

## PPSC Economics Chapter 3 Macro Economics

Sr	Questions	Answers Choice
1	Suppose the government provides a tax cut today that is matched by a tax increase in the future that's equal in present value to the tax cut This causes a consumer's saving to.	A. Decrease B. Increase C. Remain unchanged D. Increase if the person was a lender and decrease if the person was a borrower
2	When the supply of money increases.	A. The LM curve will shift in B. The LM curve will shift out C. The demand for money will decrease D. The demand for money will increase
3	Total factor productivity growth is that part of economic growth due to.	A. Capital growth plus labor growth B. Capital growth less labor growth C. Capital growth times labor growth D. Neither capital growth nor labor growth
4	When an increase in government spending is matched by an equal decrease in government transfers the income level will.	A. Stay the same B. Increase C. Decrease D. None of these
5	The main cause of cyclical unemployment is that.	A. Firms engage in race gender and sex discrimination in their hiring practices. B. Some individual do not have marketable job skills. C. the level of overall economic activity fluctuates D. Workers offer voluntarily quit a job to look for a better job.
6	A decrease in the effective tax rate on capital would cause the IS curve to.	A. Shift up and to the right B. shift down and to the left C. Remain unchanged D. Remain unchanged if taxes are fully deductible from income otherwise, shift up and to the right
7	A disadvantage of the barter system is that	A. No trade occurs B. People must produce all their own food clothing and shelter C. The opportunity to specialize is greatly reduced. D. Gold is the only unit of account
8	Real business cycle theorists think that most business cycle fluctuations are caused by shocks to.	A. The production function B. The size of the labor force C. The real quantity of government purchases D. The spending and saving decisions of consumers
9	Economists use the phrase ceteris paribus to express the assumption.	A. All else equal B. Everything affects everything else. C. Scarcity is a fact of life D. There is no such thing as a free lunch
10	By definition, the marginal propensity to consumes.	A. Equals OC/A Yd B. Is the behavioral coefficient c in the equation $C = C + cY_d$ C. Is the slope of the consumption function. D. All of the above
11	A variable whose value is determined within an economic theory or model is.	A. Exogenous B. Independent C. Deterministic D. Endogenous
		A. Cyclical ; frictional and structural

12	According to classical economists unemployment rises in recessions due to an increase in _____ unemployment , not in _____ unemployment.	B. Frictional and cyclical , structural C. Structural , frictional and cyclical D. Frictional and structural ; cyclical
13	For a borrower an increase in the real interest rate will lead to.	A. Higher current consumption and less borrowing B. Higher current consumption and less saving C. Lower current consumption and less borrowing D. Lower current consumption and less saving
14	As the economy nears full capacity the short run aggregate supply curve	A. Stagflation B. Structural inflation C. Demand side inflation D. Supply side inflation
15	Given fixed change rate assume Pakistan initiates expansionary monetary and fiscal policies to combat recession these policies will also.	A. Increase both imports and exports B. Increase exports and reduce import C. Reduce a balance of payments surplus D. Reduce a balance of payment deficit
16	Firms hire labor at the point where the	A. Nominal wage rate equals the marginal product of labor B. Real wage rate equals the marginal revenue product of capital C. Nominal wage rate equals the marginal revenue product of labor D. Real wage rate equals the marginal revenue product of capital
17	Fractional unemployment arises when	A. Unskilled or low skilled workers find it difficult to obtain desirable long term jobs B. Labor must be reallocated from industries that are shrinking to areas that are growing. C. Workers must search for suitable jobs and firms must search for suitable workers. D. Output and employment are below full employment levels
18	Expansionary monetary policy	A. Tends to lead to an appreciation of nation's currency B. Usually has no effect on a currency's exchange value C. Tends to lead to a depreciation of the currencies of other nations D. Tends to lead to a depreciation of a nation's currency.
19	The equation for the IS curve is.	A. $Y = 55 - 50i$ B. $Y = 175 - 75i$ C. $Y = 300 - 100i$ D. $Y = 275 - 25i$
20	Which of the following actions is an example of expansionary fiscal policy.	A. A decrease in welfare payments B. A purchase of government securities in the open market C. A decrease in the Bank rate D. A decrease in the corporate profits tax rates
21	If the Nominal GNP of an economy rose from Rs. 5000 to 5500 between 1985 and 1986 while the price index rose from 100 to 110 during the same period real GNP	A. Fell by 10% from 1985 to 1986 B. Rose by 10% from 1985 to 1986 C. Remained constant from 1985 to 1986 D. Fell by 1% from 1985 to 1986
22	Which of the following is the second law of gossen.	A. Law of equal marginal utility. B. Law of equi product C. Theory of indifference curve D. Law of diminishing marginal utility.
23	Using the Keynesian model , the effect of a decrease in the effective tax rate on capital would be to cause _____ in the real interest rate and ____ in output in the long run.	A. An increase ; no change B. A decrease ; no change C. An increase ; an increase D. No change ; a decrease
24	A change that increase real money demand relative to the real money supply causes.	A. The LM curve to shift down and to the right B. The LM curve to shift up and to the left C. The IS curve to shift down and to the left

		<p>D. The IS curve to shift up and to the right</p>
25	Which of the following represents monetary policy geared to increases the supply of money.	<p>A. The purchase of bonds by the Federal Reserve Bank  B. The sale of bonds by the Central Bank  C. An increase in reserve requirement  D. A decrease in taxes</p>
26	Which of the following results in an increase in the value of the dollar.	<p>A. Interest rates in the united states decreases, ceteris paribus  B. Interest rates in foreign countries increase, ceteris paribus  C. Price level in the United States increases, ceteris paribus  D. Productivity in the united states increases, ceteris paribus</p>
27	Quality controlleers at the LMN corporation formulate the null hypothesis that the proportion of defective items in the production line is 10% they reject this hypothesis when they find 12 defective items in 100. If the defective rate is really 10% What type of error did they make.	<p>A. Standard error of the mean  B. A type II error  C. A type I error  D. The error probability</p>
28	Which of the following changes shifts the SRAS curve down.	<p>A. An increase in the labor force  B. An increase in the money supply  C. A decrease in government purchases  D. A decrease in firms costs</p>
29	The gift exchange motive suggests that	<p>A. Workers value benefits like health insurance more than job security  B. Workers prefer a nice work environment even if they must accept lower wages.  C. Workers who feel well treated will work harder and more efficiently  D. Workers will shirk if they are paid a low wage</p>
30	Which of the following macro economic variables is procyclical and coincident with the business cycle.	<p>A. Residential investment  B. Nominal interest rates  C. Industrial production  D. Unemployment</p>
31	Which of the following does not result in an increase in U.S. autonomous net exports.	<p>A. The U.S. dollar depreciated  B. Major trading partners stimulate their economy  C. Foreign currencies depreciate  D. Foreign trading partners lift tariff barriers</p>
32	The multiplier that applies to changes in autonomous investment is identical to changes in.	<p>A. Autonomous government expenditures  B. Autonomous consumption expenditures  C. Autocoups exports  D. All of the responses above</p>
33	Given the Is -LM construction of the figure above an unexpected increase in the price level, in the absence of any policy adjustment will.	<p>A. Increase both interest rates and GNP  B. Reduce both interest rates and GNP  C. Increase GNP but cause interest rates to tall  D. Increase interest but cause GNP to fall.</p>
34	The appropriate expenditure switching policy to correct a balance of payment surplus is.	<p>A. Currency revaluation  B. Currency devaluation  C. Expansionary monetary policy  D. Contractionary fiscal policy</p>
35	The regression equation for consumption as a function of disposable income is $C = -60 + 0.90Y$ .the standard error of Y is 30 and the standard error of estimate is 9.5 What is the 95% confidence interval for C when Y is Rs. 1000 billion.	<p>A. Rs.941 to Rs. 979  B. Rs.900 to Rs. 1,020  C. Rs.821 to Rs.859  D. Rs.780 to Rs.900</p>
36	The short run impact of unanticipated expansionary monetary policy is that.	<p>A. Real output decrease  B. Employment decreases  C. Real interest rates decrease  D. Profit margins decrease</p>
37	The low point in the business cycle is referred to as the	<p>A. Expansion  B. Boom  C. Trough  D. Peak</p>

