift
  - e) none of the above
12. When individuals increase their savings rate but aggregate savings fall is known as the \_\_\_\_\_.
- a) permanent income hypothesis
  - b) Kenyes's psychological theory
  - c) life cycle theory
  - d) paradox of thrift
  - e) none of the above
13. In the aggregate economy investment is financed by \_\_\_\_\_.
- a) income
  - b) consumption
  - c) savings
  - d) interest rates
  - e) none of the above
14. Which of the following are Determinants of Investment?
- I. capacity utilization
  - II. interest rates
  - III. income
  - IV. technological innovation
- a) I, II
  - b) I, II, III,
  - c) I, II, III, IV
  - d) I, III
  - e) none of the above
15. The characteristic known as \_\_\_\_\_ for public goods means that more than one person can enjoy the consumption of that item without diminishing the enjoyment by another.
- a) nonallocativity
  - b) nonexclusibility
  - c) full employment
  - d) nonrival consumption
  - e) none of the above

16. \_\_\_\_\_ is the additional cost imposed on those who do not directly participate in the consumption of that product.
- a) Marginal social cost
  - b) Marginal social benefit
  - c) Marginal external cost
  - d) Marginal external benefit
  - e) none of the above
17. When drivers fail to exercise caution upon obtaining insurance then a \_\_\_\_\_ problem exists.
- a) moral hazard
  - b) free rider problem
  - c) adverse selection
  - d) agency problem
  - e) none of the above
18. Social security invests its funds in \_\_\_\_\_.
- a) stock market
  - b) mutual funds
  - c) US Treasury securities
  - d) corporate bonds
  - e) none of the above
19. Appreciating domestic currency will favor \_\_\_\_\_.
- a) imports
  - b) exports
  - c) tax revenue
  - d) interest rates
  - e) none of the above
20. The European Central Bank has increased their interest rates 3%. Predictably,
- I. The Euro will appreciate against the Dollar.
  - II. The Euro will depreciate against the Dollar.
  - III. Demand will increase for Euro assets.
  - IV. Demand will decrease for Euro assets.
- a) I, III
  - b) I, IV
  - c) II, III
  - d) II, IV
  - e) none of the above

21. Which of the following are functions of money?
- I. transactions
  - II. medium of exchange
  - III. store of value
  - IV. unit of account
- a) I, II, III, & IV
  - b) I
  - c) II, III, IV
  - d) I, III
  - e) none of the above
22. Money supply is determined by \_\_\_\_\_.
- a) income
  - b) interest rates
  - c) Federal Reserve
  - d) local banks
  - e) none of the above
23. Transactions are a function of \_\_\_\_\_.
- a) income
  - b) money demand
  - c) interest rates
  - d) money supply
  - e) none of the above
24. Increases in money supply beyond that needed for transactions purposes tend to cause a(n) \_\_\_\_\_.
- a) recession
  - b) high growth
  - c) inflation
  - d) unemployment
  - e) none of the above
25. Under the \_\_\_\_\_, the slope of the yield curve reflects the increasing risk as time to maturity increases.
- a) expectations hypothesis
  - b) market segment hypothesis
  - c) liquidity preference hypothesis
  - d) yield curve hypothesis
  - e) none of the above

26. \_\_\_\_\_ is the non-payment of principal and/or interest on time.

- a) Credit risk
- b) Interest rate risk
- c) Liquidity risk
- d) Short term risk
- e) none of the above

27. Banks borrow \_\_\_\_\_ and lend \_\_\_\_\_.

- a) long term, short term
- b) short term, long term
- c) long term, long term
- d) short term, short term
- e) none of the above

28. The primary functions of the Federal Reserve Bank are:

- I. Serve as Federal Government's fiscal agent
- II. Conduct monetary policy
- III. Supervise banking and credit system
- IV. Maintain financial system stability

- a) I, II, III, & IV
- b) II, III
- c) II, III, IV
- d) I
- e) none of the above

29. The primary function of the FDIC is to \_\_\_\_\_.

- a) insure banks
- b) insure depositors
- c) conduct monetary policy
- d) control money supply
- e) none of the above

30. Bond prices \_\_\_\_\_ when interest rates decrease.

- a) decrease
- b) increase
- c) do not change
- d) rise then fall
- e) none of the above

31. \_\_\_\_\_ variation in economic activity that is annual and periodic.
- a) Stochastic
  - b) Cyclical
  - c) Lunar
  - d) Seasonal
  - e) none of the above
32. An increase in business confidences leading to improvement in capital spending is considered a(n) \_\_\_\_\_.
- a) supply side shocks
  - b) demand side shocks
  - c) change in quantity demanded
  - d) change in quantity supplied
  - e) none of the above
33. \_\_\_\_\_ are data series that track changes in the general economy.
- a) Lagging indicators
  - b) Leading indicators
  - c) Coincidental indicators
  - d) Weighted indicators
  - e) none of the above
34. To stop an inflation, a central bank may try to \_\_\_\_\_.
- a) lower interest rates
  - b) lower reserve requirements
  - c) engineer a recession
  - d) do nothing
  - e) none of the above
35. Measuring inflation is difficult as:
- I. different items are included in indexes.
  - II. different mathematical procedures yield different results.
  - III. indexes may not reflect purchasing patterns of consumer.
  - IV. prices heavily weighted to index may be responding to non-inflationary pressures.
- a) I, IV
  - b) I, III
  - c) II, III
  - d) I, II, III, IV
  - e) none of the above