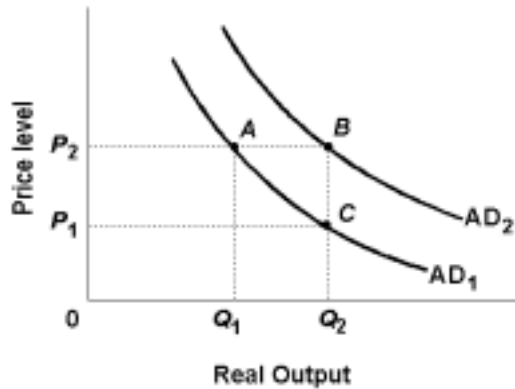
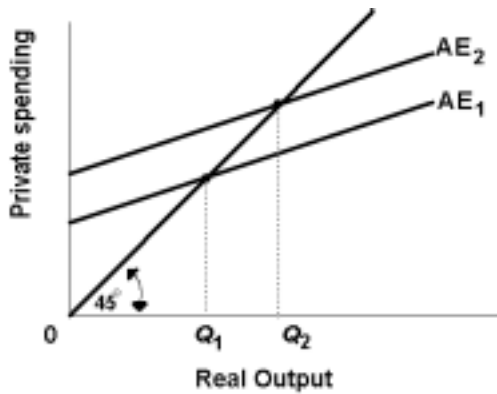


Economics 152
Quiz # 3

Each question is worth 1 point.

Use the following to answer questions 1 and 2



1. Refer to the above diagrams. A decline in aggregate expenditures from AE_2 to AE_1 resulting from the real balances, interest rate, and foreign purchases effects would be depicted as:
 - A) a movement from A to B from aggregate demand curve AD_1 to aggregate demand curve AD_2 .
 - B) a movement from B to A from aggregate demand curve AD_2 to AD_1 .
 - C) a movement from C to A on aggregate demand curve AD_1 .
 - D) a shift of aggregate demand from AD_2 to AD_1 .

2. Refer to the above diagrams. Assuming a constant price level, an increase in aggregate expenditures from AE_1 to AE_2 would:

A) move the economy from A to B .	C) move the economy from C to A .
B) move the economy from B to A .	D) move the economy from C to B .

3. "Discretionary" fiscal policy is so named because it:
- A) is undertaken at the option of the nation's central bank.
 - B) occurs automatically as the nation's level of GDP changes.
 - C) involves specific changes in T and G undertaken expressly for stabilization purposes at the option of Congress.
 - D) is invoked secretly by the Council of Economic Advisors.
4. Assume that the economy is in the midst of a severe recession. Which of the following policies would be consistent with active fiscal policy?
- A) a Congressional proposal to incur a Federal surplus to be used for the retirement of public debt.
 - B) a reduction in agricultural subsidies and veterans' benefits.
 - C) a postponement of a highway construction program.
 - D) a reduction in Federal tax rates on personal and corporate income.
5. In a certain year the aggregate amount demanded at the existing price level consists of \$100 billion of consumption, \$40 billion of investment, \$10 billion of net exports, and \$20 billion of government purchases. Full-employment GDP is \$120 billion. To obtain price level stability under these conditions the government should:
- A) increase government expenditures and decrease tax rates.
 - B) increase tax rates and reduce government expenditures.
 - C) encourage private investment by reducing corporate income taxes.
 - D) discourage personal saving by reducing corporate income taxes.
6. In defining money as M1 economists exclude time deposits because:
- A) the value of time deposits is zero.
 - B) the purchasing power of time deposits is much less stable than that of demand deposits and currency.
 - C) they cannot directly or immediately be used as a medium of exchange.
 - D) they are not recognized by the Federal government as legal tender.
7. The opportunity cost of holding money:
- A) is zero because money is not an economic resource.
 - B) varies inversely with the interest rate.
 - C) varies directly with the interest rate.
 - D) varies inversely with the level of economic activity.
8. The most important policy-making body in the U.S. banking system is:
- A) the Open Market Committee.
 - B) the Council of Economic Advisors.
 - C) the Federal Advisory Council.
 - D) the Board of Governors of the Federal Reserve.
9. Which of the following statements is correct?
- A) interest rates and bond prices vary directly.
 - B) interest rates and bond prices are unrelated.
 - C) interest rates and bond prices vary inversely.
 - D) Interest rates and bond prices vary directly during periods of inflation and inversely during periods of recessions.

10. The price of a bond having no expiration date is originally \$8000 and has a fixed annual interest payment equal to \$800 per annum. A fall in the price of the bond by \$3000 will provide a new buyer of the bond an interest rate of:
- A) 10 percent.
 - B) 12 percent.
 - C) 14 percent.
 - D) 16 percent.

Answer Key – Quiz301S

1. C
2. A
3. C
4. D
5. B
6. C
7. C
8. D
9. C
10. D