38	In a mixed economy the economic decisions of what to produce how to produce, and who will receive products are made by	A. The government B. Consumers and firms C. Banks and stock markets D. Firms, consumers, and government.
39	Most industrial construes generally considered _____ as the most important economic goal	A. External balance B. Internal balance C. Maximum efficiency for business D. Maximum efficiency for labor
40	If the economy is in equilibrium at Rs. 180 billion and taxes are reduced by Rs.20 billion, find the new equilibrium given that this is a simple economy i.e. exogenous government spending tax collection and investment spending and a marginal propensity to consume of .75	A. 60 B. 200 C. 250 D. 240
41	When the price level increases 25% starting from a price level equal to 100, a Rs. 1000 bond will have a real value of .	A. Rs. 800 B. Rs.1250 C. Rs.750 D. Rs.666
42	The Ad, SRAS ,and LRAS curve each show a relationship between which two economic variables.	A. The aggregate price level and output B. The aggregate price level and the interest rate C. Output and unemployment D. Output and the interest rate.
43	A mathematical expression relating the amount of output produced to quantities of capital and labor utilized is the	A. Real interest rate B. Production function C. Productivity relation D. Marginal product
44	From a Keynesian perspective business investment will de cline as a result of.	A. A fall in the interest rate B. A decrease in business taxes C. A decline in business expectations D. Acceleration of business depreciation
45	Characteristics of economic laws are	A. Mere statement of economic tenduencies B. Less certain C. Hypothetical D. All of the above
46	Over a two year period your income has increased 10% At the same time the consumer price index has increased 205 Your real purchasing power is.	A. 92% of the original value B. 50% of its original value C. Not affected by the price change D. 109% of its original value
47	In the efficiency wage model if the real wage is higher than the market clearing wage so that there in an excess supply of labor.	A. Firms will hire new workers at lower wages B. Firms will replace high paid workers with low paid formerly unemployed workers C. Employers will not hire workers who are willing to work for a lower wage. D. Firms will demand a higher level of effort from existing employees
48	According to Keynesians the primary source of business cycle fluctuation is.	A. Aggregate demand shocks B. Productivity shocks C. Oil price shocks D. Consumer confidence shocks
49	An expenditure reducing policy would consist of a decrease in	A. The par value of a currency B. Government expenditures C. Import duties D. Business or household taxes
50	Which of the following is an economic activity.	A. Teaching of a teacher in the school. B. To teach son at home C. To serve her child by mother D. to play foot ball by a student
51	Which of the following is incorrect with respect to the consumption diagram.	A. the interest rate is a premium B. $MRS = (i + r)$ C. The consumer will be lender in time zero D. The consumer lends 700
52	Which of the following methods is used for internalizaing positive externalities	A. Positive taxes B. Government exchange of property rights C. Effluent fees D. Corrective subsidies

53	Dynamic multipliers occur when	<p>A. the assumption of ceteris paribus is dropped</p> <p>B. The economy is not in equilibrium</p> <p>C. Consumption is unrelated to disposable income</p> <p>D. there is lagged response between consumption and disposable income</p>
54	An economics variable that moves in the same direction as aggregate economic activity is called.	<p>A. Countercyclical</p> <p>B. Proccyclical</p> <p>C. A cyclical</p> <p>D. A leading variable</p>
55	The term household production refers to	<p>A. Output produced by forcing children to work</p> <p>B. Output produced by workers who are telecommuting</p> <p>C. Services provided directly to households such as lawn mowing by landscape companies.</p> <p>D. Output produced at home</p>
56	If sales are forecasted using an adaptive expectations model where the coefficient of adjustment .2, the sales forecast for 1986 is.	<p>A. Rs.260</p> <p>B. Rs.244.4</p> <p>C. Rs.3.6</p> <p>D. Rs.283.6</p>
57	If investors expectations concerning the future are positive and thus increase investment at every interest rate the.	<p>A. IS curve would shift up</p> <p>B. IS curve would shift down</p> <p>C. LM curve would shift down</p> <p>D. IS and LM curves will not shift</p>
58	A change in autonomous spending is represented by.	<p>A. A movement along a spending line</p> <p>B. A shift of a spending line</p> <p>C. A change in a behavioral coefficient.</p> <p>D. None of these</p>
59	Which of the following macroeconomic variables is procyclical and lags the business cycle.	<p>A. Business fixed investment</p> <p>B. Emploment</p> <p>C. Stock prices</p> <p>D. Nominal interest rates</p>
60	A mathematical expression relating the amount of output produced to quantities of capital and labor utilized is the.	<p>A. Real interest rate</p> <p>B. Productivity relation</p> <p>C. Production function</p> <p>D. Marginal product</p>
61	According to the life cycle hypothesis consumption is related to.	<p>A. Current income</p> <p>B. Past peak income</p> <p>C. Expected lifetime income</p> <p>D. Price expectations over one's life time</p>
62	The multiplier which specifically refers to an equal increase in government spending and taxes, giving rise to that same equal increase in national income is called.	<p>A. the Keynesian multiplier</p> <p>B. The balanced budget multiplier</p> <p>C. the deficit multiplier</p> <p>D. None of the above</p>
63	The natural rate of unemployed is generally thought of as the.	<p>A. Ratio of the frictional unemployment rate to the cyclical unemployment rate</p> <p>B. sum of structural unemployment and cyclical unemployment</p> <p>C. sum of frictional unemployment and cyclical unemployment</p> <p>D. sum of frictional unemployment and structural unemployment.</p>
64	In the Keynesian model in the long run an increase in the money supply will raise	<p>A. The price level but not the level of output</p> <p>B. The level of output but not the price level</p> <p>C. Both the level of output and the price level</p> <p>D. Neither the level of output nor the price level</p>
65	Hyperinflation occurs when	<p>A. The inflation rate rises</p> <p>B. The inflation Tate declines</p> <p>C. The inflation rate is extremely high</p> <p>D. The inflation rate is extremely low</p>
66	Industries that are extremely sensitive to the business cycle are the.	<p>A. Durable goods and service sectors</p> <p>B. Nondurable goods and service sectors.</p> <p>C. Capital goods and nondurable goods sectors.</p>

D. Capital goods and durable goods sectors.

67	Based on the data above , the increase in potential MI would be	A. Rs.50 billion B. Rs.300 billion C. Rs.60 billion D. Rs.100 billion
68	Which of the following is a NOT component of M-2.	A. Small time deposited B. Money market mutual funds C. Stocks D. Checkable deposits
69	When planned saving equals Rs.40+0.20 Yd and planned investment is rs. 60, the equilibrium level of income in.	A. Rs. 100 B. Rs. 400 C. Rs.500 D. Rs.1000
70	Whose opinions have revolutionized the scope of macro economics.	A. Adam Smith B. J.B. Say C. J.M. Keynes D. All of the above
71	The fact that the production function relating output to labor becomes flatter as we move from left to right means that.	A. The marginal product of labor is positive B. The marginal product of capital is positive C. There is diminishing marginal productivity of labor D. there is diminishing marginal productivity of capital
72	The data indicates that country A in billions of rupees is experiencing a	A. A deficit of Rs.60 B. A surplus of Rs. 300 C. Deficit of Rs.900 D. A deficit of Rs. 500
73	If personal income equals Rs.570 while personal income taxes equal Rs.90 consumption is Rs.430. interest payments total Rs. 10 and personal saving is Rs. 40, disposable income equals.	A. Rs. 500 B. Rs.480 C. Rs. 470 D. Rs.400
74	Suppose the intersection of the IS and LM curves is to the left of the FE line A decrease in the price level would most likely. eliminate a disequilibrium among the asset labor and goods markets by.	A. Shifting the LM curve down and to the right B. Shifting the IS curve up and to the right C. Shifting the IS curve down and to the left D. Shifting the FE curve to the left
75	In the monetary base is increased by \$1,000 and the reserve requirement is 10% by how much will the money supply be increased.	A. \$100 B. \$1,000 C. \$5,000 D. \$10,000
76	The philippic curve is the relation between inflation and unemployment that hold for a given natural rate of unemployment. and a	A. Given rate of inflation B. Given expected rate on inflation C. Given level of unemployment D. Given expected level of unemployment
77	If the expected inflation rate is unchanged a fall in the natural rate of unemployment would.	A. shift the Phillips curve to the right B. Not Shift the phillips curve C. Shift the Phillips curve to the left D. shift the Phillips curve to the left shift the long -run Philips curve to the right
78	Which one of the following would cause demand pull inflation.	A. Increases in production costs B. Wage gains in proportion productivity gains C. An increase in aggregate demand with shortages of supply D. Monoposonistic labor markets
79	During inflation.	A. Lenders lose borrowers gain. B. Borrowers lose , lenders gain C. The real interest rate rises D. Borrowers and lenders both lose.
80	Given a proportional income tax and a government budget that is currently in balance, an increase in autonomous investment , caters parabal increases equilibrium income and the budget.	A. Romaic's in balnce B. Has a surplus C. Has a deficit D. None of these
81	The long run Phillips curve is	A. Vertical B. Horizontal C. Upward sloping D. Downward sloping

