

AP Macroeconomics Multiple Choice Final Exam (May 2015)

AP Macroeconomics

Chastain

Directions: Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case. You have 70 minutes to complete this portion of your exam.

1. Which fiscal policy would be most appropriate for combating a recession?
 - a. Increase taxes and transfer payments
 - b. Raise the reserve requirement
 - c. The open-market purchase of treasury securities by the Federal Reserve
 - d. Increase taxes and decrease government spending
 - e. Decrease taxes and decrease government spending

2. If the government increases its defense spending, the opportunity cost is
 - a. Zero
 - b. Irrelevant
 - c. The dollar amount of the spending increase
 - d. The next best alternative use for the money spent on defense
 - e. The dollar amount by which taxes are increased to pay for defense spending

3. Appreciation of the English pound in the foreign exchange market could be caused by a decrease in which of the following?
 - a. England's imports from China
 - b. The U.S. price level
 - c. Demand for the English pound by U.S. investors
 - d. England's real interest rate
 - e. England's exports to Australia

4. Economic growth is best illustrated by which of the following?
 - a. A leftward shift in the production possibilities curve
 - b. A rightward shift of the short run Phillips curve
 - c. A rightward shift of the aggregate demand curve
 - d. A rightward shift of the long-run aggregate supply curve
 - e. A decrease in the slope of the money demand curve

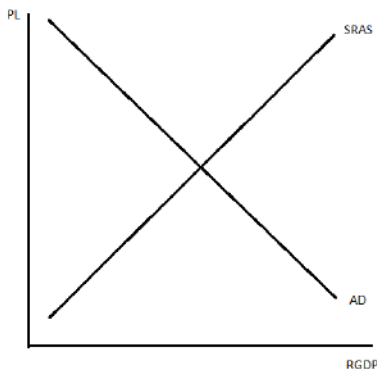
5. If the combination of goods or services being produced in an economy lies on the production possibility curve, then
 - a. Any increase in the production of one of the goods or services incurs an opportunity cost in terms of the other good or service
 - b. The combination of goods or services produced is not productively efficient
 - c. A tariff would increase the capacity of the economy to produce efficiently
 - d. Available resources are idle
 - e. The combination must be allocatively efficient

6. Which group or groups are most likely helped by unanticipated inflation?
- I. Borrowers paying fixed-interest rates
 - II. Savers earning fixed-interest rates
 - III. Financial institutions that issue long-term fixed-interest rate loans
- a. I only
 - b. II only
 - c. I, II, and III
 - d. I and II only
 - e. II and III only

7. If the money supply is constant, then a decrease in money demand will result in which of the following?

Nominal Interest Rate	Quantity of Money
a. Increase	Decrease
b. Decrease	Increase
c. Decrease	No change
d. Increase	No change
e. Increase	Increase

8. According to the graph shown below, an increase in input prices will most likely cause the price level and employment to change in which of the following ways?



Price Level	Employment
a. Increase	Increase
b. Decrease	Increase
c. Decrease	Decrease
d. Increase	No change
e. Increase	Decrease

9. Which type of unemployment would not exist if fiscal and monetary policy effectively eliminated the business cycle?
- a. Frictional
 - b. Cyclical
 - c. Seasonal
 - d. Structural
 - e. Part-Time

10. If the average propensity to consume is less than one, then
- Households are saving all of their income
 - The marginal propensity to save must be greater than the marginal propensity to consume
 - Households are dissaving
 - The spending multiplier is negative
 - Banks hold additional excess reserves
11. If an economy is operating above the natural rate of unemployment, an appropriate stabilizing monetary policy would be to
- Lower the required reserve ratio
 - Raise taxes
 - Raise the Federal funds rate
 - Sell bonds on the open market
 - Raise the discount rate
12. Which of the following combinations of fiscal and monetary policy would effectively reduce capital investment while not reducing output?

