ECO 120: Global Macroeconomics **Name:** ____________________

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Practice Final Exam

Multiple-Choice: 2 points each. Choose the response that best answers each question.

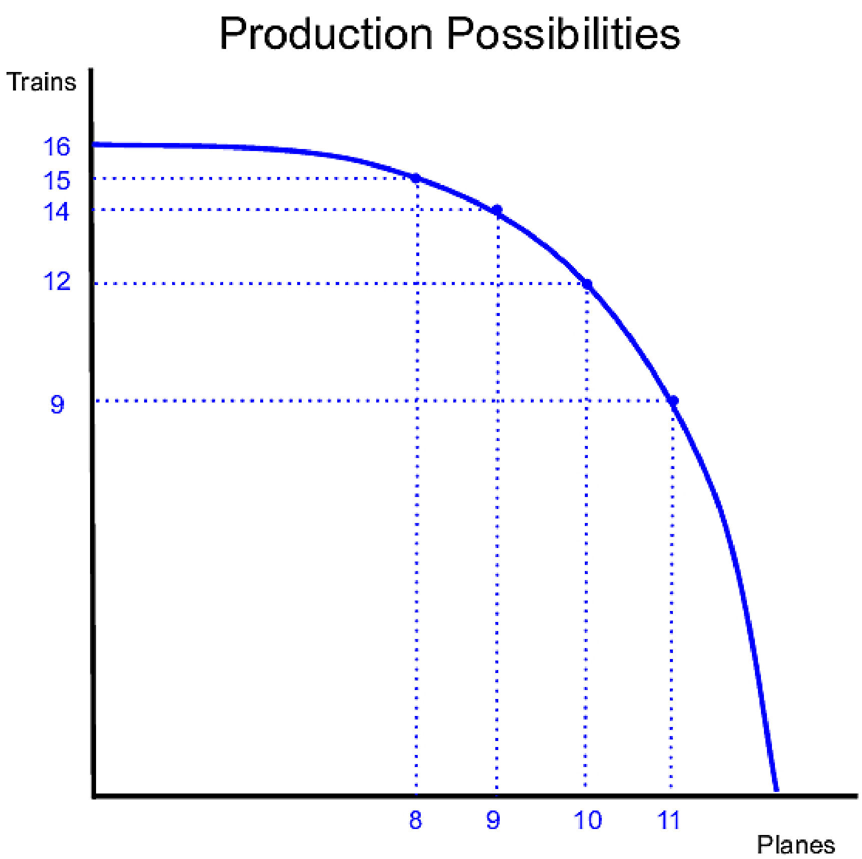
1. Without an increase in the supplies of factors of production, how can a nation achieve economic growth?

   (a) By increasing the prices of factors of production.

   (b) Through technological advancement that enables more production with the same quantity of resources.

   (c) By producing more high-value goods and less low-value goods.

   (d) By decreasing output of another good it can produce more goods.



2. In the PPF above, what is the opportunity cost of the 10th plane?

   (a) 12 Trains

   (b) 4 Trains

   (c) 2 Trains

   (d) 9 Trains

3. Suppose new foreign automobile manufacturers enter the international market for automobiles. Which of the following should happen in the market for automobiles?

   (a) Supply shifts to the left, quantity will decrease, price will increase.

   (b) Demand shifts to the right, quantity increases and price increases.

   (c) Supply shifts to the right, price decreases, quantity increases

   (d) Demand shifts to the left, quantity decreases and price increases.

4. Suppose consumers expect the price of gasoline to increase in the future. What is the impact of this expectation on the market for gasoline today?

   (a) Demand shifts right and supply shifts right

   (b) Demand shifts left, price decreases, and quantity decreases

   (c) Demand shifts right, price increases, and quantity increases

   (d) Demand shifts left, price increases, and quantity decreases

5. If the nominal exchange rate between the American dollar and the Canadian dollar is 0.87 Canadian dollars per American dollar, how many American dollars are required to buy a product that costs 2.50 Canadian dollars?

