Directions: Use the information below to answer questions 1 and 2.

The GDP of country A was $2000M (million) in 2010 and $2100M in 2011. The GDP price index was 100.0 in 2010 and 104.0 in 2011.

1. The GDP annual rate of change and GDP price index annual rate of change are ____% and ____% respectively.

   A. 100 and 4.0
   B. 5.0 and 4.0
   C. 4.7 and 2.0
   D. 1.7 and 5.0
   E. 4.0 and 5.0

2. The real GDP for 2011, using the year 2010 as a base year, is $_______ (rounded to nearest $) and the country is _________off this year.

   A. $1981 , worse
   B. $2019, better
   C. $2100, better
   D. $2096, better
   E. $1040, worse

3. When you buy an egg at the grocery store, the value is considered a part of GDP. When a restaurant that sells omelets buys an egg, the value of the egg is not considered to be a part of GDP. Which of the following is true in explaining the difference?

   A. The restaurant will use the egg for making omelets they sell.
   B. GDP includes the value of only final goods and services.
   C. If the restaurant's purchase of the egg were included, the value of the egg would be double-counted in GDP.
   D. If you buy an omelet at the restaurant, the price of the omelet is added to final GDP.
   E. All of the above are correct.

4. The table below shows national income account measures for Country A from last year:

Personal Consumption Expenditures	$7,900
Gross Private Domestic Investment	$1,850
Exports	$1,350
Imports	$1,190
Government Goods and Services Expenditures	$1,000
Federal Tax Revenues	$900

What was the Gross Domestic Product of Country A?

A. $10,910
B. $12,390
C. $13,290
D. $14,190
E. $11,910

5. The money used by the United States is referred to *fiat money*. This means that it is

A. commodity money.
B. generally accepted because it can be exchanged for a metal such as gold or silver.
C. backed by gold at Fort Knox.
D. money because the government declares that it is.
E. mostly checking accounts.

6. Which of the following is not considered to be a checkable deposit?

A. Funds in checking accounts in banks
B. Funds in checking accounts in credit unions
C. Funds in certificates of deposits in banks
D. Negotiable orders of withdrawal accounts
E. Automatic transfer service accounts

7. Which of the following is not included in the money measure M2?

A. Currency held by the public
B. Credit card balances
C. Money market mutual funds
D. Savings account balances
E. Demand deposits at thrift institutions

8. Suppose the Federal Open Market Committee (FOMC) buys $1000 worth of bonds from the Hometown Bank, which is not short of required reserves.

   A. This describes an open market process that will reduce the money supply.
   B. The direct and immediate result of this transaction is that the money supply has increased by some fraction of $1000.
   C. The Hometown Bank will now have to call in loans, with fewer bonds in its possession.
   D. The Hometown Bank has more reserves and can now offer additional loans.
   E. The Hometown Bank now has fewer overall reserves.

9. Which of the following is true of the history of United States business cycles, on the average?

   A. Expansions are longer than contractions.
   B. Expansions and contractions last about the same length of time.
   C. Peaks are longer than the expansion they follow.
   D. Peaks and troughs are longer than expansions and contractions.
   E. None of these patterns are historically accurate observations.

10. Along the short run Aggregate Supply Curve, all of the following are assumed to be held constant, except for:

    A. Resource prices
    B. Technology
    C. Wage rates
    D. Price level
    E. The total capital stock

11. Suppose United States consumers suddenly revise upwards their income expectations. The immediate result is that United States aggregate demand will

    A. increase, because higher income expectations increase consumption.
    B. decrease, because consumers will save more of their income.
    C. increase, because firms will invest more.
    D. decrease, because consumers will stop buying until income actually rises.
    E. not change, because expectations of consumers are not relevant in the present.

12. The country of Econia has a balanced government budget and low inflation but is slipping into a recession because of an international financial crisis. The use of traditional tools of fiscal and monetary policy would be that

   A. fiscal policy should increase government spending and cut taxes, and monetary policy should increase the money supply and increase interest rates.
   B. fiscal policy should increase the money supply and government spending, and monetary policy should cut taxes and interest rates.
   C. fiscal policy should increase government spending and taxes, and monetary policy should cut the money supply and interest rates.
   D. do nothing yet except monitor the situation because it is always better to wait until the recession is well understood.
   E. fiscal policy should increase government spending and cut taxes, and monetary policy should increase the money supply and cut interest rates.

13. Suppose the economy is in equilibrium at the natural rate of unemployment. When the supply of money increases, *ceteris paribus*, we expect the initial impact on the economy to be that

   A. real output will rise.
   B. interest rates will fall.
   C. aggregate demand will decrease.
   D. the prices of bonds will fall.
   E. aggregate supply will increase.

14. If the country of Econia experiences capital deepening,

   A. the productivity of labor will increase.
   B. the productivity of capital will increase.
   C. the aggregate supply will shift left.
   D. the economy uses additional labor on the same production possibilities curve.
   E. economic growth will slow down.

15. Which of these is not considered a type of unemployment?

   A. Frictional unemployment
   B. Structural unemployment
   C. Seasonal unemployment
   D. Family unemployment
   E. Cyclical unemployment

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ANSWER KEY

1. B
2. B
3. E
4. A
5. D
6. C
7. B
8. D
9. A
10. D
11. A
12. E
13. B
14. A
15. D