AT Economics
Pai
January 2017

Name: Key

AT Economics Midterm Review Packet

1. The unemployment rate will increase whenever there is a(n)
   a. Increase in the number of persons classified as unemployed
   b. Increase in the number of unemployed people relative to the size of the labor force
   c. Increase in the size of a nation's population with no change in the number of unemployed people
   d. Reduction in the size of the labor force
   e. Reduction in the size of the labor force and a decrease in the number of unemployed

2. If the unemployment rate drops after the labor force has increases substantially, which of the following must be true?
   1. There are more people working in the labor force
   2. There are fewer people unemployed
   3. A higher percentage of the labor force is working

   a. I only
   b. I and II
   c. I and III
   d. II and III
   e. I, II, and III are true

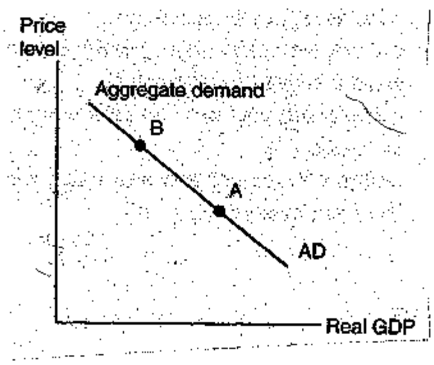
3. Graphically, economic growth can be represented by
   I. A rightward shift of the PPF
   II. A rightward shift of the long-run aggregates supply curve
   III. A rightward shift of the AD curve

   a. II only
   b. III only
   c. II and III only
   d. I and II
   e. I, II, and III are all correct

4. An increase in which of the following will most likely cause economic growth in the future?
   a. Population
   b. Level of investment
   c. Consumption
   d. Budget surplus
   e. Government spending

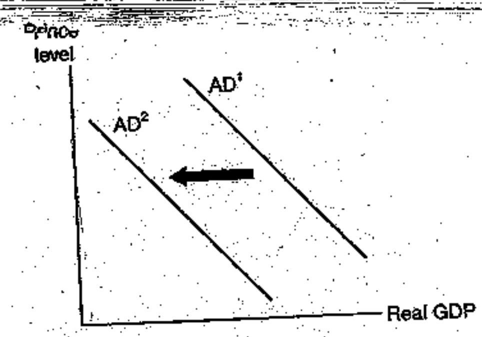
5. When an economy is operating at full capacity?
   a. It could produce more if it were more efficient
   b. It is using only some of its resources
   c. It is producing the output with the highest value possible
   d. There is no extra aggegate demand
   e. All of the above

6. On the following graph, moving from A to B represents



a. A decrease in AD
b. An increase in AD
c. A decrease in aggregate quantity demanded
d. An increase in aggregate quantity demanded
e. No change in aggregate quantity demanded

7. Which of the following events would cause the AD curve to shift from AD1 to AD2, as illustrated in the graph below?



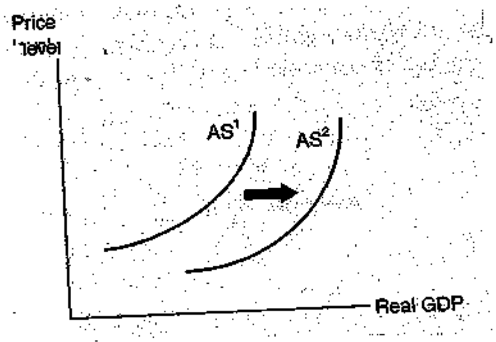
a. The government decides to cut spending in order to decrease the national debt
b. Consumers increase their expenditures during the holiday season
c. Businesses invest in larger inventories to prepare for problems
d. A decrease in the purchasing power of the U.S. causes an increase in the price level
e. None of the above

8. Let's assume that recent oil prices are higher than normal. What effect will this have on aggregate suply?
a. The AS curve will shift to the right
b. The AS curve will shift to the left
c. The economy will move upward along the AS curve
d. The economy will move downward along the AS curve
e. This does not effect AS

9. A defining characteristic of long-run AS and AD equilibrium is

a. A zero percent unemployment rate
b. A zero percent structural unemployment rate
c. The economy operates at full employment
d. A horizontal AS curve
e. None of the above

10. How could production costs change to shift the AS curve from AS1 to AS2 in the following graph?



a. Production costs increase
b. Production costs decrease
c. Production costs remain the same
d. Product costs cannot cause a shift in the AS curve
e. None of the above

11. If a person loses her job because the economy dips into a recession, this is an example of

a. Structural unemployment
b. Frictional unemployment
c. Seasonal unemployment
d. Cyclical unemployment
e. All of the above

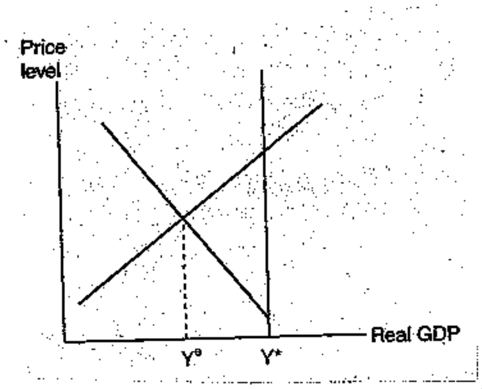
12. Suppose taxes decrease by $100 billion. If everything else stays constant and the MPC is 0.8, the value of equilibrium output increases by:

a. $100 billion
b. $80 billion
c. $500 billion
d. $320 billion
e. $400 billion

13. A contractionary fiscal policy would be the one that

a. Lowers both government spending and taxes
b. Raises both government spending and taxes
c. Lowers government spending and raises taxes
d. Lowers tax rates
e. Raises government spending