Fiscal Policy	Monetary Policy
a. Expansionary	Contractionary
b. Expansionary	Expansionary
c. Contractionary	No change
d. Contractionary	Contractionary
e. Contractionary	Expansionary

13. If the real interest rate in the United States increase relative to the real interest rate in Belgium while domestic prices remained unchanged, then the U.S. dollar would
- Appreciate, making Belgian exports to the United States more expensive
 - Appreciate, making United States imports from Belgium more expensive
 - Appreciate, making Belgian imports from the United States cheaper
 - Appreciate, making United States imports from Belgium cheaper
 - Depreciate, making United States exports to Belgium cheaper
14. If an economy is experiencing a significant recession, which of the following will cause employment to increase and interest rates to decrease?
- The Federal Reserve raises the discount rate
 - The government reduces spending while raising taxes
 - The Federal Reserve buys treasury securities on the open market
 - The Federal Reserve raises the reserve requirement
 - The government increases spending and reduces taxes
15. An increase in which of the following would most likely hinder economic growth?
- Personal savings
 - Gross private investment
 - The government's budget deficit
 - Capital formation
 - Bond purchases by the Federal Reserve

16. Money is classified as inconvertible fiat when
- It is not backed by a valuable commodity
 - It is backed by gold
 - It acts as a source of intrinsic value
 - It lacks portability
 - It does not function as a medium of exchange
17. A criticism of expansionary fiscal policy to stimulate the economy and contractionary monetary policy to restrict the economy is that they
- Lead to demand-pull inflation
 - Result in lower interest rates
 - Create cost-push inflation
 - Lead to higher interest rates
 - Result in permanent increases in the money supply
18. In the long run, increases in the money supply result in which of the following changes in the price level and unemployment?

Price Level	Unemployment
a. Increase	Increase
b. Increase	Decrease
c. Decrease	No change
d. Increase	No change
e. No change	Increase

19. Crowding out is best described as
- An increase in capital investment at the expense of government spending
 - A decrease in net exports resulting from appreciation of the currency
 - An increase in both inflation and unemployment
 - A decrease in gross private investment resulting from government borrowing
 - A rightward shift of the money supply
20. If the real interest rate in China increases relative to that of the rest of the world, capital flow and currency should change in which of the following ways?

Capital Flow	Currency
a. Out	Appreciate
b. In	Appreciate
c. In	Depreciate
d. Out	Depreciate
e. No change	No change

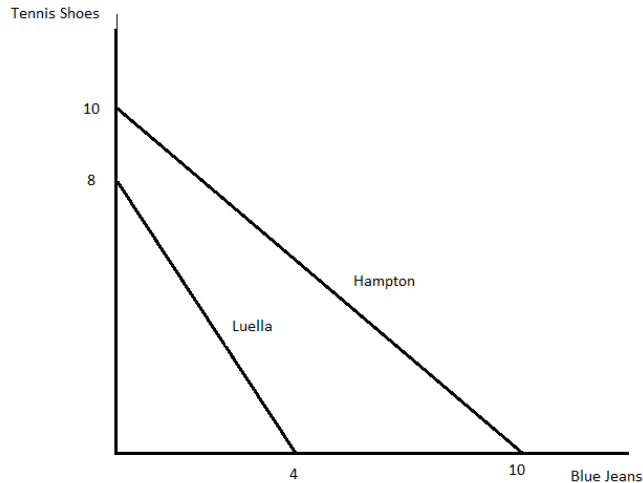
21. Which of the following is a combination of fiscal and monetary policy designed to offset the effects of a recession in an economy?
- Increases taxes and reduce government spending
 - Lower the discount rate and buy treasury bonds
 - Reduce taxes and buy treasury bonds
 - Decreases government spending and the required reserve ratio
 - Increases taxes and sell treasury bonds

