Practice Set for Exam III

1. When the dollar appreciates relative to the Deutschemark, the dollar price of the Deutschemark
   a. increases.
   b. decreases.
   c. is not affected.
   d. increases or decreases, depending on the amount of the appreciation.
   e. increases or decreases, depending on the effects of tariffs and quotas.

2. Which of the following, ceteris paribus, will cause the real exchange rate to rise?
   a. A rise in the nominal exchange rate.
   b. A rise in the foreign price level.
   c. A fall in the domestic price level.
   d. All of the above.
   e. None of the above.

3. When two countries make a believable commitment to fix their bilateral exchange rate,
   a. the uncovered interest parity condition need no longer hold.
   b. citizens of each country will prefer to invest in the foreign country.
   c. each country can freely allow its interest rate to diverge from that of the other country.
   d. the interest rate in the two countries must move together.
   e. neither country will run a trade deficit.

4. When the U.S. has a current account deficit, we know that it is also
   a. running a trade deficit.
   b. lending to the rest of the world.
   c. borrowing from the rest of the world.
   d. suffering from negative investment income.
   e. running a trade surplus.

5. The real exchange rate is
   a. the price of foreign goods in terms of domestic goods.
   b. the price of foreign currency in terms of domestic currency.
   c. the price of domestic goods in terms of foreign goods.
   d. the price of domestic currency in terms of foreign currency.
   e. the price of domestic goods in terms of foreign currency.

6. According to the uncovered interest parity condition, if the U.S. interest rate is greater than the French interest rate, then investors expect
   a. the French franc to depreciate.
   b. the dollar to depreciate.
   c. the dollar-franc exchange rate to remain fixed.
   d. the U.S. interest rate to rise.
   e. the U.S. interest rate to fall.
7. Which of the following will shift the aggregate supply curve upward?
   a. an increase in the firms' markup over labor costs
   b. an increase in the expected price level
   c. an increase in unemployment benefits
   d. an increase in the minimum wage
   e. all of the above

8. When output is less than the natural level,
   a. the price level is higher than the expected price level
   b. the price level will be higher next period than this period
   c. the unemployment rate is higher than the natural unemployment rate
   d. the unemployment rate is lower than the natural unemployment rate
   e. the economy has reached its medium run equilibrium

9. Under the reasonable dynamic assumptions discussed in the text, a monetary contraction should result in
   a. an immediate rise in the interest rate, and no further interest rate changes.
   b. an immediate rise in the interest rate, and then a fall in the interest rate over time.
   c. an immediate rise in the interest rate, and then a further rise over time.
   d. a very gradual but steady rise in the interest rate to its new equilibrium level.
   e. no change in the interest rate initially, and then a sudden rise to its new equilibrium value.

10. A decrease in government spending will, in the medium run, cause no change in
    a. the interest rate
    b. investment
    c. output
    d. the price level
    e. the budget deficit

11. Which of the following policies will move the economy upward along the aggregate supply curve in short run?
    a. an increase in the money supply.
    b. an increase in government spending.
    c. a decrease in taxes.
    d. all of the above.
    e. none of the above.

12. Which of the following will shift the aggregate demand curve to the right?
    a. a decrease in the firms' markup over labor costs
    b. an increase in the expected price level
    c. an increase in the money supply
    d. a decrease in the minimum wage
    e. all of the above

Answers: bddcab
ecbcdf