Multiple-Choice question

1. If the short-run Phillips curve were stable, which of the following would be unusual?
   a. an increase in government spending and a fall in unemployment
   b. an increase in inflation and a decrease in output
   c. a decrease in the inflation rate and a rise in the unemployment rate
   d. a decrease in output and an increase in unemployment

2. Samuelson and Solow reasoned that when aggregate demand was low, unemployment was
   a. high, so there was upward pressure on wages and prices.
   b. high, so there was downward pressure on wages and prices.
   c. low, so there was upward pressure on wages and prices.
   d. low, so there was downward pressure on wages and prices.

3. Suppose the economy is in long-run equilibrium. If there is a sharp decline in
   the stock market combined with a significant increase in immigration of skilled
   workers, then we would expect that in the short run,
   a. real GDP will rise and the price level might rise, fall, or stay the same.
   b. real GDP will fall and the price level might rise, fall, or stay the same.
   c. the price level will rise, and real GDP might rise, fall, or stay the same.
   d. the price level will fall, and real GDP might rise, fall, or stay the same.

4. Suppose the economy is in long-run equilibrium. In a short span of time, there
   is a decline in the money supply, a tax increase, a pessimistic revision of
5. Suppose the economy is in long-run equilibrium. If there is a sharp decline in
the stock market combined with a significant increase in immigration of skilled
workers, then we would expect that in the short run,
a. real GDP will rise and the price level might rise, fall, or stay the same. In
the long-run, real GDP will rise and the price level might rise, fall, or stay
the same.
b. the price level will fall, and real GDP might rise, fall, or stay the same. In
the long-run, real GDP and the price level will be unaffected.
c. the price level will rise, and real GDP might rise, fall, or stay the same. In
the long run, real GDP will rise and the price level will fall.
d. the price level will fall, and real GDP might rise, fall, or stay the same. In
the long run, real GDP will rise and the price level will fall.

6. When the yen gets "stronger" relative to the dollar,
a. the U.S. trade deficit with Japan will rise.
b. the U.S. trade deficit with Japan will fall.
c. the U.S. trade deficit with Japan will be unchanged.
d. None of the above necessarily happens.

7. When a country's central bank increases the money supply, its
a. price level rises and its currency appreciates relative to other currencies in
the world.
b. price level rises and its currency depreciates relative to other currencies in
the world.
c. price level falls and its currency appreciates relative to other currencies in
the world.
d. price level falls and its currency depreciates relative to other currencies in
the world.

8. Which of the following, other things the same, would induce a trade deficit?
a. a decline in saving, but not a rise in investment
b. a rise in investment, but not a decline in saving
c. both a decline in saving and a rise in investment
d. neither a decline in saving nor a rise in investment

9. Suppose the real exchange rate is 4/5 pounds of Chilean beef per pound of U.S.
beef, a pound of U.S. beef costs $2 and the nominal exchange rate is 600
Chilean pesos per dollar. It follows that Chilean beef costs

960 pesos per pound.
11. Assume that the supply of gasoline is relatively inelastic and the supply of wheat is relatively elastic. Compared to the decline in quantity from a similar percentage tax on wheat, we would expect a tax on gasoline to cause the quantity of gasoline produced to
   a. change more.
   b. change less.
   c. change by the same amount.
   d. change either more or less, depending on the elasticity of demand.

12. Suppose consumer income increases. If grass seed is a normal good, the equilibrium price of grass seed will
   a. decrease, and producer surplus in the industry will decrease.
   b. increase, and producer surplus in the industry will increase.
   c. decrease, and producer surplus in the industry will increase.
   d. increase, and producer surplus in the industry will decrease.

13. When markets fail, public policy
   a. can do nothing to improve the situation.
   b. can potentially remedy the problem and increase economic efficiency.
   c. can always remedy the problem and increase economic efficiency.
   d. can, in theory, remedy the problem, but in practice, has proven to be ineffective.

14. Suppose that the equilibrium price in the market for widgets is $5. If a law reduced the maximum legal price for widgets to $4,
   a. any possible increase in consumer surplus would be larger than the loss of producer surplus.
   b. any possible increase in consumer surplus would be smaller than the loss of producer surplus.
   c. the resulting increase in producer surplus would be larger than any possible loss of consumer surplus.
   d. the resulting increase in producer surplus would be smaller than any possible loss of consumer surplus.

