Macroeconomics for engineers (BMEGT301924)

NAME:…………………………………….

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Macroeconomics 2nd Midterm Exam

SAMPLE

A. Multiple choice questions

Instructions: Please fill in the table! Each question in section A is worth 2 points each. Choose the one alternative that best completes the statements or answers the question! (If there is seemingly more than one correct answer – the answer should be e.)

A/1	A/2	A/3	A/4	A/5	A/6	A/7	A/8	A/9	A/10	A/11	A/12	A/13	A/14	A/15

1. The "crowding out" effect occurs when
   A) fiscal policy is expansionary while the quantity of money remains unchanged
   B) private investment spending exceeds government spending
   C) private investment spending replaces government spending
   D) currency in circulation crowds out demand deposits
   E) None of the above.

2. The three most important determinants of (nominal) money holdings are
   A) family size, income, and the nominal interest rate
   B) the interest rate, the price level, and real income
   C) personal savings, investment spending, and the interest rate
   D) the supply of money, the demand for money, and the level of nominal income
   E) None of the above.

3. When the rate of unemployment is considered excessive, the central bank (e.g. Bank of England) might try to reduce it by
   A) raising the interest rate
   B) decreasing the supply of money
   C) increasing the supply of money
   D) leaving the money supply unchanged but encouraging firms to invest
   E) None of the above.

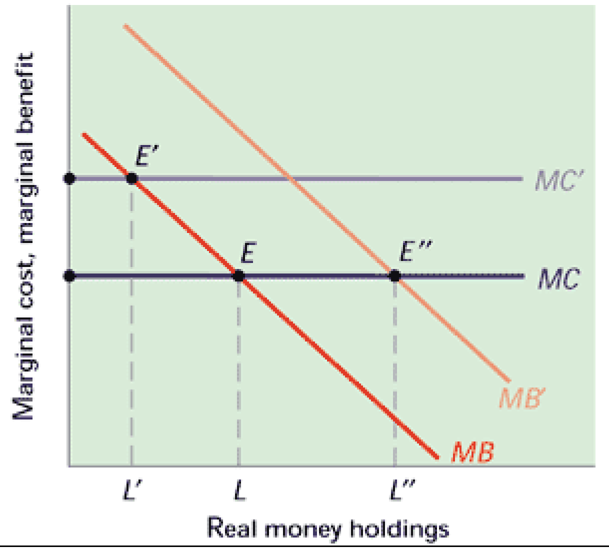
4. The central bank (e.g. Bank of England) can alter the supply of money by
   A) changing the monetary base through open market operations
   B) changing the size of the money multiplier through reserve requirement changes
   C) changing the discount rate and thus affecting the multiplier
   D) all the above
   E) None of the above.

5. When everything else is held constant, an increase in the money supply by the central bank (e.g. Bank of England) causes
   A) aggregate demand to rise
   B) the interest rate to rise
   C) the level of investment spending to fall
   D) nominal income to decrease
   E) none of the above

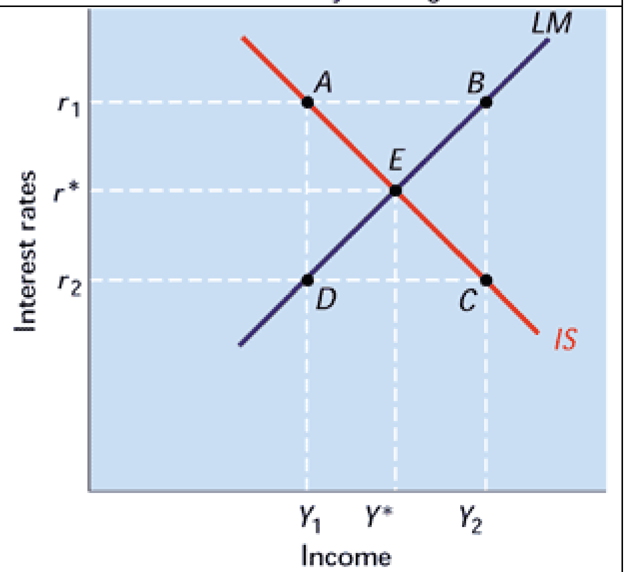
6. If both the central bank and the government pursue expansionary monetary and fiscal policies, then
   A) total aggregate spending increases
   B) private investment spending must eventually fall
   C) private investment spending must eventually rise
   D) interest rates will rise
   E) it is impossible to predict what will happen

7. If the monetary base is Ł300 billion and the M1 money supply is Ł900 billion, the value of the money multiplier is
   A) 0.67
   B) 0.33
   C) 3
   D) 2
   E) 1

8. The figure to the right shows that an increase in the marginal benefit of holding money
   A) reduces real money holdings
   B) increases real money holdings
   C) reduces precautionary demand
   D) reduces asset demand
   E) None of the above.



9. In the figure to the right, the goods market and money market are in equilibrium at
   A) point A
   B) point C
   C) point E
   D) point D
   E) None of the above.



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10. Suppose that prices rise by 10 per cent and nominal incomes fall by 20 per cent. We would expect …
   A) households to attempt to double their real money holding.
   B) households to increase their real money holdings by 50 per cent.
   C) the demand for real balances to triple.
   D) the demand for real balances to remain unchanged.
   E) None of the above.

11. Which one of the following would be unlikely to increase the typical household's demand for (nominal) money balances that it uses to pay its bills
   A) individual's paydays change from once a month to once a week
   B) individual paydays change from once a week to once a month
   C) the level of real national income rises
   D) the price level increases
   E) None of the above.

12. Which of the following statements best describes a barter system?
   A) Money and goods are exchanged for each other.
   B) Cigarettes are used as money.
   C) Different things are used as money.
   D) All of the above.
   E) None of the above.

13. To say money is a store of value means …
   A) the value of money is not affected by inflation.
   B) it facilitates purchases and sales.
   C) it is a way of saving purchasing power to be used when needed.
   D) All the above.
   E) None of the above.

14. Suppose that the economy experiences a series of adverse demand shocks (e.g. a fall in export demand and consumption demand) and the central bank (e.g. the Bank of England in the UK, the Federal Reserve System in the US etc.) or the government does not accommodate them, the result will be …
   A) increasing unemployment.
   B) actual output to be greater than potential output.
   C) increasing equilibrium output.
   D) the economy to be operating at full employment.
   E) None of the above.

15. Which of the following is not a function of money?
   A) a medium of exchange
   B) a unit of account
   C) a shelter against inflation
   D) a store of value
   E) None of the above.

B. True or false questions

Instructions: Please decide if the following statements are true ('T') or false ('F'), and fill in the table! Each question in section B is worth 1 point each.

16.	17.	18.	19.	20.	21.	22.	23.	24.	25.

16. In order for an item to serve as money, it does not have to be intrinsically valuable.
17. When a bank makes a loan to a customer, the stock of high-powered money increases.
18. For an asset to be highly liquid, it must be easily converted into currency (cash) without a loss of value.
19. The monetary base is the quantity of notes and coins in private circulation excluding the quantity held by the banking system.
20. During financial panics, individuals try to withdraw their money from banks and so may cause the bank to go broke (="bankrupt").
21. If the currency to deposit ratio equals 0 and the required reserve ratio is 0.1, then the money multiplier is 10.
22. A wealth effect is the change in income when interest rates change.
23. The central bank can reduce the money supply by reducing the reserve requirement.
24. An expansionary fiscal policy decreases real output and has no effect on the price level.
25. Open market operations are undertaken by the commercial banks.