Economics of Money Banking and Financial Markets 13th edition Mishkin Test Bank

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The Economics of Money, Banking and Financial Markets, 13e **(Mishkin)**
Chapter 1 Why Study Money, Banking, and Financial Markets?

1.1 Why Study Financial Markets?

1) Financial markets promote economic efficiency by
A) channeling funds from investors to savers.
B) creating inflation.
C) channeling funds from savers to investors.
D) reducing investment.
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

2) Financial markets promote greater economic efficiency by channeling funds from _____ to _____.
A) investors; savers
B) borrowers; savers
C) savers; borrowers
D) savers; lenders
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

3) Well-functioning financial markets promote
A) inflation.
B) deflation.
C) unemployment.
D) growth.
Answer: D
Question Status: Previous Edition
AACSB: Reflective Thinking

4) A key factor in producing high economic growth is
A) eliminating foreign trade.
B) well-functioning financial markets.
C) high interest rates.
D) stock market volatility.
Answer: B
Question Status: Previous Edition
AACSB: Reflective Thinking

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5) Markets in which funds are transferred from those who have excess funds available to those who have a shortage of available funds are called
A) commodity markets.
B) fund-available markets.
C) derivative exchange markets.
D) financial markets.
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

6) _____ markets transfer funds from people who have an excess of available funds to people who have a shortage.
A) Commodity
B) Fund-available
C) Financial
D) Derivative exchange
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

7) Poorly performing financial markets can be the cause of
A) wealth.
B) poverty.
C) financial stability.
D) financial expansion.
Answer: B
Question Status: Previous Edition
AACSB: Reflective Thinking

8) The bond markets are important because they are
A) easily the most widely followed financial markets in the United States.
B) the markets where foreign exchange rates are determined.
C) the markets where interest rates are determined.
D) the markets where all borrowers get their funds.
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

9) The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of $100 per year) is commonly referred to as the
A) inflation rate.
B) exchange rate.
C) interest rate.
D) aggregate price level.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

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10) Compared to interest rates on long-term U.S. government bonds, interest rates on three-month Treasury bills fluctuate _____ and are _____ on average.
A) more; lower
B) less; lower
C) more; higher
D) less; higher
Answer: A
Question Status: Previous Edition
AACSB: Reflective Thinking

11) The interest rate on Baa corporate bonds is _____, on average, than interest rates on Treasuries, and the spread between these rates became _____ in the 1970s.
A) lower; smaller
B) lower; larger
C) higher; smaller
D) higher; larger
Answer: D
Question Status: Previous Edition
AACSB: Reflective Thinking

12) Everything else held constant, a decline in interest rates will cause spending on housing to
A) fall.
B) remain unchanged.
C) either rise, fall, or remain the same.
D) rise.
Answer: D
Question Status: Previous Edition
AACSB: Analytical Thinking

13) High interest rates might _____ purchasing a house or car but at the same time high interest rates might _____ saving.
A) discourage; encourage
B) discourage; discourage
C) encourage; encourage
D) encourage; discourage
Answer: A
Question Status: Previous Edition
AACSB: Analytical Thinking

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14) An increase in interest rates might _____ saving because more can be earned in interest income.
A) encourage
B) discourage
C) disallow
D) invalidate
Answer: A
Question Status: Previous Edition
AACSB: Analytical Thinking

15) Everything else held constant, an increase in interest rates on student loans
A) increases the cost of a college education.
B) reduces the cost of a college education.
C) has no effect on educational costs.
D) increases costs for students with no loans.
Answer: A
Question Status: Previous Edition
AACSB: Analytical Thinking

16) High interest rates might cause a corporation to _____ building a new plant that would provide more jobs.
A) complete
B) consider
C) postpone
D) contemplate
Answer: C
Question Status: Previous Edition
AACSB: Analytical Thinking

17) The stock market is
A) where interest rates are determined.
B) the most widely followed financial market in the United States.
C) where foreign exchange rates are determined.
D) the market where most borrowers get their funds.
Answer: B
Question Status: Previous Edition
AACSB: Reflective Thinking

18) Stock prices are
A) relatively stable trending upward at a steady pace.
B) relatively stable trending downward at a moderate rate.
C) extremely volatile.
D) unstable trending downward at a moderate rate.
Answer: C
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AACSB: Reflective Thinking

