

Name: _____

Economics 201 - Macroeconomics
Midterm examination 2
Fall 2019

1A. If an adult receives a government gift of \$1000 and **saves** \$800 of this amount.

What is his/her marginal propensity to consume _____

What is his/her marginal propensity to save _____

What is the **spending** multiplier _____ (Assume that the MPC exists for everyone, and that there are no taxes or imports,)

Show calculation for spending multiplier _____

1B. If a large corporation **hires** additional workers and increases output, will this cause a spending multiplier effect?

_____ yes

_____ no

1C. Draw the aggregate demand and aggregate supply graph correctly labeling the axes and showing the equilibrium level of output and the equilibrium price level. (3).

1D. If the government spends an additional **\$5 trillion dollars**, is this likely to cause an increase in:

_____ the price level

_____ real output

_____ both the price level and real output

1E. If the Federal government substantially **increases** spending on national defense, **without** decreasing taxes, and during a time when there is **substantial** unemployment:

what is likely to happen to **aggregate** consumption?

_____ up

_____ down

_____ unchanged

What is likely to happen to **nominal** GDP?

_____ up

_____ down

_____ unchanged

What is likely to happen to **real** GDP?

_____ up

_____ down

_____ unchanged

2A. Which of the following is **not** a component of aggregate demand (or aggregate expenditures)?

- Consumption
- Pensions for aged individuals
- Exports minus imports
- Investment

2B. Are savings deposits in commercial banks included in

- M1 only
- M2 only
- both M1 and M2
- neither M1 nor M2

2C. If the government gives each citizen a **one time** \$500 payment, creating a multiplier effect, will this result in a **permanent** multi-year increase in GDP?

- yes
- no

2D. Which is the **most effective** way of reducing inflationary pressures?

- lowering tax rates on all taxpayers
- raising tax rates on all taxpayers
- reducing the weekly unemployment compensation payment to unemployed persons

2E. If the Federal Reserve **sells** \$10 billion in U.S. bonds through open market operations, will this cause:

- I. Total bank reserves to:
 - increase
 - decrease
- ii. Are excess reserves likely to:
 - increase
 - decrease
- iii. Are interest rates likely to:
 - increase
 - decrease
- iv. Are bank loans likely to:
 - increase
 - decrease
- v. Is nominal GDP likely to:
 - increase
 - decrease

2F. As compared to the Federal Reserve discount rate, is the **federal funds** rate usually:

- higher
- the same
- lower

3A. What of the following hold deposits in the Federal Reserve System in the United States?

- commercial banks
- large U.S. corporations
- U. S. Citizens

3B Which of the following is the more liquid asset?

- shares of Amazon corporation stock, currently around \$1800 per share.
- savings deposits worth \$200 in commercial banks
- shares of mutual funds holding common stocks worth \$200

3C. If congress wished to use Federal spending policy to **reduce** inflation, what would be the most effective policy:

- Increase spending and run a deficit increasing the national debt, or
- Decrease spending and run a surplus decreasing the national debt, or
- Balance the budget so that the country is seen as fiscally responsible

3D. Which of the following is part of M1 - a measure of the supply of money in the U.S.?

- checking deposits
- the nations supply of gold held at fort Knox
- \$100 bills held in bank vaults

3E. Which of the following assets of commercial banks are considered bank reserves in the United States for purposes of meeting the reserve requirement on checking (demand) deposits?(2)

- commercial bank deposits **at** the Federal Reserve
- checking deposits held in commercial banks **by the nonbank public**
- cash held in the vaults of commercial banks
- cash in the purses and wallets of the nonbank public
- mortgages that banks hold after lending customers money to buy a home

3E. Suppose a bank had \$300 in reserves, \$1000 in checking deposits, \$2000 in savings deposits, and that the reserve requirement set by the Federal Reserve was 20%.

- I. Calculate required reserves for the bank _____
- ii. Calculate excess reserves for the bank, if any _____
- iii. Would you expect that the bank would wish to increase the number of loans?
 - yes
 - no

3F. If the reserve requirement was .20, what is the **money multiplier**? .

4A. Suppose the price level was 138 in the U.S. If, *at that price level*, people **spent** 300 on consumption, 100 on intended investment, 100 on government, 200 on imports, other countries spent 100 on our exports. Also, unintended investment was 50, savings were 150, taxes were 175. Calculate Aggregate Demand at a price level of 138 - *show calculation*. 2 points for this question. It's a little tricky

4B. What is meant by the business cycle? (A correctly labeled diagram will do)(2)

4C. Which of the following is *not* an automatic stabilizer?

