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Economics 202

Midterm #2: Practice Midterm

1) In which situation are inventories most likely to rise unexpectedly:
a. when aggregate demand is greater than national output
b. when aggregate demand is less than national output
c. when aggregate demand is equal to national output
d. inventories can unexpectedly rise in any situation

2) Consumption Expenditure will decrease when we observe which of the following:
a. higher income tax rates
b. increase in the price level
c. decrease in wealth
d. changes in expectations
e. all of the above

3) Autonomous consumption is defined as:
a. consumption that changes with changes in Gross Domestic Product (GDP)
b. consumption that changes with changes in interest rates
c. consumption that doesn't change with changes in disposable income
d. consumption that changes as inventories rise or fall
e. none of the above

Questions 4-6 relate to the market for Foreign Exchange (from lecture).
4) How does an increase in domestic exports affect the market for Foreign Exchange?
a. increase in the demand for Foreign Exchange
b. increase in the supply of Foreign Exchange
c. decrease in the demand for Foreign Exchange
d. decrease in the supply of Foreign Exchange
e. increase in both the demand for and supply of Foreign Exchange

5) How does an increase in (domestic) capital outflow affect the market for Foreign Exchange?
a. increase in the price and quantity of Foreign Exchange
b. decrease in the price and quantity of Foreign Exchange
c. increase in the price of Foreign Exchange and decrease in the quantity of Foreign Exchange
d. decrease in the price of Foreign Exchange and increase in the quantity of Foreign Exchange

6) If the demand for Foreign Exchange increases, then we observe which of the following:
a. the Domestic currency appreciates relative to the Foreign currency
b. the Foreign currency appreciates relative to the Domestic currency
c. the Foreign currency depreciates relative to the Domestic currency
d. the Domestic currency increases in value

Questions 7-10 relate to the market for Goods and Services (from lecture).

7) If we assume no other changes, a general increase in productivity should have which of the following direct effects on the macroeconomy:
a. higher national output and price level
b. lower national output and price level
c. higher national output and lower price level
d. lower national output and higher price level
e. higher national output and no change in the price level

8) If the Aggregate Supply (AS) curve is vertical in the Long Run (LR), then:
a. increases in Aggregate Demand (AD) will permanently increase output in the LR
b. expansionary fiscal policy will permanently increase output above Potential GDP
c. decreases in AD will cause permanent decreases in unemployment over the LR
d. we observe that a permanent tradeoff between GDP and the price level doesn't exist in the LR

9) Assume that at lower levels of GDP, the AS curve is flat and that as GDP increases, the AS curve becomes increasingly vertical. Which of the following best explains why this would occur:
a. at low levels of output, the price level is more flexible
b. any constraints on output decrease as GDP increases
c. prices rise more quickly as we approach full employment
d. productivity increases at higher levels of GDP

10) When we attempt to put the AD/AS model into the context of a fixed price level, then what must we assume about the AS curve?
a. the AS curve is now negatively sloped
b. the AS curve is now horizontal
c. the AS curve is now vertical
d. the AS curve is now positively sloped

Questions 11-12 relate to the market for labor (from lecture).

11) Which of the following is a true statement about labor markets:
a. when wages are constant, decreases in the demand for labor are not accompanied by surpluses in the quantity of labor
b. decreases in the demand for labor lead will always lead to increases in both voluntary and involuntary unemployment
c. increases in Aggregate Demand cause increases in the supply of labor
d. the demand for labor is considered a derived demand
e. increases in the wage of labor causes a decrease in the demand for labor

12) When consumers demand fewer goods and services, how is the labor market affected?
a. decrease in labor supply
b. decrease in labor demand
c. no change in labor demand unless wages are flexible
d. no change in labor supply unless wages are flexible
e. decrease in both labor supply and labor demand

Questions #13-17 correspond with the Aggregate Expenditure model from class and relate to the equations below, which tell us about expenditure in Country X.

$C = 0.75DI + 400$	C = consumption expenditures, DI = Disposable Income
$I = 1650$	I = investment expenditure
$G = 800$	G = government expenditures
$T = -200$	T = tax revenues
$X = 1000$	X = expenditure on exports
$M = 1000$	M = expenditure on imports
$DI = Y - T$	Y = real GDP

13) If Potential GDP is 8000, then there is a(n) _____________ gap of __________.
a. recessionary; 2000
b. inflationary; 4000
c. inflationary; 2800
d. recessionary; 4000
e. none of the above

14) Which of the following statements about this economy is **false**:
a. the expenditure multiplier is 4
b. the tax multiplier is -3
c. the government's budget is in surplus
d. at equilibrium, inventories are not changing unexpectedly
e. there is neither a trade surplus or trade deficit

15) If the government increased both G and T by 1000, then equilibrium GDP would:
a. remain the same
b. increase by 1000
c. increase by 2000
d. increase by 4000
e. decrease by 1000

16) Assume that the equilibrium GDP you found with the equations above is less than Potential GDP by 4000. If so, then the government could close this gap by doing which of the following:
a. increase G by 1000
b. increase G by 4000
c. decrease G by 1000
d. decrease G by 4000

17) If the government raised T by 1000, then:
a. equilibrium GDP would decrease by 1000
b. equilibrium GDP would decrease by 3000
c. equilibrium GDP would decrease by 4000
d. equilibrium GDP would increase by 3000
e. none of the above

18) Which of the following is the best description of Potential GDP:
a. the output achieved when only voluntary unemployment exists
b. the output achieved when the economy is at the natural rate of unemployment
c. the output achieved when all involuntarily unemployed factors have jobs
d. all of the above

19) An increase in the marginal propensity to consume will lead to:
a. an increase in autonomous Investment expenditure
b. an increase in the government expenditure multiplier
c. an increase in the marginal propensity to save
d. an increase in autonomous Government expenditure
e. an increase in autonomous Consumption expenditure

20) What problem(s) typically exist(s) with the implementation of expansionary fiscal policy?
a. the inside lag can be very long
b. rapid increases in deflation
c. expansionary policy is more difficult to implement than contractionary policy
d. expansionary fiscal policy tends to cause interest rates to decrease too much
e. all of the above

21) When we work with the AE model from class, an increase in disposable income of 100 leads to which of the following:
a. consumption increases by 100
b. consumption decreases by 100
c. consumption increases by MPC x 100
d. consumption decreases by MPC x 100

22) When we work with the AE model from class, we know that balanced budget spending leads to which of the following changes in equilibrium real GDP:
a. equilibrium real GDP will increase
b. equilibrium real GDP will not change
c. equilibrium real GDP will decrease
d. equilibrium real GDP can increase or decrease, depending on whether prices rise or fall

23) When government increases government expenditure without changing taxes or printing additional money, this change can lead to which of the following outcomes:
a. higher interest rates
b. crowding out
c. increase in real GDP
d. increase in budget deficit
e. all of the above

24) Increasing government expenditure during recessionary gaps and lowering government expenditure during inflationary gaps has what effect on the business cycle?
a. causes the business cycle to become more extreme during these gaps
b. causes the business cycle to become more extreme during recessionary gaps only
c. causes the business cycle to become more extreme during inflationary gaps only
d. causes the business cycle to become less extreme during these gaps