		D. Downward sloping
82	If the demand for coffee decreases as income decreases, coffee is a	A. Normal good B. Inferior good C. Substitute good D. Complementary good
83	The idea that the natural rate of unemployment rises when the actual rate of unemployment rise is known as.	A. Stabilization B. Insider outsider theory C. Hysteresis D. an efficiency wage model
84	In the short run an increase in export sales would cause output to _____ and the price level to.	A. Rise, rise B. Rise,; stay; constant C. Fall; rise D. fall; stay; constant
85	What is the possible cause for a falling real GNP over a period of time.	A. A general fall in the value of output though changes in quantities produced. B. A general increase in prices C. An increase in the value of output produced and a general increase in prices D. A, B and C
86	An increase labor supply would cause the IS curve to.	A. Shift up and to the right B. Shift down and to the left C. Remain unchanged D. Shift up and to the right only if people face borrowing constraints
87	If government tax function is $T = 80 + .6 Y$ and the marginal propensity to consume is a constant 8 and increase in GNP of Rs.50 would cause consumption to.	A. Increase by Rs.16 B. Decrease by Rs.16 C. Increase by Rs.40 D. Decrease by Rs.30
88	A nation experiences internal balance if it achieves.	A. Full employment B. Price stability C. Full employment and price stability D. Unemployment and price instability
89	Which theory is generally included under micro economics.	A. Price theory B. Income theory C. Employment theory D. None of the above
90	A beneficial supply shock would cause.	A. A movement up the short run Phillips B. a movement down the short run Phillips curve C. The short run Phillips curve to shift upward and to the right D. The short run Phillips curve to shift down ward and to the left
91	A disadvantage of chain weighting is that	A. Past inflation rates change whenever the base year changes. B. Past growth rates of real GDP change whenever the base year changes. C. It causes output growth to slow D. The components of real GDP don't sum to real GDP
92	An increase in the marginal propensity to import.	A. Has the same effect upon the multipliers as an increase in the MPC B. Has no effect upon the multipliers C. Increases the value of the multipliers D. Decreases the value of the multipliers
93	If the quantity of money demands is less than the quantity of money supplied then the interest rate will.	A. Either increases or decrease, depending on the amount of excess demand. B. Increase C. Decrease D. not change
94	The IS curve shows the combinations of output and the real interest rate for which.	A. The goods market is in equilibrium B. The labor market is in equilibrium. C. The financial assets market is in equilibrium D. An increase in output will cause the market clearing interest rate to be bid up.

95	What is the level of savings for disposable income = Rs.5,000 if dissaving's of 50 occur at a disposable income of Rs.0 and a marginal propensity to save equal to 0.257	B. Rs.1,125 C. Rs.1,200 D. Rs.1,100
96	The aggregate demand curve	A. Is vertical B. Slopes upward C. Is horizontal D. Slopes downward
97	If government spending of Rs. 10 and a lump sum tax of Rs.10 is added, the empirical equation for the new IS curve becomes.	A. $Y = 285 + 20 i$ B. $Y = 270 - 10 i$ C. $Y = 285 - 50 i$ D. $Y = 210 - 0.5 i$
98	Desired national saving would increase unambiguously if there were	A. An increase in current output and expected future output B. An increase in expected future output and government purchases C. An increase in expected future output and the expected real interest rate D. A fall in both government purchases and expected future output
99	A rise in the exchange rate value of the rupee will most likely cause.	A. A dollar to be worth less in terms of other currencies. B. Imports to decrease C. Exports to increase D. The balance of payments curve to shift to the left
100	The impact of contractionary fiscal policy, according to new classical theory is that.	A. Real interest rates do not change B. Aggregate demand increase C. Current real output substantially decreases D. The price level substantially increases.
101	Which of the following assets is most liquid.	A. Shares of stock in IBM B. Land C. Gold D. Currency
102	Capital goods are	A. A type of intermediate good B. Final goods, because they are not used up during a given year C. Produced in the same year as the related final good whereas intermediate goods are produced in different years. D. Produced in one year whereas final goods are produced over a period of more than one year
103	The equilibrium level of employment achieved after the complete adjustment of wages and prices, is known as the.	A. Zero unemployment level of employment B. Natural state C. Invisible handshake D. Full employment level of employment
104	Keynesian economists think general equilibrium is not attained quickly because.	A. The real interest rate adjusts slowly B. The level of output adjusts slowly C. The real wage rate adjusts slowly D. The price level adjusts quickly
105	When the economy goes into recession there's an increase in.	A. Frictional unemployment B. structural unemployment C. Cyclical unemployment D. Voluntary unemployment
106	When the value of output exceeds planned spending .	A. There is unsold output, and the level of income will fall B. there is unsold output and the level of income will rise C. There is unsold output, and the level of income does not change. D. All of the above
107	If nominal GNP were Rs.1000 billion in 1976 and Rs.2200 billion in 1986, and the implicit GNP deflator was. 1.2 in 1976 and 1.6 in 1986 concluded that .	A. Real GNP increased by approximately Rs. 542 billion from 1976 to 1986 B. The price level fell from 1976 to 1986 C. Real GNP increased by 35% D. Nominal GNP increased by 80%



108	Economics is the science of Wealth who gave this definition.	A. J-x Mehta B. Marshall C. Adam Smith D. Robbins
109	Which of the following macro economics variables is a cyclical.	A. Real interest rates B. Unemployment C. Money supply D. Consumption
110	In the long run a reduction in labor supply would cause output to _____ and the aggregate price level to.	A. fall; rise B. fall ; fall C. rise ; fall D. rise; rise
111	In a simple Keynesian world assume the economy is opiating at a full employment noninflationary level worsening world conditions necessitate additional government spending of Rs.50 billion. What should be the direction of change in taxes and magnitude of change to maintain stable price and full employment equilibrium.	A. Increase by Rs.50 billion B. Increase by more than Rs. 50 billion C. Increase by less than Rs.50 billion. D. Decrease by more than Rs.50 billion.
112	The long term demand for real money balance will rise when	A. the income elasticity of the demand for money is less than unity. B. There is a long term increase in the price level C. There is a relative increase in the stock of government securities. D. Long term market interest rates are falling.
113	In the long run, an increase in productivity would cause output to _____ and the aggregate price level to	A. fall ; rise B. fall ; fall C. rise ; fall D. rise ; rise
114	When the export function is $Rs.100-0.2 Y$ , net exports are 0 when income is .	A. Rs.300 B. Rs.400 C. Rs.500 D. Rs.600
115	Which of the following macro economic variables doesn't vary much ove the seasons.	A. The nominal money stock B. The unemployment rate C. The real wage D. Average labor productivity
116	Utility means.	A. Power to satisfy a want B. Usefulness C. Willingness of a person D. Hamfulness
117	The value of a household's assets minus the value of its liabilities is called.	A. Income B. Debt C. Stock D. Wealth
118	According to Keynesian macro economics price adjust _____ to shocks, so the government should.	A. Slowly ; do little B. Rapidly ; do little C. Rapidly ; fight recessions D. Slowly ; fight recessions
119	The aggregate supply of labor is the	A. Total amount of time a person works over his or her lifetime B. Total amount of time a person spend in the labor force over his or her life time C. Unemployment rate D. Sum of the labor supplied by everyone in the economy
120	Wars new inventions, harvest failures, and change sin government policy are examples of.	A. The business cycle B. Economics models C. Shocks D. Opportunity costs
121	The fact that the long run Phillips curve is vertical implies that	A. Monetary policy can't effect unemployment B. Money is neutral in the long run C. There is a natural rate of inflation D. Money can't affect inflation in the long run
122	Ineven A occurs the payoff will be Rs.5,670.00 . the probability of event A occurring is .87 What is the expected payoff of event A.	A. Rs.5,670.00 9d) B. Rs.4,832.10 C. Rs. 4,932.90 D. Rs.5000.00

A. Supply creates demand

123	Keynes and Say's macroeconomic theory of employment were diametrically opposed Say state that.	<p>A. Supply creates demand  B. Demand creates supply  C. Unemployment is a most likely state of affairs  D. Full employment can only be achieved by government</p>
124	Appreciation of the U.S. dollar results in.	<p>interference.  A. U.S. tourists traveling abroad being worse off  B. U.S. imports increasing.  C. Foreign currency buying more U.S. goods and services.  D. No change in foreign purchases or sales.</p>
125	The efficiency wage model can be modified to allow real wages to vary over the business cycle by assuming that.	<p>A. Workers effort may depend on the unemployment rate and the real wage  B. During a recession labor supply will decrease reducing the efficiency wage  C. During a recession productivity will fall causing a reduction in the efficiency wage  D. During a boom labor demand will increase, causing the efficiency wage to rise</p>
126	The measured of GDP includes	<p>A. Non market goods such as home making and child rearing  B. The benefits of clean air and water  C. Estimated values of activity in the underground economy  D. Purchases and sales of goods produced in previous periods</p>
127	When total utility becomes maximum then marginal utility will be.	<p>A. Minimum  B. Average  C. Zero  D. Negative</p>
128	If a Canadian dollar costs 0.75 in terms of U.S. dollars, how much Canadian money would an American need to spend in Canada to get a dollar's worth of U.S. value.	<p>A. 25\$  B. 99\$  C. Rs.1.25  D. Rs.1.13</p>
129	When the Central Bank initiates actions which will lead to an increase in the supply of money IS -LM models tell us to expect that.	<p>A. The interest rate will rise  B. The interest rate will decline  C. The price level will not change  D. Investment will decline</p>
130	If the sampi is accepted as coming from a universe with a mean of Rs.500 or greater when if doesn't.	<p>A. A Type II error is made  B. A type I error is mad  C. The alternative hypothesis is correct.  D. A and C are correct</p>
131	When GNP is Rs.500 billion and consumption expenditures are Rs.300 billion.	<p>A. the MPC is 6  B. The MPS is 4  C. The Multiplier is 2.5  D. None of the above</p>
132	If equilibrium national income is less than the full employment the gap can be closed by.	<p>A. Raising taxes  B. Decreasing government expenditures  C. Raising taxes and decreasing government expenditures.  D. Increasing government expenditures.</p>
133	When planned consumption equals Rs. 40 + 0.90 Yd and planned investment is Rs.50, the equilibrium level of income is.	<p>A. Rs.90  B. Rs.400  C. Rs.500  D. Rs.900</p>
134	When an increase in government spending is matched by an equal decrease in government transfers, the income level will.	<p>A. Stay the same  B. Increase  C. Decrease  D. All of the above</p>
135	A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called.	<p>A. New Keynesians  B. Keynesians  C. Monetarists  D. The Classical shool</p>
136	Which of the following solutions does the economist suggest to cost inflation in higher	<p>A. Cutting professor salaries  B. Make students live at home  C. Reduce college from four to three</p>