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19) A rising stock market index due to higher share prices
A) increases people's wealth, but is unlikely to increase their willingness to spend.
B) increases people's wealth and as a result may increase their willingness to spend.
C) decreases the amount of funds that business firms can raise by selling newly-issued stock.
D) decreases people's wealth, but is unlikely to increase their willingness to spend.
Answer: B
Question Status: Previous Edition
AACSB: Analytical Thinking

20) When stock prices fall
A) an individual's wealth is not affected nor is their willingness to spend.
B) a business firm will be more likely to sell stock to finance investment spending.
C) an individual's wealth may decrease but their willingness to spend is not affected.
D) an individual's wealth may decrease and their willingness to spend may decrease.
Answer: D
Question Status: Previous Edition
AACSB: Analytical Thinking

21) Changes in stock prices
A) do not affect people's wealth and their willingness to spend.
B) affect firms' decisions to sell stock to finance investment spending.
C) occur in regular patterns.
D) are unimportant to decision makers.
Answer: B
Question Status: Previous Edition
AACSB: Reflective Thinking

22) An increase in stock prices _____ the size of people's wealth and may _____ their willingness to spend, everything else held constant.
A) increases; increase
B) increases; decrease
C) decreases; increase
D) decreases; decrease
Answer: A
Question Status: Previous Edition
AACSB: Analytical Thinking

23) Low stock market prices might _____ consumers willingness to spend and might _____ businesses willingness to undertake investment projects.
A) increase; increase
B) increase; decrease
C) decrease; decrease
D) decrease; increase
Answer: C
Question Status: Previous Edition
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24) Fear of a major recession causes stock prices to fall, everything else held constant, which in turn causes consumer spending to
A) increase.
B) remain unchanged.
C) decrease.
D) cannot be determined.
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

25) A share of common stock is a claim on a corporation's
A) debt.
B) liabilities.
C) expenses.
D) earnings and assets.
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

26) On _____, October 19, 1987, the stock market experienced its worst one-day drop in its entire history with the DJIA falling by 22%.
A) "Terrible Tuesday"
B) "Woeful Wednesday"
C) "Freaky Friday"
D) "Black Monday"
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

27) A decline in stock prices
A) increases individuals' willingness to spend.
B) has no effect on individual spending.
C) reduces individuals' willingness to spend.
D) increases individual wealth.
Answer: C
Question Status: Revised
AACSB: Analytical Thinking

28) The Dow reached a peak of over 11,000 before the collapse of the _____ bubble in 2000.
A) housing
B) manufacturing
C) high-tech
D) banking
Answer: C
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29) When I purchase a corporate _____, I am lending the corporation funds for a specific time. When I purchase a corporation's _____, I become an owner in the corporation.
A) bond; stock
B) stock; bond
C) stock; debt security
D) bond; debt security
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

30) What is a stock? How do stocks affect the economy?
Answer: A stock represents a share of ownership of a corporation, or a claim on a firm's earnings/assets. Stocks are part of wealth, and changes in their value affect people's willingness to spend. Changes in stock prices affect a firm's ability to raise funds, and thus their investment.
Question Status: Previous Edition
AACSB: Application of Knowledge

31) Why is it important to understand the bond market?
Answer: The bond market supports economic activity by enabling the government and corporations to borrow to undertake their projects and it is the market where interest rates are determined.
Question Status: Previous Edition
AACSB: Application of Knowledge

1.2 Why Study Financial Institutions and Banking?

1) Channeling funds from individuals with surplus funds to those desiring funds when the saver does not purchase the borrower's security is known as
A) barter.
B) redistribution.
C) financial intermediation.
D) taxation.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

2) A financial crisis is
A) not possible in the modern financial environment.
B) a major disruption in the financial markets.
C) a feature of developing economies only.
D) typically followed by an economic boom.
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

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3) Banks are important to the study of money and the economy because they
A) channel funds from investors to savers.
B) have been a source of rapid financial innovation.
C) are the only important financial institution in the U.S. economy.
D) create inflation.
Answer: B
Question Status: Previous Edition
AACSB: Reflective Thinking

4) Banks
A) provide a channel for linking those who want to save with those who want to invest.
B) produce nothing of value and are therefore a drain on society's resources.
C) are the only financial institutions allowed to give loans.
D) hold very little of the average American's wealth.
Answer: A
Question Status: Previous Edition
AACSB: Reflective Thinking

5) Banks, savings and loan associations, mutual savings banks, and credit unions
A) are no longer important players in financial intermediation.
B) since deregulation now provide services only to small depositors.
C) have been adept at innovating in response to changes in the regulatory environment.
D) produce nothing of value and are therefore a drain on society's resources.
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