22. Which of the following groups would be included in the labor force?
- I. People classified as part-time employees
 - II. People who want a job and are thinking about filling out job applications next month
 - III. Recently terminated factory workers who are actively seeking employment in the service sector
- a. I and III only
 - b. II only
 - c. II and III only
 - d. I, II, and III
 - e. III only
23. Which of the following best describes the sequence of events that occurs when the Federal Reserve sells treasury securities on the open market?
- a. Money supply increases, interest rates decrease, consumption and investment increase, aggregate demand increases, and output and price levels increases
 - b. Money supply increases, interest rates decrease, consumption and investment decrease, aggregate demand decreases, and output and price level decreases
 - c. Money supply decreases, interest rates increase, consumption and investment decrease, aggregate demand decrease, and output and price levels decreases
 - d. Money supply decreases, interest rates decrease, consumption and investment decrease, aggregate demand decreases, and output and price levels decreases
 - e. Money supply decreases, interest rates increase, consumption and investment increase, aggregate demand increases, and output and price levels increases
24. Assume that autonomous consumption is \$500 and that the marginal propensity to consume is 0.9. If disposable income increases by \$1,000, then saving will increase by how much?
- a. \$450
 - b. \$900
 - c. \$1500
 - d. \$50
 - e. \$100
25. Assume that all input prices are flexible. A decrease in labor productivity will have which of the following effects on output, price level, and real wages?
- | Output | Price Level | Real Wages |
|---------------|--------------------|-------------------|
| a. Increase | Increase | Increase |
| b. Decrease | Decrease | Increase |
| c. Decrease | Increase | Increase |
| d. Decrease | Increase | Decrease |
| e. Decrease | Decrease | Decrease |
26. If the money supply increases by 5 percent, then which of the following must also increase by 5 percent for the real gross domestic product to remain unchanged?
- a. Nominal interest rates
 - b. Real interest rates
 - c. Nominal exchange rates
 - d. The average price level
 - e. The income velocity of money

27. Which of the following will occur in a competitive market if the price exceeds the equilibrium price?
- The price will increase to eliminate the surplus
 - The price will decrease to eliminate the surplus
 - The price will decrease to eliminate the shortage
 - Demand will decrease
 - Supply will decrease
28. The inverse relationship between price level and real gross domestic product is shown by the
- Aggregate demand curve
 - Demand for loanable funds
 - Short-run Phillips curve
 - Short-run aggregate supply curve
 - Production possibilities curve
29. If consumers spend \$.90 for each extra \$1.00 of disposable income, then a \$50 billion increase in government spending financed by a \$50 billion increase in taxes will have which of the following effects on the economy? Aggregate demand will
- Increase by \$500 billion
 - Decrease by \$500 billion
 - Increase by \$450 billion
 - Decrease by \$450 billion
 - Increase by \$50 billion
30. A decrease in the government's budget surplus will most likely result in which of the following?
- Increased tax revenues
 - Decreased government spending
 - Higher interest rates
 - A decrease in the international value of the dollar
 - An increase in unemployment
31. Which of the following would cause the Japanese yen to appreciate relative to the euro?
- Increase in Japanese household income
 - Decrease in Japanese interest rates relative to European interest rates
 - Increase in Japan's average price level
 - Decrease in Japanese household income
 - Decrease in European household income
32. Demand-pull inflation is caused by which of the following?
- Increased short-run aggregate supply
 - Decreased short-run aggregate supply
 - Increased aggregate demand
 - Decreased aggregate demand
 - Rightward shift of the short-run Phillips curve

33. Which of the following is true of the nominal interest rate is 5 percent and inflation unexpectedly increases from 2 percent to 3 percent?
- The nominal interest rate of 5% benefits savers at the expense of borrowers
 - The nominal interest rate of 5% is now too high
 - The real interest rate has increased from 7% to 8%
 - The real interest rate benefits fixed-rate borrowers at the expense of fixed-rate lenders
 - The real interest rate remains unchanged
34. Which of the following would lead to an increase in the U.S. average price level?
- Personal income taxes increase
 - Banks lend out less of their excess reserves
 - Full-time employees are reclassified as part-time employees according to a new government definition
 - Households increase their savings
 - A significant tax is placed on all capital investment
35. An increase in labor productivity will cause the
- Aggregate demand curve to shift left
 - Aggregate demand curve to shift right
 - Long-run aggregate supply curve to shift left
 - Long-run aggregate supply curve to shift right
 - Short-run aggregate supply curve to shift left
36. Which is most likely to occur if the Federal Reserve acts to combat recession with open-market operations?
- The discount rate will increase
 - Aggregate demand will shift to the left
 - Bond prices will increase
 - The money supply will decrease
 - Government spending will decrease
37. Which action by the government will shift the short-run aggregate supply curve to the left?
- The open-market sale of bonds by the Federal Reserve
 - An increase in the discount rate
 - A decrease in personal income taxes
 - An increase in government spending
 - An increase in business taxes
38. Assume that the Federal Reserve buys \$100 billion worth of treasury securities on the open market. If the required reserve ratio is 20 percent, what is the maximum amount of new loans the banking system can create?
- \$20 billion
 - \$80 billion
 - \$100 billion
 - \$400 billion
 - \$500 billion