136	education.	years D. B and C
137	In the product market of the circular flow model.	A. Firms buy finished products from households. B. Consumers buy factors of production from firms C. Firms Sell factors of production to the government D. Consumers buy finished products from firms
138	"An Enquiry into the Nature and causes of wealth of Nations" is the book of economist.	A. Adam Smith B. Marshall C. Robbins D. None of above
139	Which of the following will not result in an increase in the level of income.	A. An increase in autonomous spending B. A decrease in autonomous taxes C. An increase in autonomous transfers D. an increase in net tax revenues
140	In the efficiency wage model with the efficiency wage above the market clearing wage when employment is at its full employment level.	A. Labor supply equals labor demand B. There is an excess supply of labor C. there is an excess demand for labor D. There could be either an excess demand for or an excess supply of labor
141	Net National product equals.	A. Gross national product minus indirect business taxes B. Gross national product minus depreciation C. National income minus indirect business taxes D. National income plus depreciation
142	An asset with zero carrying costs and a present value of Rs.50,000 will return continuous annual yield of Rs.5000 if the current and future rate of interest is.	A. 5% B. 8% C. 10% D. 3%
143	GDP difference between GNP because.	A. GDP = GNP - net factor payments from abroad B. GNP = GDP - net factor payments from abroad C. GDP = GNP - capital consumption allowances D. GNP = GDP - capital consumption allowances.
144	The estimated regression coefficient for good Y indicates	A. Goods X and Y are independent goods B. Good Y is relatively elastic C. Good Y is a luxury good D. Goods X and Y are complementary goods
145	A nation experiences external balance if it achieves.	A. No net changes in its international gold stocks B. Productivity levels equal to those of its trading partners C. An increase in its money supply equal to increases overseas D. Equilibrium in its balance of payments
146	A temporary decrease in government purchases would cause.	A. A rightward shift in the saving curve and a leftward shift in the investment curve B. A rightward shift in the saving curve and a rightward shift in the investment curve. C. A rightward shift in the saving curve but no shift in the investment curve D. No shift in the saving curve but a leftward shift in the investment curve.
147	Okun's Law states that for each percentage point by which the unemployment rate is above the natural rate real GNP is 3% below potential GNP, if real GNP is Rs. 3,800 billion with the actual level of unemployment at 6.05 and the natural rate of unemployment at 4.5% then according to Okun's law the GNP gap is.	A. 171 billion B. 684 billion C. 114 billion D. 228 billion

148	An efficient economy is an economy	<p>A. In which output is steady or growing and there is low inflation</p> <p>B. That produces what consumers demand and does so at the least possible cost.</p> <p>C. that distributes output equally among all consumers</p> <p>D. In which there is a fair distribution of wealth.</p>
149	The aggregate demand curve shows the combinations of output and the price level that put the economy on.	<p>A. The FE line and the IS curve</p> <p>B. The FE line The IS curve and the LM curve</p> <p>C. The IS curve</p> <p>D. The IS curve and the LM curve</p>
150	When investment spending is negatively related to the rate of interest, equilibrium income in the goods market.	<p>A. Is unrelated to the rate of interest</p> <p>B. Is positively related to the rate of interest</p> <p>C. Inversely related to the rate of interest</p> <p>D. Falls as the rate of interest decreases</p>
151	The negative relation ship between unemployment and inflation is know as the	<p>A. Aggregate supply curve</p> <p>B. Aggregate demand curve</p> <p>C. Philipps curve</p> <p>D. Efficiency wage line</p>
152	A commercial bank has a required reserve ratio of 20% and desires to hold 5% in excess reserves. the bank receives a Rs. 10,000 deposit. It it abides by the required reserve ration and its desire to hold excess reserves the bank can make a loan of a most.	<p>A. Rs.7500</p> <p>B. Rs.2500</p> <p>C. Rs.5000</p> <p>D. Rs.30,000</p>
153	While resources and products flow in one direction of the circular flow model what flow the other direction.	<p>A. Services</p> <p>B. Public goods</p> <p>C. Money</p> <p>D. Imported goods</p>
154	When aggregate economic activity increasing the economy is said to be in.	<p>A. An expansion</p> <p>B. A contraction</p> <p>C. A peak</p> <p>D. A turning point</p>
155	You are gold the level of savings in the economy is Rs.25 billion of equilibrium Using the consumption function $C = 20 + .9 Y$ , find equilibrium income .	<p>A. 250</p> <p>B. 900</p> <p>C. 450</p> <p>D. 350</p>
156	In a private sector model	<p>A. Household saving is a leakage from the circular flow</p> <p>B. Investment is a spending injection</p> <p>C. All of the above</p> <p>D. None of the above</p>
157	In market economics the incentive that draws entrepreneurs into industry is.	<p>A. Government bonuses for meeting production quotas</p> <p>B. Profit</p> <p>C. Government assumption of the risk of failure</p> <p>D. Government assistance with making output and pricing decisions</p>
158	An increase in the real wage rate will cause	<p>A. The labor demand curve to shift to the right</p> <p>B. The labor demand curve to shift to the left</p> <p>C. The quantity of labor demanded to rise</p> <p>D. A movement along the labor demand curve</p>
159	Which of the following changes shifts the SRAS curve up.	<p>A. Ani increases in the labor force</p> <p>B. A decrease in government purchases</p> <p>C. An increase in firms costs</p> <p>D. An increase in the money supply</p>
160	In the Keynesian model in the short run a decrease in government purchases causes output to _____ and the real interest rate to .	<p>A. fall ; rise</p> <p>B. fall ; fall</p> <p>C. rise ; rise</p> <p>D. rise; fall</p>
161	A temporary decline in productivity would cause the IS curve to.	<p>A. Shift up and to the right</p> <p>B. Shift down and to the left</p> <p>C. Remain unchanged</p> <p>D. Shift up and to right only if people</p>

		face borrowing constraints
162	Suppose your company is in equilibrium will its capital stock at its desired level A permanent increase in the depreciation rate now has what effect on your desired capital stock. i	<p>A. Raises it because the future marginal productivity of capital is higher</p> <p>B. Lowers it because the future marginal productivity of capital is lower</p> <p>C. Raises it because the user cost of capital is now lower</p> <p>D. Lowers it because the user cost of capital is now higher</p>
163	According to the permanent income hypothesis all increases in .	<p>A. Permanent income are saved</p> <p>B. Permanent income are consumed</p> <p>C. transitory income are saved</p> <p>D. Transitory income are consumed</p>
164	A Rs.10 increase in autonomous investment spending shifts IS	<p>A. Rightward by Rs.10</p> <p>B. Leftward Rs.10</p> <p>C. Rightward by Ke (Rs.10)</p> <p>D. Leftward by Ke (Rs.10)</p>
165	The equilibrium level of Y and I derived from the LM and IS equations above is.	<p>A. Y = 130 and I = 10%</p> <p>B. Y = 200 and I = 30%</p> <p>C. Y = 180 and I = 7%</p> <p>D. Y = 250 and I = 2%</p>
166	The costs of disinflation would be low if	<p>A. Expected inflation falls as inflation falls</p> <p>B. Wages and price controls were used</p> <p>C. The Phillips curve were nearly horizontal</p> <p>D. The Phillips curve adjusted slowly to changes in inflation</p>
167	Economic planning by enteral government agencies is primarily associated with	<p>A. command economies</p> <p>B. Market economies</p> <p>C. Laissez faire economies</p> <p>D. Market faire economies</p>
168	When planned saving is greater than planned investment.	<p>A. Output should increase</p> <p>B. Output should decrease</p> <p>C. Output should not change</p> <p>D. All of the above</p>
169	A decrease in wealth would cause the IS curve to	<p>A. Shift up and to the right</p> <p>B. Shift down and to the left</p> <p>C. Remain unchanged</p> <p>D. Shift up and to the right only in poeple face borrowing constraints.</p>
170	The key difference between classical and Keynesian macro economist is their differing beliefs about.	<p>A. The slope of the aggregate demand curve</p> <p>B. The speed at which prices adjust</p> <p>C. The natural rate of unemployment</p> <p>D. The full employment level of output</p>
171	Full- employment output is the level of output that firms in the economy supply when	<p>A. Taxes are zero</p> <p>B. Wages and prices have fully adjusted</p> <p>C. The unemployment rate in zero</p> <p>D. All capital is fully utilized</p>
172	A Rs.10 increase in autonomous investment spending shifts is.	<p>A. Rightward by Rs. 10</p> <p>B. Leftwards by Rs. 10</p> <p>C. Rightward by Ke (Rs.10)</p> <p>D. Leftward y Ke (Rs.10)</p>
173	If the price level for an economy was 100 in 1984 , 115 in 1985 and 125 in 1986 the rate of inflation between 1985 and 1986 was.	<p>A. 105</p> <p>B. 8%</p> <p>C. 8.7%</p> <p>D. 17.5%</p>
174	The value of a producer's output minus the value of the inputs if purchases from other producers is called the producer's	<p>A. Surplus</p> <p>B. Profit</p> <p>C. Gross product</p> <p>D. Value added</p>
175	Find the revenue the government collects as a result of the tax	<p>A. Rs.10 million</p> <p>B. Rs.40 million</p> <p>C. Rs.16 million</p> <p>D. Rs.30 million</p>
176	The long run foreign exchange rate between the U.S. and Japan is 200 Yen =Rs. 1 under a floatina exchange rate Which of the followina does 112 t occur if the Federal Reserve	<p>A. Foreign capital flows to the U.S.</p> <p>B. The U.S. dollar appreciates</p> <p>C. Real net exports decline</p>

