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Economics 152
Quiz # 4

Each question is worth 1 point.

1. "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.

2. Which of the following represents the most expansionary fiscal policy?
A) a $10 billion tax cut C) a $10 billion tax increase
B) a $10 billion increase in government spending D) a $10 billion decrease in government spending

3. Assume 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

4. 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 tax rates and reduce government spending.
B) discourage personal saving by reducing the interest rate on government bonds.
C) increase government expenditures.
D) encourage private investment by reducing corporate income taxes.

5. The basic policy-making body in the U.S. banking system is:
A) the Open Market Committee.
B) the Federal Advisory Council.
C) the board of Governors of the Federal Reserve.
D) the Council of Economic Advisors

6. The equilibrium rate of interest in the money market is determined by the intersection of the:
A) supply of money curve and the asset demand for money curve.
B) supply of money curve and the transactions demand for money curve.
C) supply of money curve and the total demand for money curve.
D) investment demand curve and total demand for money curve.

7. Which of the following statements is correct?

A) Interest rates and bond prices vary directly.
B) Interest rates and bond prices vary inversely.
C) Interest rates and bond prices are unrelated.
D) Interest rates and bond prices vary directly during inflations and inversely during recessions.

Use the following to answer questions 8-9:

Answer the next question(s) on the basis of the following information. It is assumed that households and businesses want to hold for transactions purposes an amount of money equal to one half of nominal GDP. The table shows the amounts of money which households and businesses want to hold as an asset at various interest rates.

Interest rate	**Amount of money demanded**
10%	$20
8	40
6	60
4	80
2	100

8. Refer to the above information. If nominal GDP is $200 and the interest rate is 6 percent, what total amount of money will household and business want to hold?

A) $120 B) $140 C) $160 D) $180

9. Refer to the above information. If nominal GDP is $300 and the supply of money is $230, the equilibrium interest rate will be:

A) 8 percent B) 6 percent C) 4 percent D) 2 percent

10. The price of a bond having no expiration date is originally $8,000 and has a fixed annual interest payment of $800. A fall in the price of the bond by $3,000 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 -- Quiz4

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