Questions 39-41 are based on the diagram below, which shows the choices in production of two countries, Luella and Hampton, producing two goods, tennis shoes and blue jeans. Both countries have the same amount of resources and are using all of their available resources.



39. Before specialization and trade, the opportunity cost of producing one pair tennis shoes in Luella and Hampton is which of the following?

Luella	Hampton
a. 1 pair of blue jeans	10 pairs of blue jeans
b. 8 pairs of blue jeans	2 pairs of blue jeans
c. 1 pair of blue jeans	0.5 pairs of blue jeans
d. 0.5 pairs of blue jeans	2 pairs of blue jeans
e. 1 pair of blue jeans	2 pairs of blue jeans

40. Which of the following statements best describes absolute advantage or comparative advantage for these two countries?

- Hampton has a comparative advantage in tennis shoes, and Luella has a comparative advantage in blue jeans
- Hampton has a comparative advantage in tennis shoes, and Luella has an absolute advantage in tennis shoes
- Hampton has absolute and comparative advantages in both blue jeans and tennis shoes
- Hampton has a comparative advantage in blue jeans, and Luella has absolute disadvantages in both
- Hampton has an absolute advantage in both, and Luella has a comparative advantage in blue jeans

41. According to theory of comparative advantage, Luella would find it advantageous to

- Export blue jeans and import tennis shoes
- Import both tennis shoes and blue jeans
- Export both blue jeans and tennis shoes
- Import blue jeans and export tennis shoes
- Not trade because Hampton has absolute advantage in both blue jeans and tennis shoes

42. A decrease in personal income taxes will most likely cause aggregate demand and short-run aggregate supply to change in which of the following ways?

Aggregate Demand

Short-Run Aggregate Supply

- | | |
|-------------|-----------|
| a. Increase | No change |
| b. Increase | Decrease |
| c. Decrease | Increase |
| d. Decrease | No change |
| e. Decrease | Decrease |

43. Based on the information in the table below, how much is gross domestic product?

Disposable Income = \$9 trillion
Imports = \$3 trillion
Household savings = \$1 trillion
Government expenditures = \$3 trillion
Exports = \$2 trillion
Gross private investment = \$2 trillion

- a. \$20 trillion
- b. \$14 trillion
- c. \$16 trillion
- d. \$12 trillion
- e. \$5 trillion

44. If firms face increased per unit production costs, then the short-run aggregate supply curve, short-run Phillips curve, and inflation will change in which of the following ways?

SRAS

SRPC

Inflation

- | | | |
|-----------------------|--------------------|----------|
| a. Shift to the right | Shift to the right | Increase |
| b. Shift to the right | Shift to the left | Decrease |
| c. Shift to the right | No change | Increase |
| d. Shift to the left | Shift to the left | Decrease |
| e. Shift to the left | Shift to the right | Increase |

45. Aggregate demand and aggregate supply would simultaneously decrease because of an increase in which of the following?

- a. Household savings
- b. The M2
- c. Business taxes
- d. Disposable income
- e. Inflation expectations

46. An increase in the government's budget deficit will have which of the following effects on the exchange rate and net exports?

Exchange Rate	Net Exports
a. Appreciate	Decrease
b. Appreciate	Increase
c. Appreciate	No change
d. Depreciate	Increase
e. Depreciate	Decrease

47. According to the graph below, which of the following is true about this economy in the long run?

- a. Expansionary monetary policy will restore this economy to its long-run equilibrium
- b. The long-run aggregate supply curve will shift to the left to restore the long-run equilibrium
- c. The economy depicted is currently in a long-run equilibrium
- d. A combination of increased government spending and an increase in the money supply could shift aggregate demand to the right and restore long-run equilibrium
- e. Wages will increase as they adjust to the new price level and the short-run aggregate supply curve will shift to the left and restore long-run equilibrium

48. Assuming that input prices are flexible, an economy in recession will experience which of the following changes in output and price level in the long run?