	reduce the money supply in order to prevent the occurrence of inflation.	D. American real GNP experience a slower rate of growth
177	In the long run an increase in consumer spending would cause output to _____ and the price level to. _____	A. rise;rise B. rise; stay; constant C. stay constant ; stay constant D. Stay constant ; rise
178	If an individual has a money income M of Rs. 999 , the price of X is rs.7.00 per unit and the price of Y is Rs. 300 per unit find the equation for the budget lines.	A. $Y = 333 - (7/3) x$ B. $Y = 142 - (7/3) x$ C. $Y = 142 - (3/7) x$ D. $Y = 323 - (7/3) x$
179	Under law of demand.	A. Price of commodity is an independent variable B. Quantity demanded is a dependent variable C. Reciprocal relationship is found between price and quantity demanded D. All of the above
180	In the expenditure approach to GDP which of the following would be excluded from measurement of GDP.	A. Government payments for goods produced by foreign firms B. Government payments for goods produced by firms owned by state of local government C. Government payments for welfare D. All government payments are included in GDP
181	Two independent variables are not independent of each other in a multiple regression problem The analyst most likely will be confronted with.	A. The problem of autocorrelation B. A type 1 error C. The problem of multicollinearity D. a type II error
182	An adverse supply shock that is permanent shifts which curve in addition to the curves shifted by. One that is temporary.	A. The LM curve B. The IS curve C. The FE line D. The labor demand curve
183	When plotted with the aggregate price level on the vertical axis and output on the horizontal axis, which of the following curves slopes downward.	A. SRAS B. AD C. LRAS D. None of the above
184	What did economist Adam Smith identify as the "invisible hand" that directs the decision making of firms and households in a market economy.	A. Government B. Product demand C. Self interest D. International trade
185	A regression model yields a Durbin Watson d statistic whose value is 0.002. The results indicate.	A. Positive serial correlation B. the presence of multicollinearity C. No serial correlation D. Negative serial correlation
186	When all markets in the economy are simultaneously in equilibrium we say.	A. Markets are complete B. Markets are perfect C. There is disequilibrium D. There is general equilibrium.
187	In a model in which there is no government new investment capital replacement or international trade the market value of final output equals.	A. Aggregate consumption B. The sum of the receipts of economic resources C. The sum of wages rent interest and profit D. All of the above
188	The reason that only final sales are counted in GDP is	A. To avoid double counting goods that are sold so as to be resold B. To not count production in other countries C. Because the government can't get records on intermediate sales. D. To simplify the computation and no other reason
189	Money must fulfill all of the following functions except.	A. Be a medium of exchange B. Be a store of value C. Be generally accepted as a means of purchasing commodities D. The above are all functions of money
190	Marginal utility is equal to average utility at that time when average utility is.	A. Increasing B. Maximum C. Falling D. None of the above

		D. Minimum
191	To ensure that the fundamental identity of national income accounting holds changes in inventories are.	A. Ignored B. Counted as consumption C. Treated as part of saving D. Treated as part of expenditure
192	The equation for a given production function is $Q = K^2 + KL$ , initially $K = 2$ and $L = 1$ if the value of both inputs is doubled the production function exhibits.	A. Increasing returns to scale B. Diseconomies of scale C. Constant returns to scale D. Economies of scale
193	In which of the following situations will an increase in the money supply have no effect upon equilibrium income.	A. LM is steeply sloped and IS is relatively flat B. LM is vertical and IS is steeply sloped C. LM is steeply sloped and IS is vertical D. LM is relatively flat as is IS
194	If the intercept of the consumption function is 75, and MPS is 0.10 the value of consumption expenditures at $Y_d = \text{Rs. } 5,000$ is	A. Rs.4,500 B. Rs. 575 C. Rs.500 D. Rs. 4,575
195	Company X sells Rs.75 million dollars of 9.5% first mortgage bonds at par The company's marginal tax rate is 30% The after tax cost of debt is.	A. 2.85% B. 3.175% C. 6.68% D. 7.55%
196	A technological improvement will	A. Increase the desired capital stock B. Decrease the desired capital stock C. Have no effect on the desired capital stock D. Have the same effect on the desired capital stock as an increase in corporate taxes.
197	An economy is in inflationary equilibrium A sustained increase in government spending shifts.	A. DAD rightward for one period B. DAD and DAS rightward permanently C. DAD rightward and a new equilibrium D. DAD rightward and a new equilibrium.
198	Which of the following events would lead to an increase in the marginal product of labor for every quantity of labor.	A. An increase in the real wage B. A decrease in the real wage C. A favorable supply shock such as a fall in the price of oil D. an adverse supply shock such as a reduced supply of raw materials.
199	An increase in the real wage rate will cause.	A. The labor demand curve to shift to the right B. The labor demand curve to shift to the left C. The quantity of labor demanded to rise D. A movement along the labor demand curve
200	Which of the following macro economic variables is the most seasonally procyclical.	A. Expenditure on services B. The unemployment rate C. Expenditure on durable goods D. The real wage
201	At point of satiety marginal utility is.	A. Positive B. Negative C. Maximum D. Zero
202	The nominal interest rate minus the inflation rate is the	A. Depreciation rate B. Discount rate C. Real interest rate D. Forward rate
203	If the reserve deposit ratio is 0.25 and the ratio of currency in circulation to deposits is 0.3, the potential money multiplier will have a value of.	A. 2.36 B. 0.42 C. 1.20 D. 0.96
204	In a closed economic model aggregate demand is not sensitive to.	A. Interest rates B. Exchange rates C. Price level D. Tax policy
205	The risk free rate of interest would not be affected by	A. Changes in real output B. Change in the money supply

205	The nominal rate of interest would not be affected by:	C. Term to maturity D. None of the above
206	An increase in autonomous net exports	A. Shifts IS rightward by $k$ , $ox$ B. shifts IS left eard by $k$ , $AX$ C. Increase the slope of IS D. Decreases the slope of IS
207	Find the change in revenue to the industry due to the taxes.	A. Rs. 40 billion B. Rs. 34 million C. Rs.25 million D. Rs.36 Million.
208	The substitution effect of a decrease in real interest rates is to cause a consumer to.	A. Increase future consumption and decrease current consumption B. Decrease future consumption and increase current consumption C. Increase current consumption and increase saving D. Decrease current consumption and increase saving.
209	Which of the following factors will cause the demand curve for labor to shift to the right.	A. The demand for the product produced by labor declines. B. The prices of substitute imputes falls C. The productivity of labor increases D. None of the above
210	Which market adjusts the quickest in response to shocks to the economy.	A. The asset market B. The labor market C. The goods market D. In the macro economy
211	If X becomes more expansive i relation to Y, what happens to the budget line in the X - Y space, with Y on the vertical axis.	A. It shifts to the right B. It shifts to the left C. The slope becomes flatter D. The slope becomes steeper
212	An increase in the expected future marginal product of capital would cause the IS curve to.	A. Shift up and to the right B. Shift down and to the left C. Remain unchanged if firms face borrowing constraints otherwise shift down and to the left D. Remain changed
213	Banks can create money	A. Only by illegally printing additional dollar bills B. By paying interest to their depositors C. By making loans that result in additional deposits D. By offering financial services, such as stick market brokerage
214	What tow factors should you equate in deciding how many workers to employ.	A. The marginal product of labor and the marginal product of capital B. The marginal product of labor and the real wage rate C. The marginal product of labor and the real interest rate D. The marginal product of capital and the real wage rate
215	The fact that the Production function relating output to capital becomes flatter as we move from left to right means that.	A. The marginal product of labor is positive B. The marginal product of capital is positive C. There is diminishing marginal productivity of labor D. There is diminishing marginal productivity of capital
216	Changes in subjective or objective factors.	A. Never affect the consumption function B. Always cause downward shifts of the consumption function C. Always cause upward shifts of the consumption function D. May cause upward or downward shifts of the consumption function
217	Ahmed uses dummy variables in order to determine the monthly seasonal effect in her regression model. The number of dummy variables used will be.	A. 5 B. 11 C. 12 D. 1
		A. The expected rate of inflation ceteris paribus B. The growth rate of the nominal



