Multiple choice

1- The foreign exchange rate describes the
   a) balance of trade
   b) balance of payments
   c) law of comparative advantage
   d) price of foreign currency in terms of domestic currency

2- Flexible exchange rates are determined by
   a) the government of the importing country
   b) the government of the exporting country
   c) the forces of supply and demand
   d) the International Monetary Fund

3- Country’s balance of payments shows a
   a) detailed record of the import and export of services for the country
   b) detailed record of the country’s imports
   c) summary record of international financial assistance received by the country
   d) summary record of a country’s economic transactions with foreign residents and governments over a year.

4- The basic purpose of the Bretton Woods meeting was to
   a) fix prices
   b) locate the world’s supply of gold
   c) slow down inflation after World War II
   d) create a new international payment system

5- The balance of trade is defined as
   a) the amount of imported capital assets
   b) the amount of exported capital assets
   c) the value of goods and services bought and sold in the world market
   d) the difference between the import and export of official reserves

6- Official reserve assets include all if the following EXCEPT
   a) foreign currencies
   b) gold
   c) special drawing rights
   d) gifts to foreign countries

7- If the United States looks more economically and politically stable relative to the rest of the World, this will
   a) decrease the demand for dollars
   b) increase the demand for dollars
   c) have no effect on the demand for dollars
   d) stop all trading between the currencies of the U.S. and other countries

8- Unilateral payments represent
   a) the balance of services coming into a country
   b) the balance of a government bonds bought and sold by residents of the country
   c) the balance of financial gifts- both private and public – entering and leaving the country
   d) the balance of official transfers within the economy

9- An increase in the value of a domestic currency in terms of other currencies is known as
   a) an appreciation
   b) a depreciation
   c) a flexible exchange rate
   d) a discount rate

10- The major factor affecting a nation’s balance of payments is
    a) an increase in its rate of unemployment
    b) its rate of inflation relative to the rate of inflation of its trading partners
c) a change in the productivity of its labor
d) its stock market movements

11- The aggregate supply curve
  a) shows what each producer is willing and able to produce at each income level
  b) relates planned aggregate production and the price level
  c) becomes vertical if there is excess production capacity within the economy
  d) shows a negative relationship between the price level and real national income level

12- The long run aggregate supply curve is
  a) horizontal at the full employment level of real GDP
  b) vertical at the full employment level of real GDP
  c) sloping upward due to the effects of price level changes on output
  d) the same as short run aggregate supply curve

13- All of the following explain the downward slope of the aggregate demand curve except
  a) changes in the stock of real wealth held by individuals
  b) the effect of changing interest rates on the quantity demanded of interest rate sensitive goods
  c) the availability of foreign substitute goods
  d) the presence of unused production capacity and unemployment

14- An unexpected event that causes the aggregate demand curve to shift inward or outward is an
  a) aggregate demand shock
  b) aggregate supply shock
  c) aggregate supply increase
  d) aggregate supply decrease

15- Short run changes in the price level can affect real output because
  a) supply curves of individual firms are upward sloping
  b) higher prices encourage technological change
  c) some production costs are relatively fixed
  d) the labor force increases as wages increase

16- Over time in a growing economy, the long run aggregate supply curve will
  a) move so as to match the short run aggregate supply curve
  b) shift outward to the right
  c) shift inward to the left
  d) become increasingly steep

17- Whenever the general level of prices rises because of continual increases in aggregate demand, we say
  that the economy is expanding
  a) cost-push inflation
  b) monetary stagflation
  c) demand-pull information
  d) aggregate supply shock

18- OPEC’s oil embargo of the United States in the 1970s was an example of
  a) a demand shock that increased price levels
  b) a demand shock that decreased price levels
  c) a supply shock that increased price levels
  d) a supply shock that decreased price levels

19- According to the classical model, increased saving leads to increased investment because
  a) the people who save are the same people who invest
  b) the interest rate adjusts to keep investment equal to saving
  c) saving and investment are two sides of the same activity
  d) the interest rate is carefully adjusted by the federal government

20- In the classical model, real GDP per year is
  a) due to supply conditions; pus the extent of government intervention in the economy
  b) determined by supply and demand conditions together
  c) supply determined
  d) demand determined

21- Classical economists argued that
  a) there would be an excess of savings over investment
  b) workers had money illusion
c) excess savings would create unemployment
d) a flexible interest rate will equilibrate savings and investment

