1. If government spending exceeds tax revenues, which of the following is necessarily true? There is a
    I. Positive budget balance
    II. Budget deficit
    III. recession
    a. I only
    b. II only
    c. III only
    d. I and II only
    e. I, II, and III

2. Which of the following fiscal policies is expandsionary?

	Taxes	*Government Spending*
a.	Increase by \$100 million	increases by \$100 million
b.	Decrease by \$100 million	decreases by \$100 million
c.	Increase by \$100 million	decreases by \$100 million
d.	Decrease by \$100 million	increases by \$100 million
e.	Both (a) and (d)	

3. During a recession in the United States, what happens automatically to tax revenues and government spending?

	Tax revenues	*Government spending*
a.	Increase	increases
b.	Decrease	decreases
c.	Increase	decreases
d.	Decrease	increases
e.	Decrease	does not change

4. Which of the following is a reason to be concerned about persistent budget deficits?
    a. Crowding out
    b. Government default
    c. The opportunity cost of future interest payments
    d. Higher interest rates lading to decreased long-run growth
    e. All of the above

5. Contractionary monetary policy attempts to ___________ aggregate demand by __________ interest rates.

a.	Decrease	increasing
b.	Increase	decreasing
c.	Decrease	decreasing
d.	Increase	increasing
e.	Increase	maintaining

6. Which of the following is a goal of monetary policy?
    a. Zero inflation
    b. Deflation
    c. Price stability
    d. Increased potential output
    e. Decreased actual real GDP

7. An increase in the money supply will lead to which of the following in the short run?
    a. Higher interest rates
    b. Decreased investment spending
    c. Decreased consumer spending
    d. Increased aggregate demand
    e. Lower real GDP

8. Monetary neutrality means that, in the long run, changes in the money supply
    a. Can not happen
    b. Have no effect on the economy
    c. Have no real effect on the economy
    d. Increase real GDP
    e. Change real interest rates

9. The long-run Phillips curve is
    I. The same as the short-run Phillips curve
    II. Vertical
    III. The short-run Phillips curve plus expected inflation
    a. I only
    b. II only
    c. III only
    d. I and II only
    e. I, II, and III

10. The current account includes which of the following?
    I. Payments for goods and services
    II. Transfer payments
    III. Factor income
    a. I only
    b. II only
    c. III only
    d. I and II only
    e. I, II, and III

11. When the U.S. dollar buys more Japanese yen, the U.S. dollar has
    I. Become more valuable in terms of the yen
    II. Appreciated
    III. Depreciated
    a. I only
    b. II only
    c. III only
    d. I and II only
    e. I and III only

12. What happens to the real exchange rate between the euro and the U.S. dollar (expressed as euros per dollar) if the aggregate price levels in Europe and the United States both fall? It
    a. Is unaffected
    b. Increases
    c. Decreases
    d. May increase, decrease, or stay the same
    e. Cannot be calculated

13. Which of the following will decrease the supply of U.S. dollars in the foreign exchange market?
    a. U.S. residents increase their travel abroad
    b. U.S. consumers demand fewer imports
    c. Foreigners increase their demand for U.S. goods
    d. Foreigners increase their travel to the United States
    e. Foreign investors see increased investment opportunities in the United States

14. Which of the following is a benefit of a fixed exchange rate regime?
    a. Certainty about the value of domestic currency
    b. Commitment to inflationary policies
    c. No need for foreign exchange reserves
    d. Allows unrestricted use of monetary policy
    e. All of the above

Use the scenario to answer questions 15 – 17

The United States and Mexico are trading partners. Suppose a flu outbreak significantly decreases U.S. tourism in Mexico and causes the Mexican economy to enter a recession. Assume that the money that would have been spent by U.S. tourists in Mexico is, instead, not spent at all.

15. Which of the following occurs as a result of the recession in Mexico?
    I. Output in Mexico decreases
    II. Aggregate demand in the United States decreases
    III. Output in the United States decreases
    a. I only
    b. II only
    c. III only
    d. I and II only
    e. I, II, and III

16. What is the effect of Mexico's falling income on the demand for money and the nominal interest rate in Mexico?

	Demand for money	*Nominal Interest Rate*
a.	Increases	decreases
b.	Decreases	decreases
c.	Increases	increases
d.	Decreases	increases
e.	Decreases	increases
f.	Increases	unchanged

17. Suppose the aggregate price level in Mexico decreases relative to that in the United States. What is the effect of this price level change on the demand and on the exchange rate, for Mexican pesos?

Demand for pesos	*Exchange rate*
a. Increases	appreciates
b. Increases	depreciates
c. Decreases	appreciates
d. Decreases	depreciates
e. Decreases	is unchanged