218	The dynamic aggregate demand schedule shifts rightward when there is an increase in.	<p>B. the growth rate of the nominal money supply ceteris paribus</p> <p>C. The income tax rate ceteris paribus</p> <p>D. the current inflation rate ceteris paribus</p>
219	Which of the following will cause a monetary induced change versus a fiscal induced change in equilibrium income as determined by IS - LM analysis.	<p>A. A shift in the consumption function</p> <p>B. A shift in government expenditures</p> <p>C. A change in liquidity preference</p> <p>D. A change in a government expenditures</p>
220	Which of the following changes shifts the long run aggregate supply curve to the right.	<p>A. A demographic change that increases the labor supply</p> <p>B. A decrease in the demand for labor</p> <p>C. An increase in consumer confidence</p> <p>D. A decrease in taxes</p>
221	The equilibrium level of income of the open economic model is.	<p>A. 200</p> <p>B. 400</p> <p>C. 300</p> <p>D. 500</p>
222	The regression results indicate that the standard error of estimate is.	<p>A. 135.94</p> <p>B. 16.06</p> <p>C. 28.98</p> <p>D. 4.27</p>
223	An increase in the expected rate of inflation would.	<p>A. shift the Phillips curve upward</p> <p>B. shift the Phillips curve downward</p> <p>C. Shift the long-run Phillips curve to the right</p> <p>D. Shift the long-run Phillips curve to the left</p>
224	The Laffer curve depicts	<p>A. A trade off between tax rates and government receipts</p> <p>B. Price levels and real income</p> <p>C. government deficits and unemployment</p> <p>D. Tax rates and inflation</p>
225	Which of the following is not a primary cause of business cycle fluctuations according to real business cycle theory.	<p>A. A change in the production function</p> <p>B. A change in the size of the labor force</p> <p>C. A change in the money supply</p> <p>D. A change in the real quantity of government purchases</p>
226	The two main characteristics of the production function are.	<p>A. It slopes downward from left to right and the slope becomes flatter as the input increases</p> <p>B. It slopes upward from left to right the slope becomes steeper as the input increases</p> <p>C. It slopes upward from left to right the slope becomes flatter as the input increases</p> <p>D. It slopes downward from left to right and the slope becomes steeper as the input increases</p>
227	Classical economics believe that in the short run.	<p>A. Money neutrality exists and prices adjust rapidly</p> <p>B. Money neutrality does not exist and prices adjust rapidly</p> <p>C. Money neutrality does not exist and prices do not adjust rapidly</p> <p>D. Money neutrality exists and prices do not adjust rapidly.</p>
228	An increase in wealth that doesn't affect labor supply would cause the IS curve to _____ and the FE line to _____	<p>A. Shift down and to the left be unchanged</p> <p>B. Shift down and to the left shift left</p> <p>C. Shift up and to the right be unchanged</p> <p>D. Shift up and to the right shift left</p>
229	The government budget surplus equals	<p>A. Government purchases plus transfers</p> <p>B. Net government receipts minus government purchases</p> <p>C. Government purchases minus net receipts</p> <p>D. Government purchases minus transfers.</p>

230	In the Keynesian model in the long run a decrease in the money supply will cause ____ in the interest rate and _____ in the price level.	<p>A. An increase ; an increase</p> <p>B. A decrease ; a decreases</p> <p>C. No change ; an increase</p> <p>D. No change ; a decrease</p>
231	When the marginal propensity to consume is 0.75 the multiplier has a value of.	<p>A. 4</p> <p>B. 5</p> <p>C. 3</p> <p>D. 2</p>
232	What adjusts to restore general equilibrium after a shock to the economy.	<p>A. The LM curve</p> <p>B. The IS curve</p> <p>C. The FE line</p> <p>D. The labor supply curve</p>
233	The valued of expenditure multiplier relates.	<p>A. The change in autonomous spending to the change in income</p> <p>B. the change in consumption to change in income</p> <p>C. The change in come to the change is consumption</p> <p>D. The change in income to the change in autonomous spending.</p>
234	Disinflationary demand management policies.	<p>A. Achieve a lower rate of inflation without causing a decreases in output.</p> <p>B. Reduce output but have no initial effect on the inflation rate</p> <p>C. Require an increase in government spending.</p> <p>D. Require a reduction in the growth rate of the nominal money supply.</p>
235	Which of the following changes shifts the AD curve up and to the right.	<p>A. A rise in the nominal money supply</p> <p>B. An increase in income taxes</p> <p>C. An increase in the risk on nonmonetary assets</p> <p>D. A decreasing the future marginal productivity of capital.</p>
236	If the rate of growth of a full employment labor force is 1.55 and 2.55 then the ceiling rate of growth of real GNP, according to Hick's theory of a constrained business cycle, is.	<p>A. 1.5 %</p> <p>B. 2.55</p> <p>C. 4.0%</p> <p>D. 1.7%</p>
237	The marginal product of labor	<p>A. Is measured by the slope of the production function relating capital of employment</p> <p>B. Is larger when the labor supply is relatively larger</p> <p>C. Is smaller when the labor supply is relatively smaller</p> <p>D. Decreases as the number of workers already employed increases</p>
238	The appropriate expenditure switching policy to correct a balance of payments deficit is.	<p>A. Contractionary monetary policy</p> <p>B. expansionary fiscal policy</p> <p>C. Currency devolution</p> <p>D. Currency revaluation</p>
239	Friedman and Phelps suggested that there should not be a stable relationship between inflation and unemployment, but there should be a stable relationship between	<p>A. Anticipated inflation and frictional unemployment</p> <p>B. Anticipated inflation and cyclical unemployment</p> <p>C. Unanticipated inflation and frictional unemployment.</p> <p>D. Unanticipated inflation and cyclical unemployment</p>
240	The three main components of the aggregate demand aggregate supply model include.	<p>A. AD, SRAS, LM</p> <p>B. SRAS, LRAS, IS</p> <p>C. AD, IS, LM</p> <p>D. AD, SRAS, LRAS</p>
241	The Keynesian theory is consistent with the business cycle fact that inflation is	<p>A. Procyclical and leading</p> <p>B. Procyclical and lagging</p> <p>C. Countercyclical and leading</p> <p>D. All of these</p>
242	Fiscal policy output to change demand for output is.	<p>A. Completely effective in region KL</p> <p>B. Partially effective in region JK</p> <p>C. Elasticity is infinite for region LT</p> <p>D. Completely ineffective in region LT</p>
243	The long run aggregate supply curve.	<p>A. Is vertical</p> <p>B. Slopes upward</p> <p>C. Is horizontal</p> <p>D. Slopes downward</p>