Output	Price Level
a. Increase	Increase
b. NO change	Increase
c. Increase	No change
d. Increase	Decrease
e. Decrease	Increase

49. Assuming a system of flexible exchange rates, an open-market sale of bonds by the Federal Reserve while other countries do nothing will most likely have which of the following effects on the rate of inflation and the international value of the U.S. dollar?

Inflation Rate	International Value of the U.S. Dollar
a. Decrease	Appreciate
b. Decrease	Depreciate
c. Increase	Appreciate
d. Increase	Depreciate
e. Increase	No change

50. The discount rate is the

- a. Interest rate the Federal Reserve charges member banks for overnight loans
- b. Interest rate banks charge their best commercial customers
- c. Interest rate banks charge other banks for overnight loans
- d. Percentage of demand deposits that banks may not lend to customers
- e. Difference between the nominal interest rate and the real interest rate

51. According to the information in the table below, what is the unemployment rate Kumbiktu?

Labor Market in Kumbiktu (in thousands of persons)

Population	240
Labor Force	200
Employed	180

- a. 25%
 - b. 30%
 - c. 10%
 - d. 8.3%
 - e. 11.1%
52. An increase in taxes combined with an open-market purchase of bonds will result in a(n)
- a. Increase in real gross domestic product and an increase in the interest rate
 - b. Increase in unemployment and an indeterminate change in the interest rate
 - c. Indeterminate change in real gross domestic product and a decrease in the interest rate
 - d. Decrease in real gross domestic product and a decrease in the interest rate
 - e. Decrease in unemployment and an increase in the inflation rate
53. If the marginal propensity to save is 0.2, then a \$40 billion decrease in taxes could cause a maximum increase in output of how much?
- a. \$8 billion
 - b. \$32 billion
 - c. \$200 billion
 - d. \$160 billion
 - e. \$250 billion
54. An increase in labor productivity will shift the
- a. Short-run aggregate supply to the left
 - b. Short-run aggregate supply to the right
 - c. Aggregate demand to the right
 - d. Aggregate demand to the left
 - e. Long-run aggregate supply to the left
55. In the long run, decreases in aggregate lead to which of the following changes in unemployment and price level?
- | Unemployment | Price Level |
|--------------|-------------|
| a. No change | Decrease |
| b. Decrease | No change |
| c. Decrease | Decrease |
| d. Increase | Increase |
| e. Increase | No change |

56. Assume that the required reserve ratio is 10 percent. If Quiana Jackie Amber Brooklynn Mike Chastain (yes, that's one name) deposits \$50 in cash into her checking account, what is the maximum change in demand deposits possible in the banking system?
- a. \$45
 - b. \$50
 - c. \$500
 - d. \$450
 - e. \$5

57. If the U.S. rate of economic growth increases relative to its trading partners and if exchanged rates are fixed, then the U.S. imports and exports will most likely change in which of the following ways?

Imports

Exports

- | | |
|--------------|-----------|
| a. Increase | Decrease |
| b. Decrease | Decrease |
| c. Decrease | Increase |
| d. Increase | Increase |
| e. No change | No change |

58. Which of the following would be counted as part of gross domestic product?

- a. The purchase of corporate stock
- b. The sale of a treasury bond
- c. The purchase of a new domestically produced tractor
- d. Daycare services provided by stay-at-home fathers for their own children
- e. The purchase of a twenty-year-old house

59. A shift in the aggregate demand curve corresponds to

- a. A shift in the long-run Phillips curve
- b. A shift in the short-run Phillips curve
- c. A decrease in the slope of the short-run Phillips curve
- d. Movement along an existing short-run Phillips curve
- e. An increase in the slope of the short-run Phillips curve

60. Which of the following would cause a leftward shift in the short-run aggregate supply curve? A(n)

- a. Increase in the expected price level
- b. Increase in the available capital stock
- c. Decrease in interest rates
- d. Decrease in the nominal wage rate
- e. Increase in the exchange rate