15. Cornflakes and milk are complementary goods. A decrease in the price of corn would
   a. increase consumer surplus in the market for cornflakes but decrease consumer surplus in the market for milk.
16. A technological advance in the production of computers will
   a. increase consumer surplus in the market for computers and decrease
      producer surplus in the market for computer software.
   b. increase consumer surplus in the market for computers and increase
      producer surplus in the market for computer software.
   c. decrease consumer surplus in the market for computers but increase
      producer surplus in the market for computer software.
   d. decrease consumer surplus in the market for computers and decrease
      producer surplus in the market for computer software.

17. Barb's Bakery made $200 last month selling 100 loaves of bread. This month it
    made $300 selling 60 loaves of bread. The price elasticity of demand for Barb's
    bread is
    a. 0.583.
    b. 1.25.
    c. 0.266.
    d. 1.11.

18. Muriel's income elasticity of demand for football tickets is 1.50. All else equal,
    this means that if her income increase by 20 percent, she will buy
    a. 150 percent more football tickets.
    b. 50 percent more football tickets.
    c. 30 percent more football tickets.
    d. 20 percent more football tickets.

19. Suppose that income is subject to constant marginal utility. From a Utilitarian
    perspective,
    a. some income redistribution from rich to poor would increase social
       welfare.
    b. some income redistribution from poor to rich would increase social
       welfare.
    c. any income redistribution would probably reduce social welfare.
    d. any income redistribution would probably increase social welfare.

20. A perfectly price-discriminating monopolist is able to
    a. maximize profit and produce a socially-optimal level of output.
    b. maximize profit, but not produce a socially-optimal level of output.
    c. produce a socially-optimal level of output, but not maximize profit.
    d. exercise illegal preferences regarding
       the race and/or gender of its
22. The CPI and the GDP deflator
   a. generally move together.
   b. generally show different patterns of movement.
   c. always show identical changes.
   d. always show different patterns of movement.

23. If the reserve ratio is 20 percent, and banks do not hold excess reserves, when the Fed sells $40 million of bonds to the public, bank reserves
   a. increase by $40 million and the money supply eventually increases by $200 million.
   b. increase by $40 million and the money supply eventually increases by $800 million.
   c. decrease by $40 million and the money supply eventually decreases by $200 million.
   d. decrease by $40 million and the money supply eventually decreases by $800 million.

24. In the open-economy macroeconomic model, if the supply of loanable funds increases, net capital outflow
   a. and the real exchange rate increase.
   b. and the real exchange rate decrease.
   c. increases and the real exchange rate decreases.
   d. decreases and the real exchange rate increases.

25. If a government increases its budget deficit, then the real exchange rate
   a. appreciates and the trade balance moves toward surplus.
   b. appreciates and the trade balance moves toward deficit.
   c. depreciates and the trade balance moves toward surplus.
   d. depreciates and the trade balance moves toward deficit.

**Short-Answer question**

26. Why does the GDP deflator give a different rate of inflation than does the CPI?

27. Jay and Joyce meet George, the banker, to work out the details of a mortgage. They all expect that inflation will be 2 percent over the term of the loan, and they agree on a nominal interest rate of 6 percent. As it turns out, the inflation rate is 5
28. Using the graph, assume that the government imposes a $1 tariff on hammers. Answer the following questions given this information.

![Graph showing domestic supply and demand with a $1.00 tariff]

a. What is the domestic price and quantity demanded of hammers after the tariff is imposed?
b. What is the quantity of hammers imported after the tariff?
c. What would be the amount of consumer surplus after the tariff?
d. What would be the amount of producer surplus after the tariff?
e. What would be the total amount of deadweight loss due to the tariff?

29. The only two countries in the world, Alpha and Omega, face the following production possibilities frontiers.

![Graphs showing production possibilities for Alpha and Omega]

a. Assume that each country decides to use half of its resources in the production of each good. Show these points on the graphs for each country as point A.
b. If these countries choose not to trade, what would be the total world production of popcorn and peanuts?
c. Now suppose that each country decides to specialize in the good in which each has a comparative advantage. By specializing, what is the total world production of each product now?