   (a) 2.18 USD

   (b) 2.87 USD

   (c) 3.37 USD

   (d) 2.50 USD

6. If the nominal exchange rate between the U.S. dollar and the Canadian dollar changes from 0.87 Canadian dollars per U.S. dollar to 0.90 Canadian dollars per U.S. dollar, which of the following is true?

   (a) The USD depreciated and the CAD appreciated

   (b) The CAD depreciated and the USD appreciated

   (c) Both the CAD and the USD depreciated

   (d) Both the CAD and the USD appreciated

7. Suppose a trade agreement between Canada and Mexico results in higher demand in Canada for goods manufactured in Mexico. All else remaining equal, this should lead to which of the following?

   (a) Decrease in demand for Mexican Peso

   (b) Decrease in demand for Canadian Dollar

   (c) Increase in demand for Canadian Dollar

   (d) Increase in demand for Mexican Peso

8. Suppose interest rates increase in the United States and remain constant everywhere else. Which of the following will happen in the currency exchange market between Euros and U.S. dollars?

   (a) Euro will depreciate / U.S. dollar will appreciate

   (b) U.S. Dollar will depreciate / No change in value of Euro relative to U.S. Dollar

   (c) U.S. Dollar will appreciate / No change in value of Euro relative to U.S. Dollar

   (d) Euro will appreciate / U.S. dollar will depreciate

9. Nominal GDP is GDP in a given year

   (a) adjusted for anticipated inflation.

   (b) adjusted for inflation.

   (c) valued in the prices of that year.

   (d) valued in the prices of the base year.

10. Suppose the working-age population of a fictional economy can be described as follows: - 25 people are retired - 80 have full-time employment - 15 have part-time employment - 5 are looking for employment but not currently employed - 10 would like employment but are not looking for employment because they think no jobs are available What is the unemployment rate?

    (a) 11.1%

    (b) 13.6%

    (c) 3.7%

    (d) 5%

11. Suppose a new government rule requires K-12 teachers to have additional qualifications in order to teach in public schools. Which of the following would happen in the labor market for public school teachers?

    (a) Increase in labor demand

    (b) Increase in labor supply

    (c) Decrease in labor demand

    (d) Decrease in labor supply

12. Which of the following would shift labor demand to the right?

    (a) An increase in the costs of production

    (b) Decrease in the unemployment rate

    (c) An increase in people's willingness to work.

    (d) Improvement in technology that increases labor productivity

13. Suppose there is an increase in demand for college education, with more high school graduates deciding to go to college full time. What would be the immediate effect on the labor market?

    (a) Decrease in labor supply / Decrease in equilibrium wage

    (b) Decrease in labor demand / Increase in equilibrium wage

    (c) Decrease in labor supply / Increase in equilibrium wage

    (d) Increase in labor demand / Increase in equilibrium wage

14. Suppose there is an improvement in virtual collaboration technology that makes workers more productive. What is the equilibrium impact on the market for labor?

    (a) Decrease in employment / Increase in Wage

    (b) Decrease in employment / Decrease in Wage

    (c) Increase in employment / Decrease in wage

    (d) Increase in employment / Increase in wage

15. Suppose a government cuts taxes and makes no changes to government expenditures. Which of the following would happen in the loanable funds market?

    (a) Decrease in investment demand and an increase in equilibrium interest rates

    (b) Decrease in savings supply and an increase in equilibrium interest rates

    (c) Increase in savings supply and a decrease in equilibrium interest rates

    (d) Decrease in investment demand and an increase in equilibrium interest rates

16. Suppose there is a decrease in global energy costs which makes it more productive to use capital to produce goods and services. What would be the impact on the market for loanable funds?

    (a) Rightward shift in investment demand

    (b) Rightward shift in investment demand and saving supply

    (c) Decrease in investment demand

    (d) Rightward shift in investment demand and a leftward shift in saving supply

17. Which of the following is a potential source of growth of output per worker?

    (a) Improvement in inflation

    (b) Improvement in interest rates

    (c) Improvement in population growth rate

    (d) Increase in capital stock per worker

18. When the marginal propensity to save increases, what is the impact on the expenditure multiplier?

    (a) Multiplier decreases

    (b) It is possible it may increase or decrease.

