Q1: A ____ is a situation in which a government spends more than it collects in tax revenues in a given time period.
A. Liquidity trap
B. Budget surplus
C. Fiscal scenario
D. Budget deficit

Q2: The unemployment resulting from wage rigidity and job rationing is called:
A. the natural rate of unemployment.
B. insiders versus outsiders.
C. structural unemployment.
D. the discouraged-worker effect.

Q3: Which of the following is NOT a social cost of inflation?
A. People hold smaller real balances and so have to make more frequent trips to the bank.
B. Firms have to spend money to change prices more frequently.
C. Inflation leads to greater variability in the relative prices charged by firms.
D. The money that people hold loses value due to the inflation tax.

Q4: Expansionary fiscal policy is intended to
A. Increase gross domestic product (GDP) and decrease unemployment
B. Increase inflation and decrease employment
C. Decrease inflation and increase unemployment
D. Decrease unemployment and decrease output

Q5: The IS curve is drawn for a given:
A. fiscal policy.
B. monetary policy.
C. interest rate.
D. level of income.

Q6: The unemployment caused by the time that it takes to match workers and jobs is called:
A. frictional unemployment.
B. the discouraged-worker effect.
C. structural unemployment.
D. wage rigidity.

Q7: All else equal, if there is an increase in the nominal wage rate, the price level will ____ and the amount of aggregate output will ____ in the short run.
A. Increase; remain unchanged
B. Remain unchanged; increase

C. Increase; decrease
D. Increase; increase

Q8: One type of financial intermediary is an institution that uses the liquid assets of many depositors to finance the illiquid needs, such as loans, of borrowers. This kind of financial intermediary is a
A. commercial bank
B. mortgage backed security
C. Central Bank
D. stock market

Q9: Which of the following is one of the reasons that the demand for money is downward sloping?
A. There is an opportunity cost of holding money, the interest rate, and as the interest rate increases, people will respond by holding less money.
B. People prefer to keep none of their assets in the form of cash.
C. When new innovations like ATMs are introduced, the demand for money increases.
D. The amount of money in the economy at any given time is fixed.

Q10: At what point in the process of the multiple expansion of deposits is money created?
A. When a commercial bank receives a deposit
B. When a commercial bank determines it has excess reserves
C. When a commercial bank lends money out
D. When a loan recipient deposits the loan in another bank

Q11: According to Keynes, consumption is primarily determined by:
A. income and the interest rate.
B. the savings rate.
C. disposable income.
D. the interest rate.

Q12: The primary goal of a financial system is to ____ risk, ____ liquidity, and ____ transactions costs.
A. Increase; increase; increase
B. Decrease; increase; decrease
C. Increase; decrease; increase
D. Decrease; decrease; decrease

Q13: First bank of Dragon has $100,000 in checkable deposits and $100,000 in cash in its vault. The required reserve ratio in Dragon is 20%. What is the maximum amount of money that First bank can lend?
A. $0

B. $120,000
C. $80,000
D. $20,000

Q14: Which of the following is NOT counted as part of the transactions money?
A. Demand deposits
B. Currency
C. M1
D. M2

Q15: The institution that is primarily responsible for conducting monetary policy is
A. Central bank
B. Congress
C. Government
D. Commercial bank

Q16: Nam is able to take a paycheck from his employer and use it to buy flowers for Hoa. This illustrates the ____ role of money.
A. Store of value
B. Medium of exchange
C. Unit of account
D. Fiat

Q17: A T-account is a balance sheet that compares the ____ and ____ of commercial banks.
A. Liabilities; profits
B. Assets; liabilities
C. Profits; losses
D. Deposits; income

Q18: Which part of aggregate expenditure (AE) is monetary policy primarily intended to target?
A. Consumption
B. Net Exports
C. Investment
D. Government spending

Q19: GDP measures:
A. total income of everyone in the economy.
B. expenditure on all final goods and services.
C. total value added by all firms in the economy.
D. All of the answers are correct.

Q20: According to the crowding out effect
A. Balanced budget government spending increases the interest rate, making investment less attractive
B. Deficit government spending increases the interest rate, making investment less attractive
C. Deficit government spending decreases the interest rate, making investment more attractive
D. Balanced budget government spending decreases the interest rate, making investment more attractive

Q21: Which of the following are fiscal policy options? (I) Changing tax rates; (II) Changing government spending; (III) Changing the money supply.
A. I only
B. III only
C. II only
D. I and II only

Q22: In the Keynesian cross model, if the interest rate is constant and the MPC is 0.7, then the government purchases multiplier is:
A. 0.3.
B. 0.7.
C. 1.4.
D. 3.3.

Q23: Monetary policy is the use of ____ to affect macroeconomic variables.
A. The labor market
B. Taxes
C. Government spending
D. The money supply

Q24: The relationship between the interest rate and the level of income that equilibrates the money market is called the:
A. IS curve.
B. LM curve.
C. aggregate demand curve.
D. aggregate supply curve.

Q25: Which of the following would cause an increase in the money supply? (I) An increase in the discount rate; (II) A decrease in the reserve ratio; (III) The Central Bank buying government bonds.
A. III only
B. I only
C. II only
D. II and III only

Q26: If the short run aggregate supply curve increases, the price level will ____ and the amount of output will ____ in the short run.
A. Increase; increase
B. Decrease; increase
C. Remain unchanged; increase
D. Decrease; remain unchanged

Q27: In the nation of Vina, if people get $1 in new income, they tend to spend $0.75 and save $0.25. Therefore, the ____ is ____ .
A. Marginal propensity to consume; 0.25
B. Marginal propensity to consume; 0.75
C. Marginal propensity to save; 0.75
D. Multiplier; 25

Q28: A general increase in the price level is called:
A. hyperinflation.
B. deflation.
C. inflation
D. devaluation.

Q29: Contractionary fiscal policy refers to
A. Using higher tax rates to lower inflation
B. Using more government spending to lower unemployment
C. Using a decrease in the money supply to lower inflation
D. Using a decrease in the money supply to increase inflation

Q30: If the central bank increased the real amount of money supply, then the LM curve would:
A. become steeper.
B. become flatter.
C. shift upward.
D. shift downward.

Part 2: Problems Solving (40 points)

Problem 1: (20 points)

Money Demand: $M^D = 0.3Y - 20R$; Nominal Income: Y = $1000 billion
Money Supply: M^S = $200 billion

A. Find equilibrium interest rate (R)?
B. What is new equilibrium interest rate when nominal income rises to 1100 billion?
C. Central Bank reduces money supply to 150 billion. What happens to money market

equilibrium?
D. Draw on the same graph for (A), (B), and (C) to show the change in equilibrium interest rate.

Problem 2: (20 points)

The data of goods and service market ($billion) in an closed economy as follows:
Consumption function: $C = 100 + 0.7(Y - T)$; Investment function: $I = 200$; Government Spending: $G = 200$; Net tax: $T = 200$; $AE = C + I + G$.

A. Construct the planned aggregate expenditure function (AE) and find the equilibrium output/income?
B. How much change in government spending (ΔG) is needed to increase national output to 1300?
C. Calculate the change in equilibrium output (ΔY^*) when the government increases net tax to 230?
D. Draw on the same graph for (A) and (C) to show the change in equilibrium output.