244	Given the IS equation $Y = K_e a - K_e Bn$ the IS slope decreases when	<p>A. <math>K_e</math> increase and <math>b</math> increases</p> <p>B. <math>K_e</math> decreases and <math>b</math> increases</p> <p>C. <math>K_e</math> increases and <math>b</math> decreases</p> <p>D. <math>K_e</math> decreases and <math>b</math> decreases</p>
245	An expansionary supply side shock results in.	<p>A. An increased real national income</p> <p>B. The aggregate supply curve shifting to the left</p> <p>C. The aggregate demand curve shifting to the right</p> <p>D. The aggregate demand curve shifting to the left</p>
246	In long run a reduction in labor supply would cause output to ___ and the aggregate price level to.	<p>A. fall ; rise</p> <p>B. fall ; fall</p> <p>C. rise ; fall</p> <p>D. rise ; rise</p>
247	Suppose your company is in equilibrium with its capital stock at the desired level A permanent decline in the expected real interest rate now has what effect on your desired capital stock	<p>A. Raises it because the future marginal productivity of capital is higher</p> <p>B. Lowers it because the future marginal productivity of capital is lower</p> <p>C. Raises it because the user cost of capital is now lower</p> <p>D. Lowers it because the user cost of capital is now higher</p>
248	A rise in the price of bond causes the yield of the bond to.	<p>A. Rise</p> <p>B. Fall</p> <p>C. Remain unchanged</p> <p>D. Rise if it's a short term bond, fall if it's a long term bond</p>
249	Which of the following in a graph with interest rates and income on the vertical and horizontal axes, does not shift the balance of payments curve to the right.	<p>A. Capital flow restrictions</p> <p>B. Export quotas</p> <p>C. Export subsidies</p> <p>D. Import tariffs</p>
250	If $GNP = 1,000$ billion and the money supply is 330 billion , then the velocity of money is.	<p>A. A value less than 1.4</p> <p>B. 3.33</p> <p>C. 1.48</p> <p>D. 3.03</p>
251	A change that increases the real money supply relative to real money demand causes.	<p>A. The LM curve to shift down and to the right.</p> <p>B. The LM curve to shift up and to the left</p> <p>C. The IS curve to shift down and to the left</p> <p>D. The IS curve to shift up and to the right.</p>
252	According to the efficiency wage model during a recession firms will not reduce real wages because.	<p>A. Unions would go on strike reducing profitability</p> <p>B. This would reduce worker effort and productivity.</p> <p>C. The equilibrium real wage has increased</p> <p>D. Legally, they can't</p>
253	The fraction of additional current income that a person consumes in the current period is known as the	<p>A. Consumption smoothing motive</p> <p>B. Consumption deficit</p> <p>C. Saving rate</p> <p>D. marginal propensity to consume</p>
254	Keynes considered subjective and objective factors.	<p>A. Determinants of investment</p> <p>B. Determinants of business will ingress to supply</p> <p>C. Unimportant determinants of consumption.</p> <p>D. Important determinants of consumption.</p>
255	The long run aggregate supply curve	<p>A. Is vertical</p> <p>B. slopes upward</p> <p>C. Is horizontal</p> <p>D. Slopes downward</p>
256	The econometric problem of errors in variables leads to	<p>A. Biased estimates of regression coefficients.</p> <p>B. Autocorrelation</p> <p>C. Unbiased estimates of regression coefficients but non minimum variance of estimated coefficients.</p> <p>D. None of the above</p>

257	When aggregate economic activity is declining , the economy is said to be in.	<p>A. A contraction</p> <p>B. An expansion</p> <p>C. A trough</p> <p>D. A turning point</p>
258	After a temporary beneficial supply shock hits the economy general equilibrium is restored by	<p>A. A shift down and to the left of the IS curve</p> <p>B. A shift to the left of the FE line</p> <p>C. A shift up and to the left to the LM curve</p> <p>D. A shift down and to the right of the LM curve</p>
259	The sign of the simple correlation coefficient is determined by	<p>A. The intercept of the least squares equation.</p> <p>B. The slope of the least squares equation</p> <p>C. The appropriate economic theory.</p> <p>D. The researcher</p>
260	The practice of using fiscal and monetary policy to stabilize the economy is known as.	<p>A. Fine turning of deamand</p> <p>B. Monetarism</p> <p>C. Laissez faire economics</p> <p>D. Supply side economics</p>
261	The MPS = 0.4 and government spending increases by 20 billion. The LM curve	<p>A. Shifts to the right by 20 billion</p> <p>B. Shifts to the right by 50 billion</p> <p>C. Does not shift</p> <p>D. shifts to the left by 30 billion</p>
262	When desired national saving equals desired national investment what market is in equilibrium.	<p>A. The goods market</p> <p>B. The money market</p> <p>C. The foreign exchange market</p> <p>D. The stock market</p>
263	For interior commodities income effect is.	<p>A. Zero</p> <p>B. Negative</p> <p>C. Infinite</p> <p>D. Positive</p>
264	The use of micro economics policies to smooth or moderate the business cycle is known as.	<p>A. Aggregate demand management.</p> <p>B. Aggregate supply management</p> <p>C. Automatic stabilization</p> <p>D. Discretionary policy</p>
265	An increase in the expected real interest rate tends to.	<p>A. Raise desired saving only</p> <p>B. Raise desired investment only</p> <p>C. Raise both desired savings and desired investment</p> <p>D. Raise desired savings, but lower desired investment.</p>
266	In the Keynesian model which curve is vertical.	<p>A. LRAS</p> <p>B. SRAS</p> <p>C. AD</p> <p>D. NS</p>
267	An economic variable that moves in the opposite direction as aggregate economic activity up in is called.	<p>A. Pro cyclical</p> <p>B. Countercyclical</p> <p>C. A cyclical</p> <p>D. A leading variable</p>
268	A decline expected future output would cause the IS curve to.	<p>A. Shift up and to the right</p> <p>B. Shift down and to the left</p> <p>C. Remain unchanged</p> <p>D. shift up and to the right only if people face borrowing constratints.</p>
269	"Economics is a science " the basis of this statement is.	<p>A. Relation between causes and effect</p> <p>B. Use of deductive method and inductive method for the formations of laws</p> <p>C. experiments</p> <p>D. All of the above</p>
270	Classical economics think general equilibrium is attained relatively quickly because.	<p>A. The real interest rate adjusts quickly</p> <p>B. The level of output adjusts quickly.</p> <p>C. The real wage rate adjusts quickly</p> <p>D. The price level adjusts quickly.</p>
271	Equilibrium occurs in a two sector model when	<p>A. Saving equals investment.</p> <p>B. Consumption plys investment</p> <p>equals the value of output</p> <p>C. Planned saving equals planned investment.</p> <p>D. Aggregate spending equals the</p>

		revenues of the business sector A. Depreciation rate B. Discount rate C. Forward rate D. Real interest rate
272	The nominal interest rate minus the inflation rate is the	
273	According to Okun's law an increase in the unemployment rate will cause _____ in the level of employment and ___ in the level of output.	A. An increase ; an increase B. An increase; a decrease C. A decrease ; an increase D. a decrease ; a decrease
274	To avoid double counting when the GNP is estimated, economists	A. Price all goods and services bought and sold in all markets B. Use the GNP deflator C. Price only intermediate goods D. Calculate value added at each stage of production.
275	When plotted with the aggregate price level on the vertical axis and output on the horizontal axis, the long run aggregate supply curve.	A. slopes upward B. Sloped downward C. Is vertical D. Is horizontal
276	An increase in investment leads to an increase in income and consumer spending, which in turn leads to a further increase in investment spending This is example of.	A. The expenditure multiplier B. Explosive growth C. Hyperinflation D. Interaction of multiplier and accelerator
277	The ratio of the change in the equilibrium level of income to a change in some automatic increase in spending is the	A. Elasticity coefficient B. Multiplier C. Automatic stabilizer D. Marginal propensity of the autonomous variable
278	In the Keynesian model short run equilibrium occurs where	A. The IS and LM curves intersect B. The IS curve LM curve and FE lines intersect C. the IS curve intersects the FE line D. The LM curve intersects the FE line
279	Which of the following is the most liquid.	A. A savings account B. A 6 months CD C. A home D. Water
280	Suppose nominal GNP is Rs.500 in year 1, the base year If the GNP deflator doubles by year 6 while real output has increased 40% nominal output in year 6 equals.	A. Rs.2000 B. Rs.1400 C. Rs.1000 D. Rs.750
281	An invention that speeds up the internet is an example of.	A. An income effect B. An increase in labor C. A substitution effect D. A supply shock
282	The hypothesis would be tested with	A. A two tailed test B. A one tailed test with the rejection region in the left tail C. a one tailed test with the rejection region on the right tail D. The normal distribution
283	When a person received an increase in wealth, what is likely to happen to consumption and saving.	A. Consumption increase and saving increases. B. Consumption increases and saving decreases C. Consumption decreases and saving increases D. Consumption decreases and saving decreases
284	Which of the following is not included in gross investment.	A. Business and residential construction. B. Expenditures on consumer goods C. Additions to business inventory D. Expenditures on machinery
285	Using the Keynesian model the effect of an increase in the effective tax rate on capital would be to cause _____ in the real interest rate and _____ in output in the short run.	A. A decrease ; a decrease B. A decrease ; no change C. No change ; a decrease D. An increase ; an increase
286	Peaks and trough of the business cycle are known collectively as.	A. Volatility B. Turning points C. Equilibrium point D. Real business cycle events