- Federal income tax
- Social Security retirement benefits
- unemployment compensation

4D. Which of the following is likely to **cause cost-push** inflation, i.e., shift the aggregate supply curve upwards, or to the left? (2)

- Having to dig deeper wells to pump oil out of the ground
- increased sales of more fuel efficient cars
- The population takes more driving vacations
- The government imposes lower emission requirements on generating electricity

4E. Which of the following is likely to **reduce** cost push inflation, i.e., shift the aggregate supply curve downwards or to the right? (2)

- the government lowers personal income tax rates
- greater productivity in industry
- Social Security taxes are increased
- imports of inexpensive foreign goods are increased

4F. Which of the following is likely to increase **demand pull inflation**?, i.e., shift the aggregate demand curve rightwards or upwards (2)

- A larger amount of military supplies is produced and sent to Ukraine
- Due to technical progress, it became less expensive to produce electric cars
- Health care insurance is purchased by an additional 20 million citizens
- State and local governments raise sales taxes

4G. . Which type of unemployment is most likely to be reduced *by a rise* in disposable income?"

- Cyclical/demand unemployment
- Mismatch between worker skills and job requirements

5A. Which of the following is likely to **reduce** demand pull inflation, i.e., shift the aggregate demand curve leftwards or downwards (2)?

- the federal government lowers taxes on people earning less than \$250,000
- people increase the amount that they save out of their income
- the Federal Reserve takes action to lower interest rates
- the federal government reduces payments to mothers receiving welfare payments

5 B. Answer the following:

I. Most **classical** Economists (economists prior to 1935) believed that price levels were primarily determined by the amount of money in circulation .

- true
- false

ii. Keynes believed that little could be done to reduce unemployment in the short run.

- true
- false

iii. Keynes believed that significantly reducing interest rates was the most effective way of raising employment levels **during** the great depression of the 1930s.

- true
- false

iv. Karl Marx believed that capitalism would be transformed into socialism when the majority of the population was well educated and prosperous.

- true
- false

5C. Suppose **exports** increase by 1000 when there is moderate unemployment. Which curve is likely to shift?

- i Aggregate Demand Curve
 Aggregate Supply Curve

ii. Which direction is it likely to shift

- right
- left

iii. Is the price level likely to:

- rise
- fall
- be unchanged

iv. Is employment likely to:

- rise
- fall
- be unchanged

v. Is real GDP likely to:

- rise
- fall
- be unchanged

6A. If you buy a used book, and find a \$100 bill that someone had hidden there, would this:

- increase the money supply
- decrease the money supply
- cause no change in the money supply

6B.. Suppose the Federal Reserve *decreases* the money supply through open market operations, what is likely to happen to:

I. Home construction

- Up
- Down
- unchanged

Sales of new cars

- Up
- Down
- unchanged

Level of cyclical/demand unemployment (or inflation)

- Up
- Down
- unchanged

6C. If the nominal interest rate rises by 8%, and inflation rises by 4%, will the *real* interest rate:

- be higher than the nominal interest rate
- be lower than the nominal interest rate
- be the same as the nominal interest rate

6D. If the **prices are unchanged** will an increase in *nominal* GDP next year under the chain link approach:

- be greater than the increase in **real** GDP?
- be less that the increase in **real** GDP?
- be the same as the increase in **real** GDP

6E. When the Federal Reserve buys securities during open market operations, it pays for these purchases with tax revenues collected by the Federal government.

- true
- false

6F. The **Federal Funds** rate is:

- The lowest rate of interest charge by commercial banks for home mortgages.
- The rate of interest charged by the Federal Reserve when making loans to member banks.
- The rate of interest paid by commercial banks on certificates of deposit.
- The rate of interest charged by commercial banks when making short term loans to each other.
- The rate of interest paid on the U.S. national debt.

7A. The principle method by which the Federal Reserve controls monetary policy in the U.S. is by:

- Raising or lowering the discount rate
- open market operations
- Raising or lowering the reserve requirement

7B. . . Can the paper currency of the United States be redeemed for gold or silver?

- yes
- no

7C. Are cash and coins *held in commercial bank vaults* included in

- M1
- M2
- both M1 and M2
- neither M1 nor M2

7D. Which tax policies are likely to create the most jobs (2)

- reducing taxes on people who earn **over \$100,000 per year**
- increasing or extending unemployment compensation benefits
- reducing taxes on persons who make less than \$100,000 per year
- reducing luxury taxes (e.g., taxes on the purchase of yachts)

7E. Suppose a bank has \$100 in vault cash and \$300 on deposit at the Fed.

- i. What are total bank reserves? _____
- ii. If demand deposits were \$1000 and the reserve requirement was was 20%, what are required reserves? _____
- iii.. What are excess reserves _____

7F. 7C The Keynesian spending multiplier is not likely to change over the business cycle.

- true
- false

7G. The Federal Reserve is responsible for

- maintaining relatively stable prices i.e., (controlling inflation)
- maintaining relatively low unemployment
- both of the above