Sample Objective Questions, ECO 5003 Quiz B

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

1. If money is acceptable because the government requires that it be accepted in payment for debt, the money is
   a. legal tender
   b. commodity money
   c. guaranteed to be a good store of wealth
   d. convertible to a valuable commodity
   e. subject to Gresham’s Law

2. When prices rise,
   a. the purchasing power of money rises
   b. the purchasing power of money falls
   c. the purchasing power of money remains unchanged
   d. the purchasing power of money either rises or falls, depending upon the size of the national debt
   e. the purchasing power of money either rises or falls, depending upon the level of government expenditures

3. Narrowly defined, the money supply consists primarily of
   a. coins and currency
   b. gold
   c. gold and silver
   d. certificates of deposit
   e. checkable deposits

4. The federal funds rate is the rate of interest paid when
   a. the Federal Reserve makes loans to member banks
   b. taxpayers pay overdue taxes
   c. one bank borrows reserves from another bank
   d. banks make loans to the federal government
   e. the federal debt is refinanced

5. Tony deposits $2,000 in cash at the Last National Bank and the bank credits Tony’s checking account in the amount of $2,000. Which of the following is true immediately after this transaction?
   a. The money supply, M1, increases by $2,000.
   b. Only the composition of M1 changes, not its amount.
   c. A $2,000 loan from the Last National Bank is an asset to Tony.
   d. Both the assets and the liabilities of the Last National Bank fall by $2,000.
   e. The immediate effect of this transaction is that M1 increases by $2,000 times the money multiplier.

6. If \( r \) is the required reserve ratio, which of the following is the simple money multiplier?
   a. \( r \)
   b. \( 1/(1 - r) \)
   c. \( 1 - r \)
   d. \( 1/r \)
   e. \( r^2 \)
7. The demand for money curve describes how the quantity of money demanded varies with
   a. nominal GDP
   b. real GDP
   c. the price level
   d. the interest rate
   e. consumption

8. The effect of an increase in the money supply, other things equal, is to
   a. increase the demand for money
   b. increase the interest rate
   c. decrease the price level
   d. decrease the interest rate
   e. decrease the demand for money

9. If the Fed wants to close a contractionary gap, it can
   a. increase government spending
   b. increase taxes
   c. decrease taxes
   d. increase the money supply
   e. decrease the money supply

10. The equation of exchange states that the quantity of money multiplied by the velocity of money equals
    a. real Gross Domestic Product
    b. the price level
    c. nominal Gross Domestic Product
    d. the turnover rate
    e. the demand for money

11. If money demand increases and the Fed attempts to keep interest rates stable, then
    a. the money supply will increase
    b. the money supply will decrease
    c. velocity will increase
    d. velocity will decrease
    e. the Fed will sell government securities

12. According to the active policy position, eliminating a contractionary gap
    a. can only be achieved by decreasing wages
    b. requires a public policy of wage and price controls
    c. should be accomplished by stimulating aggregate demand
    d. will increase unemployment
    e. will cause a recession

13. Those who favor a passive approach to policy think that all of the following conditions will allow the economy to bring itself out of a contractionary gap except one. Which is the exception?
    a. lower real wages
    b. a shortage of labor
    c. lower production costs
    d. a lower expected price level
    e. a rightward shift in the short-run aggregate supply curve
14. Increased government borrowing to cover a budget deficit causes
   a. a higher interest rate and depreciation of the U.S. dollar
   b. a higher interest rate and appreciation of the U.S. dollar
   c. a lower interest rate and depreciation of the U.S. dollar
   d. a lower interest rate and appreciation of the U.S. dollar
   e. no change in the interest rate and depreciation of the U.S. dollar

15. Price elasticity of demand is useful because it measures __________ responsiveness to changes in
   __________.
   a. taxpayers'; demand
   b. producers'; supply
   c. consumers'; price
   d. consumers'; demand
   e. producers'; income

16. Firms would like to know the price elasticity of demand for their product because it helps determine the
    effect of price changes on the firms' property taxes
   a. property taxes
   b. profits
   c. quantity supplied
   d. revenues
   e. total costs

17. If an increase in the price of a product from $1 to $2 per unit leads to a decrease in the quantity demanded
    from 100 to 80 units, then the value of price elasticity of demand is
    a. elastic
    b. inelastic
    c. unit elastic
    d. suggestive of an inferior good
    e. equal to -20

18. A government-imposed price floor above the market price of milk would increase consumers’ expenditures on
    milk only if
    a. demand is elastic
    b. supply is inelastic
    c. demand falls
    d. demand is inelastic
    e. supply is unit elastic

19. When agricultural production increases, the total amount paid for agricultural products tends to
    a. increase because demand is price elastic
    b. decrease because demand is price elastic
    c. increase because demand is price inelastic
    d. decrease because demand is price inelastic
    e. remain constant because demand is price inelastic

20. The value of cross-price elasticity of demand between orange soda and grape soda is
    a. negative
    b. positive
    c. 0
    d. between -1 and 0
    e. less than -1
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Answer Section

MULTIPLE CHOICE

1. A
2. B
3. E
4. C
5. B
6. D
7. D
8. D
9. D
10. C
11. A
12. C
13. B
14. B
15. C
16. D
17. B
18. D
19. D
20. B