287	What is the average money balance according to the square root rule if income is Rs.1500, each transaction cost is Rs.4, and the opportunity cost of holding money is 2%?	A. 387 B. 50 C. 175 D. 203
288	The monetary base is composed of.	A. Gold and silver B. Currency only C. Currency and reserves D. Currency and checkable deposits
289	The trough of a business cycle occurs when _____ hits its lowest point.	A. Inflation B. The money supply C. Aggregate economic activity D. The unemployment rate
290	Country A's GNP is increasing by 3% a year in contrast to its population growth of 2.4%. The rate of growth of per capita GNP is.	A. 3% B. 0.85 C. 0.6% D. 2.4%
291	In the long run an increase in government purchases of military equipment would cause output to _____ and the aggregate price level to _____.	A. Stay constant B. fall ; fall C. fall ; stay constant D. stay constant ; rise
292	In which of the following situations will an increase in the money supply have no effect upon equilibrium income.	A. LM is steeply sloped and IS is relatively flat B. LM is vertical and IS is steep C. LM is steeply sloped and IS is vertical D. LM is relatively flat as is IS
293	A decrease in the marginal propensity to import will lead to.	A. An increase in GNP B. Lower the multiplier C. An increase in imports D. A decrease in imports
294	Suppose there is full employment and a positively sloped aggregate supply schedule. A decrease in taxes will increase.	A. The price level and real output B. the price level but has no effect on real output C. Real output but has no effect on the price level D. The nominal and real wage
295	The origin of the idea of a trade-off between inflation and unemployment was a 1958 article by	A. A.W. Phillips B. Edmund Phelps C. Milton Friedman D. Robert Gordon
296	The break-even level of income where $C = Y$ is	A. 200 B. 300 C. 500 D. 400
297	The Root Mean Square Error for the actual sales and sales forecast for 1985 and 1986 is.	A. 20.2 B. 19.9 C. 14.7 D. 17.2
298	In the short run in the Keynesian model a sharp increase in oil prices would leave the economy with a _____ level of output and a _____ real interest rate.	A. Higher ; lower B. Lower ; Higher C. Higher ; higher
299	A temporary adverse productivity shock would.	A. Shift the labor supply curve upward B. Decrease the level of employment C. Decrease future income D. Decrease the expected future marginal product of capital
300	Given the saving equation $S = -50 + 0.20Y$ , where $s$ is saving and $Y$ is income.	A. The break-even level of income is 240 B. Dissaving takes place if income is 300 C. Consumption expenditures and saving are equal at an income level of 500 D. The MPS is constant for all levels of income
301	"Economics is what economists do." It has been supported by.	A. Richard Jones B. Comte C. Gunnar Myrdal D. All of the above
302	An expenditure increasing policy would consist of an increase in	A. Import tariffs B. Import quotas C. Governmental taxes D. The money supply

303	The reduction of the inflation rate is called	A. Deflation B. Disinflation C. Inflation D. Reflation
304	The value of real GDP in the current year equals.	A. The value of current year output in prices of the base year B. The value of current year output in prices of the current year C. The value of base year output in prices of the base year D. The value of base year output in prices of the current year
305	The major source of revenue for the government is.	A. the collection of property taxes B. The collection of the corporates income tax C. The collection of excise taxes on gasoline cigarettes and tires D. The collection of import and export duties in the conduct of foreign trade
306	The fact that the production function relating output to labor becomes flatter as we move from left to right means that.	A. The marginal product of labor is positive B. The marginal product of capital is positive C. There is diminishing marginal productivity of labor D. There is diminishing marginal productivity of capital
307	Which policy is an expenditure switching policy.	A. Increase in the money supply B. Decrease in government expenditures C. Increase in business and household taxes D. Decrease in import tariffs
308	The expected real interest rate minus expected inflation rate.	A. Nominal interest rate minus inflation rate B. Nominal interest rate minus expected inflation rate. C. Expected nominal interest rate minus inflation rate D. Nominal interest rate plus expected inflation rate.
309	Which of the following changes shifts the AD curve down and to the left.	A. A temporary increase in government purchases. B. A rise in the nominal money supply C. A decrease in corporate taxes D. A decrease in consumer confidence
310	When equilibrium in the money and goods markets occurs at a rate of interest below the BP schedule internal and external equilibrium for the United States can be achieved by.	A. Expanding the U.S. money supply B. Increasing government spending C. Increasing taxes D. Lowering interest rates in the United States.
311	All of the following are obstacles to international economic policy coordination except.	A. Different national objectives are institutions B. Different national political climates C. Different phases in the business cycle D. Different national currencies.
312	When plotted with the aggregate price level on the vertical axis and output on the horizontal axis which of the following curves is vertical.	A. SRAS B. AD C. LRAS D. None of the above
313	Suppose there is full employment and a neoclassical aggregate supply schedule A 105 increases in the nominal money supply.	A. Has no effect upon the price level B. Increase the rate of interest C. Increase the nominal wage 10% D. Increase the real money supply 10%
314	A firm's total labor cost when six workers are employed is Rs.580 When seven workers are employed the total labor cost is Rs.700 the Rs. 120 change in total labor cost represents.	A. Marginal physical product B. Marginal resources cost C. Marginal cost D. Marginal revenue
315	When a British pound equals Rs. 1.60 and the French Franc equals Rs. 0.40 the ability to earn infinite profit if it were not the case, implies that the exchange rate would be.	A. 1 franc = 4 pounds B. 1 franc = 1 pound C. 5 franc = 1 pound D. None of the above

316	Using the Keynesian model the effect of a government imposed ceiling on interest rates paid on personal checking accounts that is lower than the current market interest rate would be to cause _ in the real interest rate and _ in input out in the short run.	A. A decrease ; a decrease B. A decrease ; no change C. A decrease ; an increase D. An increase ; a decrease
317	If the federal reserve wishes to increase the money supply, it should	A. Raise the reserve requirement B. Raise the discount rate C. Buy Treasury securities in the open market D. All of the above
318	Given the data above, the empirical equation for the IS curve is.	A. $Y = 275 + 10i$ B. $Y = 225 + 50i$ C. $Y = 250 - 10i$ D. $Y = 275 - 50i$
319	Deflation occurs only when	A. Some prices fall but average prices still rise B. All prices for all goods fall C. The average price level falls D. The average price level increases but at a slower rate than before
320	Monetary expansion can still be effective in getting out of liquidity trap if it's combined with.	A. Restrictions on bank loans B. Increased taxes C. Contractionary fiscal policy D. Expansionary fiscal policy
321	In the Keynesian model in the short run the amount of employment is determined by the effective labor demand curve and the level of.	A. Prices B. Output C. The real interest rate D. The supply of labor
322	Which of the following procedures is included in the process that produces a value for disposable personal income	A. Subtracting excises and sales taxes B. Subtracting nonbusiness interest C. Subtracting transfer payment from government. D. Subtracting income taxes
323	The equation for the LM curve is.	A. $Y = 100 - 50i$ B. $Y = 50 + 50i$ C. $Y = 50 - 80i$ D. $Y = 80 + 50i$
324	If the expected rate of inflation rose at the same time the natural rate of unemployment rose the Phillips curve.	A. would shift down B. would shift up C. Would not move D. Might shift up or down or not move depending on which effect was larger.
325	Which of the following is an example of a productivity shock.	A. The introduction of new management techniques B. A change in taxes on corporate profits C. A change in the level of government transfers D. An increase in the money supply
326	If the foreign interest rate is 12% while the domestic interest rate is 9% then the forward premium will be.	A. 1.3 % B. 12% C. 9% D. 3%
327	Which of the following is not a category of consumption spending in the national income accounts.	A. Consumer durables B. Non durable goods C. Services D. Housing Purchases
328	The yield curve shows	A. The yields on stocks of different maturities B. The interest rates on bonds of different maturities. C. The yields on stocks with differing default risk D. The yields on bonds with differing default risk
329	An increase in total production causes the demand for money to _____ and the interest rate to _____	A. Increase ; increase B. Increase ; decrease C. decrease ; decrease D. decrease ; increase
330	Assuming that money is neutral an increase in the nominal money supply would cause.	A. An excess supply for goods B. an increase in the real money supply C. A fall in the price level D. A rise in nominal wages



331	"Human Welfare is the subject of Economics" Y. This statement is associated with the name of which of the economists.	A. Marshall B. Pigou C. Pension D. All of the above
332	A situation in which expansionary in monetary policy has no effect on the economy is known as.	A. Macro economic stabilization B. A liquidity trap C. A depression D. Capital flight
333	An IOU of the Federal Reserve Bank of San Francisco to Bank of America is called.	A. Discourse B. Federal funds C. Reserves D. Collateral
334	Where there is an equal increase in net tax revenue and government spending, ceteris paribus.	A. $(C+I+G)$ is shifting upward B. $(C+I+G)$ is shifting downward C. $(C+I+G)$ does not shift D. All of these
335	The short run aggregate supply curve the absence of misperceptions.	A. Is vertical B. Slopes upward C. Is horizontal D. Slopes downward
336	An increase in the number of workers hired by a firm could result from	A. a decrease in the marginal product of labor B. a decrease in the marginal revenue product of labor C. An increase in the real wage D. A decrease in the real wage
337	According to classical economists the economy.	A. Requires fine tuning to reach full employment B. Should not be left to market forces C. Will never be at full employment D. Is self correction
338	An import function is $100+0.1Y$ and exports are exogenous. If income (Y) is 500, and there is a trade deficit of 50, then exports are.	A. 0 B. 25 C. 75 D. 100
339	A model in which individual producers act as price setters because there are only a few sellers and the product they sell is not standardized, is called.	A. Imperfect competition B. Perfect competition C. Monopoly D. Monopsony