6) Financial institutions search for _____ has resulted in many financial innovations.
A) higher profits
B) regulations
C) respect
D) higher risk
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

7) Banks and other financial institutions engage in financial intermediation, which
A) can hurt the performance of the economy.
B) can benefit economic performance.
C) has no effect on economic performance.
D) involves borrowing from investors and lending to savers.
Answer: B
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8) Financial institutions that accept deposits and make loans are called
A) exchanges.
B) banks.
C) over-the-counter markets.
D) finance companies.
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

9) The financial intermediaries that the average person interacts with most frequently are
A) exchanges.
B) over-the-counter markets.
C) finance companies.
D) banks.
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

10) Which of the following is NOT a financial institution?
A) a life insurance company
B) a pension fund
C) a credit union
D) a business college
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

11) The delivery of financial services electronically is called
A) e-business.
B) e-commerce.
C) e-finance.
D) e-possible.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

12) What crucial role do financial intermediaries perform in an economy?
Answer: Financial intermediaries borrow funds from people who have saved and make loans to other individuals and businesses and thus improve the efficiency of the economy.
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1.3 Why Study Money and Monetary Policy?

1) Money is defined as
A) bills of exchange.
B) anything that is generally accepted in payment for goods or services or in the repayment of debt.
C) a risk-free repository of spending power.
D) the unrecognized liability of governments.
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

2) The upward and downward movement of aggregate output produced in the economy is referred to as the
A) roller coaster.
B) see saw.
C) business cycle.
D) shock wave.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

3) Sustained downward movements in the business cycle are referred to as
A) inflation.
B) recessions.
C) economic recoveries.
D) expansions.
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

4) During a recession, output declines result in
A) lower unemployment in the economy.
B) higher unemployment in the economy.
C) no impact on the unemployment in the economy.
D) higher wages for the workers.
Answer: B
Question Status: Previous Edition
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5) Prior to most recessions since 1950, there has been a drop in
A) inflation.
B) the money stock.
C) the growth rate of the money stock.
D) interest rates.
Answer: C
Question Status: Revised
AACSB: Application of Knowledge

6) Evidence from business cycle fluctuations in the United States indicates that
A) a negative relationship between money growth and general economic activity exists.
B) recessions are usually preceded by declines in bond prices.
C) recessions are usually preceded by dollar depreciation.
D) recessions are usually preceded by a decline in the growth rate of money.
Answer: D
Question Status: Previous Edition
AACSB: Reflective Thinking

7) _____ theory relates the quantity of money and monetary policy to changes in aggregate economic activity and inflation.
A) Monetary
B) Fiscal
C) Financial
D) Systemic
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

8) A continuing increase in the growth of the money supply is likely followed by
A) a recession.
B) a depression.
C) an increase in the price level.
D) no change in the economy.
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

9) It is true that inflation is a
A) continuous increase in the money supply.
B) continuous fall in prices.
C) decline in interest rates.
D) continually rising price level.
Answer: D
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AACSB: Application of Knowledge

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10) Which of the following is a TRUE statement?
A) Money or the money supply is defined as Federal Reserve notes.
B) The average price of goods and services in an economy is called the aggregate price level.
C) The inflation rate is measured as the rate of change in the federal government budget deficit.
D) The aggregate price level is measured as the rate of change in the inflation rate.
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

11) If the prices would have been much higher ten years ago for the items the average consumer purchased last month, then one can likely conclude that
A) the aggregate price level has declined during this ten-year period.
B) the average inflation rate for this ten-year period has been positive.
C) the average rate of money growth for this ten-year period has been positive.
D) the aggregate price level has risen during this ten-year period.
Answer: A
Question Status: Previous Edition
AACSB: Analytical Thinking

12) From 1960-2020 the price level in the United States increased more than
A) twofold.
B) threefold.
C) sixfold.
D) eightfold.
Answer: D
Question Status: Revised
AACSB: Reflective Thinking

13) Complete Milton Friedman's famous statement, "Inflation is always and everywhere a _____ phenomenon."
A) recessionary
B) discretionary
C) repressionary
D) monetary
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

14) There is a _____ association between inflation and the growth rate of money _____.
A) positive; demand
B) positive; supply
C) negative; demand
D) negative; supply
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

