MID-TERM I

I. Multiple Choice Questions:

1. All of the following are measures of GDP except:
   a. expenditures on raw material of all businesses in the economy
   b. income from all production in the economy
   c. expenditures on all final goods produced
   d. value of all final production
   e. wages and salaries, interest, profit and rental income.

2. The labor force in the United States consists of
   a. the employed.
   b. the employed and the officially unemployed.
   c. the employed, the officially unemployed, and discouraged workers.
   d. the entire population.
   e. the entire adult population.

3. The GDP deflator is
   a. the rate at which GDP declines in a recession.
   b. the GDP in one country divided by the GDP in another country.
   c. the ratio of nominal GDP to real GDP.
   d. the price of a typical consumer’s basket of goods.
   e. real GDP divided by the average wage rate.

4. When the government runs a budget deficit, we know that
   a. the country’s GDP deflator is increasing.
   b. the country’s real GDP is falling.
   c. the country is importing more than it is exporting.
   d. the government’s debt is increasing.
   e. the government is spending less than it is collecting in taxes.

5. Which of the following is an endogenous variable in our model of the goods market?
   a. consumption (C).
   b. disposable income (Y_D).
   c. saving (S).
   d. income (Y).
   e. all of the above.

6. Which of the following is an asset on a bank’s balance sheet?
   a. Reserves.
   b. Loans.
   c. Bonds.
   d. All of the above.
   e. None of the above.
7. Which of the following is always true in equilibrium?
   a. consumption equals saving.
   b. output equals consumption.
   c. total saving equals zero.
   d. total saving equals investment.
   e. all of the above.

8. Which of the following will cause the money supply to increase?
   a. an increase in the monetary base.
   b. a decrease in the ratio of reserves to deposits.
   c. a shift in public preferences away from currency toward checkable deposits.
   d. all of the above.
   e. none of the above.

9. When \( C = c_0 + c_1 Y_D \), an increase in \( c_0 \) will cause which of the following to increase?
   a. Equilibrium income.
   b. Equilibrium disposable income.
   c. Equilibrium saving.
   d. All of the above.
   e. None of the above.

10. In our dynamic model of the goods market,
    a. there is no multiplier effect.
    b. a change in government spending causes successively larger changes in quarterly GDP.
    c. next quarter’s production depends on this quarter’s income and demand.
    d. taxes can affect output, but not government spending.
    e. there are no exogenous variables.

11. The LM curve tells us, for each interest rate, the level of output where
    a. the good market is in equilibrium.
    b. there is no inventory investment.
    c. output is equal to demand.
    d. all of the above.
    e. none of the above.

12. Which of the following occurs as we move rightward along the LM curve?
    a. A rise in the interest rate causes investment spending to decrease.
    b. A drop in the interest rate causes investment spending to increase.
    c. A rise in the interest rate causes the central bank to create more money.
    d. A rise in the interest rate causes the government to increase spending.
    e. A rise in the interest rate causes the demand for money to decrease.

Report your answers by circling the correct letter:

   1. a b c d e   7. a b c d e
   2. a b c d e   8. a b c d e
   3. a b c d e   9. a b c d e
   4. a b c d e   10. a b c d e
   5. a b c d e   11. a b c d e
   6. a b c d e   12. a b c d e

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