Quiz- 4 Part- 3 Chapter- 14-15-16

1. How do advocates of discretionary stabilization policy view frequent changes in spending and tax policy?

a. The changes make the economy more difficult to forecast.

b. The changes smooth out the business cycle, making planning easier.

c. The changes make life more difficult and hectic for Congress and the Fed.

d. The changes cause more instability in the economy and make planning more difficult.

2. The crowding-in effect depends on the fact that often a decrease in taxes causes a(n)

a. decrease in interest rates and an increase in the price of existing bonds.

b. increase in output, which induces more investment.

c. decrease in interest rates and the price of existing bonds.

d. increase in interest rates and a decrease in the price of existing bonds.

3. Which of the following is the order of fastest to slowest acting policy, once enacted, in affecting aggregate demand?

a. taxes, government spending, money

b. taxes, money, government spending

c. government spending, money, taxes

d. government spending, taxes, money

4. An expansionary monetary policy is most likely to produce an inflationary effect with little impact on output when the economy

a. is near full employment and the aggregate supply curve is vertical.

b. has substantial unemployment and the aggregate supply curve is vertical.

c. is near full employment and the aggregate supply curve is horizontal.

d. has substantial unemployment and the aggregate supply curve is horizontal.

5. As the price level rises, the demand for money

a. decreases because consumers buy fewer goods and services.

b. increases because more money is needed for each transaction.

c. increases because investment spending will also increase.

d. decreases because interest rates also increase.

6. If the Fed's monetary policy causes a substantial increase in interest rates, what is the most likely impact on velocity?

a. It will increase.

b. It will remain constant.

c. Velocity is unrelated to interest rates.

d. It will decrease.

7. In the second quarter of 1995, the following values were observed: real GDP = 4,359.3 billion; GDP Deflator = 325.1; and M1 = 989.5. What is the value of velocity?

a. 2.31

b. 14.32

c. 24.31

d. 32.51

8. Which one of the following will cause velocity to increase?

a. an increase in the money supply

b. switching from weekly to monthly payroll checks

c. increasing the efficiency of the payments system

d. a decrease in interest rates

9. Many economists believe that if fiscal policy turns contractionary to reduce the deficit,

a. foreign investment in the United States must be encouraged.

b. monetary policy must be contractionary to reinforce the good effects of contractionary fiscal policy.

c. taxes on the earnings from stock market gains should be increased.

d. monetary policy can turn expansionary to counteract the effects on aggregate demand.

10. Which of the following statements about the national debt has the most validity?

a. Our large national debt can bankrupt the nation.

b. The national debt represents a burden to future generations who will have to make huge payments of interest and principal.

c. If only Americans hold the debt, then payments of interest and principal are simply transfers from some Americans to other Americans.

d. Our large national debt can lead to subjection by the people (especially foreigners) who hold the debt.

11. Economists who argue in favor of rapid deficit reduction claim that deficit reduction will

a. stimulate AD and productivity.

b. trigger crowding in, increase investment, and increase AS.

c. reduce crowding in, reduce interest rates, and increase AS.

d. reduce crowding out, increase investment, and increase AS.

12. If the government ran a major deficit, and there was no noticeable effect on the level of GDP, this could be taken as evidence of

a. crowding-out.

b. monetary policy ineffectiveness.

c. crowding-in.

d. structural deficit.

13. Which of the following is correct?

a. Congress usually makes major fiscal policy changes in a fairly short period of time.

b. Monetary policy affects aggregate demand more quickly than fiscal policy, such as tax or government spending changes.

c. Expenditure lags are much longer for investment, the main way in which monetary policy affects aggregate demand.

d. Policy lags are normally much shorter for fiscal policy than for monetary policy.

14. Which of the following individuals would be most likely to support a balanced budget amendment to the constitution?

a. "In a boom, inflation can be caused by allowing unlimited credit to support excited enthusiasm of business speculators. But in a slump government expenditure is the only sure means of obtaining quickly a rising output."-J.M. Keynes

b. "Underbalancing the budget during a depression is not primarily a deliberate policy but a practical necessity."-Gunnar Myrdal

c. "If we face a recession we should not lay off employees. Employees are not guilty; why should they suffer?"-Akio Morita

d. "Christmas is when children ask Santa Claus for things and their parents pay for them. Deficits is when adults ask government for things and their children pay for them."-Richard Lamm

15. Which of the following individuals would be most likely to support a balanced budget amendment to the constitution?

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16. According to the quantity theory of money, a decision on the part of all business firms currently paying employees on a monthly basis to begin paying on a weekly basis would be expected to

a. decrease velocity and decrease nominal GDP.

b. decrease velocity and increase nominal GDP.

c. increase velocity and increase nominal GDP.

d. increase velocity and decrease nominal GDP.

17. The reason that velocity increases when interest rates rise is

a. home mortgage payments increase, so people write larger checks that reduces their checking account balances.

b. the opportunity cost of saving increases, so people hold smaller cash balances.

c. the Fed encourages banks to turn money in faster for recycling, which causes money to move faster.

d. the opportunity cost of holding money increases, so average money balances decrease.

18. Believers in fixed rules maintain that

a. we should forget about discretionary policy and put the economy on autopilot, relying instead on automatic stabilizers and the economy's self-correcting mechanism.

b. the economy's self-correcting mechanism is slow and not very reliable, even with automatic stabilizers.

c. the length of stabilization lags is not important because fiscal policy actions are taken quickly and the economy feels the effect on aggregate demand quickly.

d. with accurate forecasts, we can see inflation coming at least one year ahead of time.

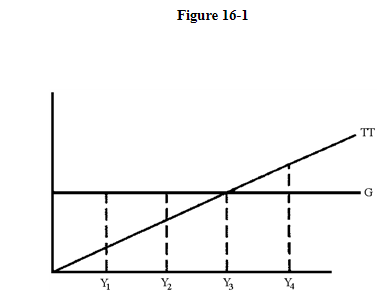
19. Monetizing the debt has what effect on the economy?

a. rapid increase in AS with a drop in inflation

b. slow increase in AS with steady inflation

c. decrease in AD with an increase in inflation

d. rapid increase in AD with an increase in inflation



20. In Figure 16-1, there are four levels of income. G is government expenditures and TT is taxes less transfers. At which level of income is the actual deficit the greatest?

a. Y1

b. Y4

c. Y3

d. Y2