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15) Evidence from the United States and other foreign countries indicates that
A) there is a strong positive association between inflation and growth rate of money over long periods of time.
B) there is little support for the assertion that "inflation is always and everywhere a monetary phenomenon."
C) countries with low monetary growth rates tend to experience higher rates of inflation, all else being constant.
D) money growth is clearly unrelated to inflation.
Answer: A
Question Status: Previous Edition
AACSB: Reflective Thinking

16) Countries that experience very high rates of inflation may also have
A) balanced budgets.
B) rapidly growing money supplies.
C) falling money supplies.
D) constant money supplies.
Answer: B
Question Status: Previous Edition
AACSB: Reflective Thinking

17) Between 1950 and 1980 in the U.S., interest rates trended upward. During this same time period
A) the rate of money growth declined.
B) the rate of money growth increased.
C) the government budget deficit (expressed as a percentage of GNP) trended downward.
D) the aggregate price level declined quite dramatically.
Answer: B
Question Status: Previous Edition
AACSB: Reflective Thinking

18) The management of money and interest rates is called _____ policy and is conducted by a nation's _____ bank.
A) monetary; superior
B) fiscal; superior
C) fiscal; central
D) monetary; central
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

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19) The organization responsible for the conduct of monetary policy in the United States is the
A) Comptroller of the Currency.
B) U.S. Treasury.
C) Federal Reserve System.
D) Bureau of Monetary Affairs.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

20) _____ policy involves decisions about government spending and taxation.
A) Monetary
B) Fiscal
C) Financial
D) Systemic
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

21) When tax revenues are greater than government expenditures, the government has a budget
A) crisis.
B) deficit.
C) surplus.
D) revision.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

22) A budget _____ occurs when government expenditures exceed tax revenues for a particular time period.
A) deficit
B) surplus
C) surge
D) surfeit
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

23) Budgets deficits can be a concern because they might
A) ultimately lead to higher inflation.
B) lead to lower interest rates.
C) lead to a slower rate of money growth.
D) lead to higher bond prices.
Answer: A
Question Status: Previous Edition
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24) Budget deficits are important because deficits
A) cause bank failures.
B) always cause interest rates to fall.
C) can result in higher rates of monetary growth.
D) always cause prices to fall.
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

25) When a budget deficit occurs in the United States, the U.S. Treasury finances this deficit by
A) borrowing.
B) imposing a moratorium of new government spending.
C) increasing the tax rate.
D) printing more dollars.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

26) What happens to economic growth and unemployment during a business cycle recession? What is the relationship between the money growth rate and a business cycle recession?
Answer: During a recession, output declines and unemployment increases. Prior to almost every recession in the U.S. the money growth rate has declined, however, not every decline is followed by a recession.
Question Status: Previous Edition
AACSB: Reflective Thinking

1.4 Why Study International Finance?

1) American companies can borrow funds
A) only in U.S. financial markets.
B) only in foreign financial markets.
C) in both U.S. and foreign financial markets.
D) only from the U.S. government.
Answer: C
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

2) The price of one country's currency in terms of another country's currency is called the
A) exchange rate.
B) interest rate.
C) Dow Jones industrial average.
D) prime rate.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

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3) The market where one currency is converted into another currency is called the _____ market.
A) stock
B) bond
C) derivatives
D) foreign exchange
Answer: D
Question Status: Previous Edition
AACSB: Application of Knowledge

4) Everything else constant, a stronger dollar will mean that
A) vacationing in England becomes more expensive.
B) vacationing in England becomes less expensive.
C) French cheese becomes more expensive.
D) Japanese cars become more expensive.
Answer: B
Question Status: Previous Edition
AACSB: Analytical Thinking

5) Which of the following is most likely to result from a stronger dollar?
A) U.S. goods exported aboard will cost less in foreign countries, and so foreigners will buy more of them.
B) U.S. goods exported aboard will cost more in foreign countries and so foreigners will buy more of them.
C) U.S. goods exported abroad will cost more in foreign countries, and so foreigners will buy fewer of them.
D) Americans will purchase fewer foreign goods.
Answer: C
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

6) Everything else held constant, a weaker dollar will likely hurt
A) textile exporters in South Carolina.
B) wheat farmers in Montana that sell domestically.
C) automobile manufacturers in Michigan that use domestically produced inputs.
D) furniture importers in California.
Answer: D
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

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7) Everything else held constant, a stronger dollar benefits _____ and hurts _____.
A) American businesses; American consumers
B) American businesses; foreign businesses
C) American consumers; American businesses
D) foreign businesses; American consumers
Answer: C
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

