**REVIEW QUESTIONS FOR FINAL EXAM**

**Macroeconomics – Econ 1101 Fall 2017**

**Chapters and topics covered: fiscal policy; money and banking system; monetary policy; federal Reserve system; 2008-09 financial crisis; Dodd-Frank financial reform; international trade**

**Be sure to review chapter readings, notes, PowerPoints; assignments**

1. Money eliminates the problems associated with barter because it is a universal:

1. Medium of exchange
2. Store of value
3. Unit of account

2. The liquidity property of money makes it a good:

1. Medium of exchange
2. Store of value
3. Unit of account

3. The type of money the U.S. and most nations use is called:

A. commodity money

B. fiat money

C. paper money

D. gold

4. When a country can produce more of a particular product using fewer resources, it is benefitting from:

A. lower currency value

B. absolute advantage

C. currency debasement

5. A country’s comparative advantage is measured by its ability to:

A. produce a good at a lower cost in terms of other goods.

B. increase its productivity

C. Reduce taxes

5. A nation’s production possibility frontier represents:

A. The ability to make equal tradeoffs between the production of one product and the production of another

B. The quantity of output that is desired but not attainable

C. The quantity of a product or service that can be produced with available technology and resources

6. M1 includes:

A. checking accounts (demand deposits)

B. currency and coin held in our pockets

C. traveler’s checks

D. All of the above

7. A bank can make loans up to the limit of its:

1. Required reserves
2. Excess reserves
3. Optional reserves
4. Deposits

8. The source of comparative advantage for a nation in trade derives from:

A. differences in technology

B. its available resources

C. differences in climate

D. all are sources of comparative advantage

9. Monetary policy is formally set by:

1. Congress
2. The President
3. The Federal Open Market Committee of the Federal Reserve Bank
4. All of the above

10. When the government earns in tax revenue more than it spends in a given year, it will have a:

A. Balanced budget

B. Budget deficit

C. Budget surplus

11. The difference between a budget deficit and the national debt is:

a. The national debt represents spending over revenues in the current year.

b. The deficit represents spending over revenues in the current year.

c. The deficit represents accumulated spending over revenues in all years added together.

d. the national debt represents accumulated spending in excess of revenues in all years added together.

e. Both b. and d. are correct.

12.Automatic stabilizers

* + - * 1. consist of government taxing and spending programs that trigger appropriate increases or decreases in the amount of aggregate demand based on the state of health of the economy without legislative action.
        2. consist of government taxing and spending programs that automatically increase aggregate demand during inflationary times and decrease demand during recessions.
        3. consist of government taxing and spending programs that do not require a referendum by the general electorate.
        4. consist of government taxing and spending programs that trigger appropriate changes   
           in the amount of aggregate demand based on White House forecasts of the state of health of   
           the economy.
        5. consist of government taxing and spending programs that trigger appropriate changes in the amount of aggregate demand based on the party in control of Congress.

13. The most *frequentl*y used of the Fed’s tools for controlling the supply of money is:

1. Setting the required reserve ratio of banks
2. Changing the discount rate
3. Conducting Open Market Operations (buying and selling U.S. treasury bills)
4. Purchasing the bad assets of failing banks

13. If the Fed wished to enact an *expansionary* monetary policy, it would:

1. Purchase U.S. treasury securities
2. Sell treasury securities
3. Increase the discount rate
4. Raise mortgage interest rates

14. Demand driven fiscal policy:

a. May temporarily increase government spending in excess of revenues during a recession to bring Aggregate Demand into balance with Aggregate Supply.

b. Often increases taxes to compensate for the extra spending and stimulus.

c. Relies on stimulating supply as a means to stimulate the growth of aggregate demand in the economy.

d. Believes that a balanced budget is the best route to increasing aggregate demand.

15.) Discretionary fiscal policy results from:

a. Congress and the President taking explicit legislative action to change government spending or taxes.

b. fiscal policy conducted discretely as to not attract undue attention.

c. policy that takes effect automatically when an economy slides into a recession.

d. policy done at the sole discretion of Congress and cannot be vetoed by the president.

e. policy done at the discretion of the state governors.