    (c) Multiplier increases

    (d) Multiplier does not depend on the marginal propensity to save.

19. Suppose interest rates increase. Which of the following changes in expenditure plans are likely as a result?

    (a) Increase in exports

    (b) Decrease in consumption

    (c) Increase in real GDP

    (d) Increase in investment

20. If sales unexpectedly increase, what is the impact on business inventories?

    (a) Inventories do not change

    (b) Inventories decrease

    (c) Inventories may increase or decrease

    (d) Inventories increase

21. Suppose when consumers receive $120 of additional income, consumption spending increases by $85 and import spending increases by $15. What is the expenditure multiplier?

    (a) 0.833

    (b) 0.417

    (c) 2.4

    (d) 1.2

22. Suppose consumers expect taxes to decrease in the future. Which of the following would happen in the present as a result?

    (a) Nothing

    (b) Aggregate supply shifts to the right.

    (c) Aggregate demand shifts to the right.

    (d) Aggregate demand shifts to the left.

23. Which of the following results in a leftward shift in real money demand?

(a) Increase in the interest rate

(b) Decrease in the interest rate

(c) Improvement in financial technology

(d) Increase in income

24. Which of the following monetary policies lead to an increase in the interest rate?

(a) Increase in taxes

(b) Increase in money supply

(c) Decrease in money supply

(d) Decrease in government expenditures

25. Suppose consumers decide to decrease their expenditures on imports. All other things remaining the same, what is the impact on the market for final goods and services?

(a) Aggregate supply shifts to the right and real GDP increases.

(b) Aggregate demand shifts to the right and real GDP increases.

(c) Aggregate demand shifts to the left and real GDP decreases.

(d) Aggregate supply shifts to the left and real GDP decreases.

Short-Answer Problem-Solving Questions: 5 points each. Write your answer in the space provided. The instruction to "illustrate" means use a graphical economics model. The instruction to "describe" means to give a short explanation for any changes in the model (i.e. a shifting curve), and describe the final result.

26. Suppose people lose their desire to dine indoors at restaurants. Describe and illustrate the impact on groceries at the grocery store.

27. Suppose weather conditions in spring and summer provided an excellent growing season for tomatoes, while at the same time, new research is reported in the news suggesting tomatoes provide more health benefits than previously thought. Describe and illustrate the impact on the equilibrium price and quantity of tomatoes.

28. Suppose incomes decrease in Indonesia and there is no change in incomes in Japan. Describe and illustrate the impact on the Indonesian Rupiah (IDR) to Japanese Yen (JPY) exchange rate.

29. Suppose there is an increase in taxes on proprietorship income and corporate revenue (i.e an increase in taxes on income earned by businesses). Describe and illustrate the impact on the equilibrium wage and employment.

30. Suppose a government increases its spending on infrastructure such as roads, electrical lines, and communications infrastructure, all of which make business more productive. Suppose the government does this while keeping tax revenues the same. Describe and illustrate the impact on the equilibrium interest rate and level of investment.

31. Suppose while maintaining balanced budgets, the government increases its financial support for research and development into new technological innovations. Describe and illustrate the impact on the long-run output per worker for a country.

32. Suppose that when there is an increase in income of \$100, consumer spending increases by \$85 and spending on imports, in particular, increases by \$5. Unfortunately, a drop in consumer confidence resulted in a decrease in consumer spending by \$125 billion. Compute the short-run impact on real GDP.

33. Suppose the economy is at the long-run equilibrium when there is an increase in global energy prices. Describe and illustrate the ***short-run*** impact on equilibrium real GDP and price level.

34. Suppose the economy is initially at the long-run equilibrium when there is an increase in investment expenditures. Describe and illustrate ***both*** the ***short-run and long-run*** effects on equilibrium real GDP and price level.

35. Suppose the economy is initially at the long-run equilibrium when the Fed decides to print less money. Describe and illustrate the ***short-run*** effects on the equilibrium interest rate, real GDP, and price level.