8) During the 1980-1985, 1995-2002, 2011-2020 periods, the dollar _____ in value, thereby benefiting American _____.
A) appreciated; consumers
B) appreciated; businesses
C) depreciated; consumers
D) depreciated; businesses
Answer: A
Question Status: Revised
AACSB: Diverse and Multicultural Work Environments

9) From 1980 to 1985 the dollar appreciated relative to the British pound. Holding everything else constant, one would expect that, when compared to 1980
A) fewer Britons traveled to the United States in 1985.
B) Britons imported more wine from California in 1985.
C) Americans exported more wheat to England in 1985.
D) more Britons traveled to the United States in 1985.
Answer: A
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

10) When in 1985 a British pound cost approximately $1.30, a Shetland sweater that cost 100 British pounds would have cost $130. With a weaker dollar, the same Shetland sweater would have cost
A) less than $130.
B) more than $130.
C) $130, since the exchange rate does not affect the prices that American consumers pay for foreign goods.
D) $130, since the demand for Shetland sweaters will decrease to prevent an increase in price due to the stronger dollar.
Answer: B
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

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11) Everything else held constant, a decrease in the value of the dollar relative to all foreign currencies means that the price of foreign goods purchased by Americans
A) increases
B) decreases.
C) remains unchanged.
D) either increases, decreases, or remains unchanged.
Answer: A
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

12) American farmers who sell beef to Europe benefit most from
A) a decrease in the dollar price of euros.
B) an increase in the dollar price of euros.
C) a constant dollar price for euros.
D) a European ban on imports of American beef.
Answer: B
Question Status: Previous Edition
AACSB: Diverse and Multicultural Work Environments

13) If the price of a euro (the European currency) increases from $1.00 to $1.10, then, everything else held constant
A) a European vacation becomes less expensive.
B) a European vacation becomes more expensive.
C) the cost of a European vacation is not affected.
D) foreign travel becomes impossible.
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

14) Everything else held constant, Americans who love French wine benefit most from
A) a decrease in the dollar price of euros.
B) an increase in the dollar price of euros.
C) a constant dollar price for euros.
D) a ban on imports from Europe.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

15) From 2002 to 2011, the dollar depreciated substantially against other currencies. This drop in value most likely benefitted
A) European citizens traveling in the U.S.
B) U.S. citizens traveling in Europe.
C) U.S. manufacturers importing parts from abroad.
D) U.S. citizens purchasing foreign-made automobiles.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

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16) During the 1980-1985, 1995-2002, 2011-2020 periods, the dollar strengthened in value against other currencies. Who was helped and who was hurt by this strong dollar?
Answer: American consumers benefitted because imports were cheaper and consumers could purchase more. American businesses and workers in those businesses were hurt as domestic and foreign sales of American products fell.
Question Status: Revised
AACSB: Reflective Thinking

1.5 Money, Banking, and Financial Markets and Your Career

1) Students studying money, banking, and financial markets will learn
A) critical thinking skills that will be useful in all careers.
B) how to time the market.
C) stock market tips.
D) nothing of practical value.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

1.6 How We Will Study Money, Banking, and Financial Markets

1) The basic concepts used in the analytic framework of this text include all of the following EXCEPT
A) the not-for-profit nature of most financial institutions.
B) a basic supply and demand analysis to explain the behavior of financial markets.
C) an approach to financial structure based on transaction costs and asymmetric information.
D) the concept of equilibrium.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

2) Using a unified analytic framework to present the information in the text keeps the knowledge
A) focused on theories that have little to do with actual behavior.
B) theoretical and uninteresting.
C) abstract and not applicable to real life.
D) from becoming obsolete.
Answer: D
Question Status: Previous Edition
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1.7 Appendix: Defining Aggregate Output, Income, the Price Level, and the Inflation Rate

1) The most comprehensive measure of aggregate output is
A) gross domestic product.
B) net national product.
C) the stock value of the industrial 500.
D) national income.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

2) The gross domestic product is the
A) the value of all wealth in an economy.
B) the value of all goods and services sold to other nations in a year.
C) the market value of all final goods and services produced in an economy in a year.
D) the market value of all intermediate goods and services produced in an economy in a year.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

3) Which of the following items are NOT counted in U.S. GDP?
A) your purchase of a new Ford Mustang
B) your purchase of new tires for your old car
C) GM's purchase of tires for new cars
D) a foreign consumer's purchase of a new Ford Mustang
Answer: C
Question Status: Previous Edition
AACSB: Reflective Thinking