16. The discount rate is defined as the interest rate that:

1. Consumers can take out personal loans from a bank
2. Credit card companies charge cardholders
3. Commercial banks can make overnight loans from the federal reserve
4. Borrowers with the best credit rating get on a home mortgage

17. Suppose that car producers in the U.S. produce 300,000 new cars this year and that new car purchases by consumers will total 285,000. An additional 200,000 cars are imported from foreign car makers this because of:

A. comparative advantage

B. product differentiation

C. export subsidies

D. tariffs

19. The federal budget can be viewed as a:

A. Political document that dispenses favors to certain groups or regions

B. Reflection of the goals the government wants to achieve

C. An embodiment of some beliefs about how the government should manage the macroeconomy

D. All of the above

20. Some tax revenues and expenditures ***automatically*** change as the economy booms or slumps. An example is:

A. Consumer spending

B. Unemployment insurance tax revenue

C. Discretionary spending

D. Business spending

21. Demand driven fiscal policy – the policy of taxation and spending measures to stabilize the economy’s level of employment and output had its origins in:

a. Keynes’ theory that in times of economic downturn, the government could and should use its power to spend to stimulate aggregate demand and move the economy toward recovery.

b. The failure of markets to automatically recover during the Great Depression.

c. The slump in exports, private investment and consumer spending during the Depression era.

d. All of the above

22. Discretionary fiscal policy results from:

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23) The most effective fiscal policy in times of inflation is \_\_\_\_\_\_\_ policy:

a) laissez faire policy

b) mercantilist policy

c) expansionary fiscal policy

d) contractionary fiscal policy

24. The money that we use to conduct most sales and purchases of goods and services in a developed economy with a common currency is called:

1. Commodity money
2. Fiat money
3. Precious metals
4. Gold bars

25. Unemployment is declining and GDP growth is accelerating. The economy is:

A. Entering a recession

B. At a peak

C. In a trough

D. In a recovery

26. According to the theory of comparative advantage:

a) A nation derives its comparative advantage from its unique combination of natural, human and capital resources.

b) A nation should specialize in producing goods and services that utilize resources it has in greatest abundance.

c) Because of comparative advantage, all nations benefit from specialization and trade.

d) All of the above.

27. A nation experiences a trade surplus if:

a. The value of exports exceeds the value of its imports during a given period.

b. The value of exports exceeds the nation’s tax revenues in a given year.

c. The value of imports exceeds the value of exports during a given period.

d. The value of imports is less than the total value of tax revenues in a given year.

28. Suppose that currently, $1 = 0.067 € (Euro).

A. Imports from the Euro zone will be cheaper

B. Exports from the United States to Euro zone countries will be cheaper

C. Imports from Euro zone counties will be more expensive

D. Both B and C

29. The United States is a member of which of the following trade agreements?

A. The General Agreement on Tariffs and Trade (GATT)

B. The European Union

C. The North American Free Trade Agreement (NAFTA)

D. All of the above

A. A and C only

30. Nations engage in trade because of:

A. Comparative advantage

B. Nations do not produce all that they want or need

C. Product differentiation

D. All of the above

31. Under the terms of the Dodd-Frank Financial Reform Act of 2010:

A. the concept of “too big to fail” will continue

B. the Consumer Financial Protection Bureau was created

C. taxpayer funded bank bailouts will continue to be allowed

D. allows banks to continue making risky loans to borrowers

32. The World Trade Organization (WTO):

A. Is a multinational organization that seeks to negotiate global trade agreements as well as adjudicate trade disputes between member countries

B. Determines the quantities of products and global prices at which they exchange

C. Mandates that all nations only engage in principles of fair trade

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* + 1. **problem solving examples: Answer any four of the following – 10 points each. If more than four are answered, then the first four will automatically be evaluated, unless you explicitly indicate which four you want.**
    2. **Short answer: up to 5 points of extra credit. Choose one**

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1. Discuss two or three specific steps the Federal Reserve had to take following the 2008 – 2009 financial crisis to prevent an economic collapse ***beyond*** the purchase of treasury bills and lowering the discount rate. Please use complete sentences.

2. Provide a definition of discretionary fiscal policy and provide a specific example. A) Define what automatic stabilizers are. B) Provide an example and explain what it seeks to stabilize and how. Please use complete sentences.

3. Describe (please be specific) what happens to lending, borrowing household demand and income when the federal Reserve lowers the discount rate during a recession in order to stimulate aggregate demand. Please be thorough and specific and use complete sentences.

4. Identify and briefly describe three major reforms introduced by the 2010 Dodd-Frank Financial Reform Act. Please use complete sentences.