ECON 1100 - Basic Macroeconomics

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Quiz 2

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You will have 70 minutes to complete the quiz. Every question has ONLY ONE correct answer. Please read carefully the text before answering.

1. The transaction demand for money (i.e. the money demand curve) is very closely associated with money's use as a [*hint:* remember one of the key assumptions upon which the Quantity Theory of Money relies]
   (A) store of value
   (B) standard unit of account
   (C) measure of value
   (D) medium of exchange
   (E) standard of deferred payment

2. The amount of money that the public wants to hold in the form of cash will
   (A) be unaffected by any change in interest rates or the price level
   (B) increase if interest rates increase
   (C) decrease if interest rates increase
   (D) increase if the price level decreases
   (E) decrease if the price level remains constant

3. According to neoclassical theory, hyperinflation is typically caused by
   (A) high tax rates that discourage work effort
   (B) continuous expansion of the money supply to finance government budget deficits
   (C) trade surpluses that are caused by strong protectionist policies
   (D) bad harvests that lead to widespread shortages
   (E) a large decline in corporate profits that leads to a decrease in production

4. With an upward-sloping short-run aggregate supply curve, an increase in government expenditure will most likely
   (A) reduce the price level
   (B) reduce the level of nominal gross domestic

(C) increase real gross domestic product

(D) shift the short-run aggregate supply curve to the right

(E) shift both the aggregate demand curve and the long-run aggregate supply curve to the left

5. In the short run, an expansionary monetary policy would most likely result in which of the following changes in the price level and real gross domestic product (GDP)?

	Price Level	**Real GDP**
(A)	Decrease	Increase
(B)	No Change	Decrease
(C)	Increase	No Change
(D)	Increase	Decrease
(E)	Increase	Increase

6. Which of the following combinations of changes in government spending and taxes is necessarily expansionary?

Government	**Taxes**
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	Not change
(D) Decrease	Increase
(E) Decrease	Decrease

7. Which of the following are the most likely **short-run** effects of an increase in government expenditures?

	Inflation rate	**Unemployment rate**	**Real Gross Domestic Product**
(A)	Increase	Decrease	Increase
(B)	Increase	Increase	Decrease
(C)	Decrease	Increase	Increase
(D)	Decrease	Decrease	Increase
(E)	No change	Decrease	Increase

8. According to the short-run Phillips curve, lower inflation rates are associated with

(A) higher unemployment rates

(B) higher government spending

(C) larger budget deficits

(D) greater labor-force participation rates

(E) smaller labor-force participation rates

9. If the Aggregate Demand curve shifts to the left,

(A) the economy moves up and to the left along the short-run Phillips Curve.

(B) the economy moves down and to the right on the short-run Phillips Curve.

(C) the economy moves up the long-run Phillips Curve.

(D) there is no impact on the Phillips Curve.

10. A simultaneous increase in inflation and unemployment could be explained by an increase in which of the following?
    (A) Consumer spending
    (B) The money supply
    (C) Labor productivity
    (D) Investment spending
    (E) Inflationary expectations
11. Assume that Jane's marginal propensity to consume equals 0.8 in 2018 and 2019. If her disposable income in 2019 compared to the previous year increased by $5,000, her consumption spending increased by
    (A) $400
    (B) $800
    (C) $900
    (D) $1000
    (E) $1400
12. John Maynard Keynes proposed that the multiplier effect can correct an economic depression. Based on this theory, an increase in equilibrium output would be created by an initial
    (A) increase in government spending.
    (B) decrease in government spending.
    (C) decrease in consumption.
    (D) both (A) and (C).
13. The spending multiplier is defined as
    (A) 1/(1 - marginal propensity to consume).
    (B) 1/(marginal propensity to consume).
    (C) 1/(1 - marginal propensity to save).
    (D) 1/(marginal propensity to consume + marginal propensity to save).
14. If the value of the marginal propensity to consume (MPC) is 0.50, the value of the spending multiplier is
    (A) 0.50.
    (B) 1.
    (C) 2.
    (D) 5.
15. If economic agents perfectly anticipate policy changes (**rational expectations hypothesis**) and if all prices, including wages, are completely flexible, which of the following will be true in the long run?
    (A) The price level will be constant.
    (B) There will be no trade-off between inflation and unemployment.

(C) The unemployment rate will be less than the natural rate of unemployment.

(D) The unemployment rate will be greater than the natural rate of unemployment.

(E) Changes in the money supply will not lead to changes in the price level.

16. If the interest rate is 20 percent, then the future value in 1 year of $100 today is [remember that $FV = PV(1+r)^N$]

    (A) $80.

    (B) $83.

    (C) $100.

    (D) $120.

17. If the interest rate is 10%, then $300 to be paid in 2 years has a present value that is

    (A) less than $300.

    (B) exactly $300.

    (C) more than $300.

    (D) indeterminate.

18. You are offered the following gamble. Toss a fair coin. If heads, you win $1500. If tails, you lose $1000. You do not like to take risk, i.e. you are a **risk-averse person**. Will you take the gamble?

    (A) Yes

    (B) No

    (C) It depends on the shape of the utility function

19. The ability of insurance to spread risk is limited by

    (A) risk aversion and moral hazard.

    (B) risk aversion and adverse selection.

    (C) moral hazard and adverse selection.

    (D) risk aversion only.

20. According to the efficient markets hypothesis,

    (A) changes in stock prices are impossible to predict from public information.

    (B) excessive diversification can reduce an investor's expected portfolio returns.

    (C) the stock market moves based on the changing animal spirits of investors.

    (D) actively managed mutual funds should give higher returns than index funds.