4) If an economy has aggregate output of $20 trillion, then aggregate income is
A) $10 trillion.
B) $20 trillion.
C) $30 trillion.
D) $40 trillion.
Answer: B
Question Status: Previous Edition
AACSB: Analytical Thinking

5) When the total value of final goods and services is calculated using current prices, the resulting measure is referred to as
A) real GDP.
B) the GDP deflator.
C) nominal GDP.
D) the index of leading indicators.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

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6) Nominal GDP is output measured in _____ prices while real GDP is output measured in _____ prices.
A) current; current
B) current; fixed
C) fixed; fixed
D) fixed; current
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

7) GDP measured with constant prices is referred to as
A) real GDP.
B) nominal GDP.
C) the GDP deflator.
D) industrial production.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

8) If your nominal income in 2014 was $50,000, and prices doubled between 2014 and 2017, to have the same real income, your nominal income in 2017 must be
A) $50,000.
B) $75,000.
C) $90,000.
D) $100,000.
Answer: D
Question Status: Previous Edition
AACSB: Analytical Thinking

9) If your nominal income in 2014 is $50,000, and prices increase by 50% between 2014 and 2017, then to have the same real income, your nominal income in 2017 must be
A) $50,000.
B) $75,000.
C) $100,000.
D) $150,000.
Answer: B
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10) To convert a nominal GDP to a real GDP, you would use
A) the PCE deflator.
B) the CPI measure.
C) the GDP deflator.
D) the PPI measure.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

11) If nominal GDP in 2001 is $9 trillion, and 2001 real GDP in 1996 prices is $6 trillion, the GDP deflator price index is
A) 7.
B) 100.
C) 150.
D) 200.
Answer: C
Question Status: Previous Edition
AACSB: Analytical Thinking

12) When prices are measured in terms of fixed (base-year) prices they are called _____ prices.
A) nominal
B) real
C) inflated
D) aggregate
Answer: B
Question Status: Previous Edition
AACSB: Application of Knowledge

13) The measure of the aggregate price level that is most frequently reported in the media is the
A) GDP deflator.
B) producer price index.
C) consumer price index.
D) household price index.
Answer: C
Question Status: Previous Edition
AACSB: Application of Knowledge

14) The measure of the aggregate price level that is frequently the focus of Federal Reserve officials is the
A) consumer price index.
B) producer price index.
C) GDP deflator.
D) PCE deflator.
Answer: D
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15) To calculate the growth rate of a variable, you will
A) calculate the percentage change from one time period to the next.
B) calculate the difference between the two variables.
C) add the ending value to the beginning value.
D) divide the increase by the number of time periods.
Answer: A
Question Status: Previous Edition
AACSB: Application of Knowledge

16) If real GDP grows from $10 trillion in 2002 to $10.5 trillion in 2003, the growth rate for real GDP is
A) 5%.
B) 10%.
C) 50%.
D) 0.5%.
Answer: A
Question Status: Previous Edition
AACSB: Analytical Thinking

17) If real GDP in 2002 is $10 trillion, and in 2003 real GDP is $9.5 trillion, then real GDP growth from 2002 to 2003 is
A) 0.5%.
B) 5%.
C) 0%.
D) -5%.
Answer: D
Question Status: Previous Edition
AACSB: Analytical Thinking

18) If the aggregate price level at time t is denoted by Pt, the inflation rate from time t - 1 to t is defined as
A) $\pi_t = (P_t - P_{t-1})/P_{t-1}$.
B) $\pi_t = (P_{t+1} - P_{t-1})/P_{t-1}$.
C) $\pi_t = (P_{t+1} - P_t)/P_t$.
D) $\pi_t = (P_t - P_{t-1})/P_t$.
Answer: A
Question Status: Previous Edition
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19) If the price level increases from 200 in year 1 to 220 in year 2, the rate of inflation from year 1 to year 2 is
A) 20%.
B) 10%.
C) 11%.
D) 120%.
Answer: B
Question Status: Previous Edition
AACSB: Analytical Thinking

20) If the CPI is 120 in 1996 and 180 in 2002, then between 1996 and 2002, prices have increased by
A) 180%.
B) 80%.
C) 60%.
D) 50%.
Answer: D
Question Status: Previous Edition
AACSB: Analytical Thinking

21) If the CPI in 2004 is 200, and in 2005 the CPI is 180, the rate of inflation from 2004 to 2005 is
A) 20%.
B) 10%.
C) 0%.
D) -10%.
Answer: D
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