14. If the economy is at equilibrium, which of the following actions would have the best chance of moving the economy to long-run equilibrium?



a. An increase in the tax rate and the sale of bonds
b. A decrease in government purchases and the sale of bonds
c. An increase in government purchases and the increase of the discount rate
d. A decrease in the tax rate and the purchase of bonds
e. An increase in government purchases and an increase in the reserve requirement

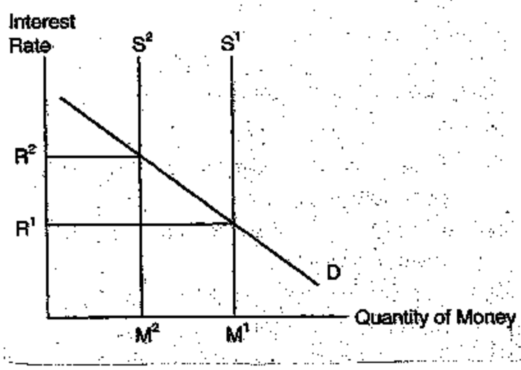
15. The marginal propensity to consume represents
a. Ratio of consumption to income
b. Difference between new consumption and total consumption
c. Share of any additional disposable income spent on consumption
d. Consumption level relative to the income level
~~e. Change in disposable income divided by the change in consumption~~

16. Which of the following events would lessen the effects of an expansionary monetary policy by the Fed?
a. Increased lending by the banks
b. Increased excess reserves
c. Increased deposits by home owners
d. Increased borrowing by home owners
e. Increased borrowing by businesses

17. The reserve requirement is 10 percent. Chelsea takes $1,000 that she has under mattress and deposits in the bank. In this case, the money supply can change by as much as
a. $1,000
b. $4,000
c. $5,000
d. $9,000
e. $10,000

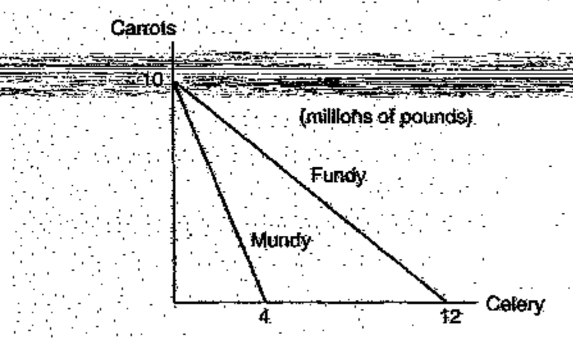
18. In the short run, which of the following would be the largest problem with the monetarists' view of constant growth of the money supply?
a. Increased borrowing by businesses
b. Increased investment spending
c. Decreased government spending
d. Inconstant velocity
e. None of the above

19. Referring to the money market graph below, a change in the interest rate from R1 to R2 will result when



a. Consumers borrow more money
b. Businesses borrow more money
c. The Fed sells government bonds
d. The Fed buys government bonds
e. None of the above

For questions 20 and 21: Fundy and Mundy are two countries with comparable resources. Both countries produce carrots and celery using all of their resources to do so.



20. According to the production possibilities graph above,
a. Fundy has an absolute advantage in the production of both products
b. Mundy has an absolute advantage in the production of celery
c. Fundy has a comparative advantage in the production of carrots
d. Mundy has a comparative advantage in the production of celery
e. Fundy has the absolute advantage in the production of celery

21. Given the information in the graph, we can conclude that
a. Neither country should trade for carrots
b. Fundy should specialize in the production of celery
c. Mundy should specialize in the production of celery
d. Fundy should specialize in the production of carrots
e. Mundy cannot gain from trade

22. Which of the following combinations of fiscal and monetary policy would have the greatest effect on inflation?
   a. Decrease taxes and buy bonds
   b. Decrease government spending and sell bonds
   c. Increase taxes and buy bonds
   d. Increase government spending and buy bonds
   e. Increase government spending and sell bonds

23. Which of the following combinations of actions by the Fed will have the greatest expansionary effect?
   a. Sell bonds, lower the discounr rate, and lower the reserve requirement
   b. Buy bonds, lower the discount rate, and increase the reserve requirement
   c. Sell bonds, increase the discounr rate, and increase the reserve requirement
   d. Buy bonds, decrease the discount rate, and decrease the reserve requirement
   e. Buy bonds, increase the discount rate, and increase the reserve requirement

24. The Fed uses monetary policy to
   a. Offset the effects of fiscal policy
   b. Directly manipulate consumption
   c. Guide government expenditures
   d. Alter the money supply
   e. None of the above

25. In the short-run, which of the following will most likely lead to a decrease in aggregate demand?
   a. An increase in the aggregate price level
   b. An increase in the money supply
   c. A decrease in the tax rate
   d. A decrease in consumer confidence
   e. An increase in the MPC