22- The classical economists argued that planned saving and planned investment will always be equal because of changes in
a) the level of real disposable income
b) the interest rate
c) the price level
d) wages

23- The simple Keynesian model assumes that
a) gross private domestic investment exceeds net investment by the capital consumption allowance
b) prices, especially the price of wages, are "sticky downward."
c) There will never be any excess capacity in the short run
d) Aggregate demand will always equal aggregate supply

24- According to Keynesian theory, the most important determinant of saving and consumption is
a) the level of real income
b) the stock of liquid assets
c) the stock of durable goods in the consumer’s possession
d) the level of consumer indebtedness

25- The consumption function shows
a) a positive relationship between an individual’s stock of wealth and his level of planned consumption
b) a positive relationship between an individual’s stock of wealth and his level of planned consumption
c) a negative relationship between planned consumption and aggregate saving
d) a negative relationship between disposable income and planned consumption

26- The 45-degree line
a) contains only a consumption component
b) represents both planned consumption and planned investment
c) shows various combinations where planned consumption equals real disposable income
d) reflects a decreasing APC as real disposable income rises

27- The marginal propensity to consume (MPC) can be best defined as
a) that fraction of real disposable income that is consumed.
b) That fraction of real disposable income that is not consumed
c) That fraction of a change in real disposable income that is spent
d) That fraction of a change in real disposable income that is saved

28- The larger the MPC,
a) the larger the multiplier
b) the smaller the multiplier
c) the smaller the slope of the consumption function
d) the larger the slope of the savings function

29- If the aggregate supply function is horizontal, then
a) the price level will be determined by aggregate demand
b) real output will be determined by aggregate demand
c) unemployment can not be reduced below its current level
d) the level of real output will be determined by aggregate demand

30- Fiscal Policy refers to the
a) manipulation of the money supply so as to increase the amount of paper currency in circulation
b) adjustment of government spending and taxes in order to achieve certain national economic goals
c) adjustment of national income data for price level changes
d) adjustment of the manner in which unemployment data is calculated so as to make it appear that unemployment is lower than it actually is

31- To reduce an expansionary gap, the government could
a) decrease taxes
b) increase taxes
c) increase spending on goods and services
d) increase military spending
32- The crowding effect will result in
   a) an increase in private sector planned investment
   b) a decrease in private sector planned investment and consumption
   c) an increase in private sector planned consumption
   d) decreases in federal expenditures on health care, education, and welfare

33- If disposable income decreases from $1,600 to $1,200 and consumption decreases by $300, then :
   a) the MPC is 0.75
   b) the MPS 0.35
   c) the MPC is 0.8
   d) the MPC is 0.9
   e) the MPC + MPS is 1.6

34- Country A for the time being is in recession; at the moment GDP is $100,000 billion, but the potential GDP is $104,000. The marginal propensity to consume in this country is 0.80. If you are an economic advisor, you may suggest closing this gap by
   a) raising government spending by $800
   b) raising taxes by $300
   c) raising government spending by $200
   d) lowering government spending by $500
   e) increasing taxes by $10

35- In a simple Keynesian model with MPC = 0.9, a $40 billion tax decrease will:
   a) raise equilibrium income by $450 billion
   b) raise equilibrium income by $360 billion
   c) lower equilibrium income by $500 billion
   d) no change will occur
   e) lower equilibrium income by $20 billion

36- In the following economy, Y = C + I + G + NX, where Y= income, C= a + b Y( consumption function), MPS= 0.2, a=$100 billion, I= $200 billion(investment), G = government expenditure=$50 billion and NX =net exports( $20 billion) then
   a) the equilibrium income and consumption are $1,850 and $1580 respectively
   b) the equilibrium income and consumption are $2,000 and $1500 respectively
   c) the equilibrium income are $1,000 and $2000
   d) the equilibrium income and consumption can not be determined

37- Based on the information above, if investment increases to $300 billion, then
   a) the increase in equilibrium income is $1000
   b) the increase in equilibrium income is $200
   c) the increase in equilibrium income is $500
   d) the increase in income can not be determined
   e) non of the above

38- A “conservative” economist who advocates an active fiscal policy would recommend:
   a) tax cuts during recession and reductions in government spending during inflation
   b) tax increases during recession and tax cuts during inflation
   c) tax cuts during recession and tax increases during inflation
   d) increases in government spending during recession and tax increases during inflation

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