PRINCIPLES OF MACROECONOMICS TEST BANK

Professors, please email support@mruniversity.com if you would like the answer key to the following questions or if you have any additional suggestions.

Table of Contents

GDP
The Wealth of Nations and Economic Growth
Growth, Capital Accumulation, and the Economics of Ideas
Savings, Investment, and the Financial System
Personal Finance
Unemployment and Labor Force Participation
Inflation and Quantity Theory of Money
Business Fluctuations
Business Cycle Theories
Monetary Policy and the Federal Reserve
Fiscal Policy
**GDP**

**Video name:** What is GDP?

1. *GDP includes*

   a. All final goods.

   b. All final services.

   c. Both final goods and final services.

2. *Which of the following is counted in US GDP?*

   a. Used car purchased by a student for his commute to school

   b. Used oven purchased by a baker for her cake shop

   c. Drill purchased by a construction company

   d. b & c only

   e. None of the above

3. *Which of the following is counted in US GDP?*

   a. A New video game made in China but purchased in the United States

   b. New growth in rainforests

   c. A new quilt made by Jane and given to her grandmother for her 80th birthday

   d. a & c only

   e. None of the above

**Video name:** Nominal vs. Real GDP
1. **Real GDP controls for**
   a. changes in preferences.
   b. changes in population.
   c. changes in prices.
   d. a & c only
   e. a, b, & c

2. **True or false: nominal GDP is always larger than real GDP.**
   a. True
   b. False

3. **True or false: real GDP is always larger than real GDP per capita.**
   a. True
   b. False

4. **True or false: if a country’s nominal GDP increases, it means the country is producing more goods and services.**
   a. True
   b. False

5. **Real GDP per capita in the US ____________ during the great recession of 2009.**
   a. increased
b. decreased

c. did not change

**Video name:** Real GDP Per Capita and the Standard of Living

1. *Real GDP per capita is positively correlated with all of the following except*
   
a. malaria cases per capita.

b. life expectancy.

c. happiness.

d. education.

e. b & d only

f. a, b, c, & d

2. *Real GDP per capita is usually used to compare the standard of living of*
   
a. the same country at different points in time.

b. two different individuals at one point in time.

c. two different countries at one point in time.

d. a & c only.

e. None of the above.

**Video name:** Splitting GDP

1. *True or False: Government purchases includes all of the following: social security payments, government employee wages, and tanks purchased by the government.*
a. True
b. False

2. Measuring GDP using the national spending approach includes

a. Consumption.
b. Net exports.
c. Government spending.
d. a & b only
e. a, b, c

**Explanation:** national spending approach includes government purchases not government spending.

3. Measuring GDP using the factor income approach includes

a. Employee compensation.
b. Interest.
c. Profit.
d. b & c only
e. a, b, c
The Wealth of Nations and Economic Growth

Video name: Basic Facts about Wealth

1. Mexico and Bulgaria have roughly the same GDP per capita in 2014. Based on what you’ve learned in the video, is Bulgaria closer in GDP per capita to the United States or to Central African Republic?

a. United States

b. Central African Republic

c. Cannot be determined with the given information

2. Qatar has a higher GDP per capita than the United States. In fact, Qatar has a GDP per capita that is roughly _______ times larger than Central African Republic’s GDP per capita.

a. 10

b. 50

c. 75

d. 250

Video name: Growth Rates are Crucial

1. Which graph below is drawn with a ratio scale?

a.
2. Since 1800, real GDP per capita in the United States has doubled roughly every

a. 20 years

b. 35 years
c. 50 years  
d. 70 years

3. Suppose two countries start with a real GDP per capita level of $2,000, but country A is growing at 2% per year and country B is growing at 3% per year. After 140 years, country B will have a real GDP per capita that is roughly _______ times higher than country A.  
(Hint- you may want to review the “Rule of 70” to answer this question)  
a. 2  
b. 3  
c. 4  
d. 5

Video name: Office Hours: Rule of 70

1. Two countries start with the same real GDP per capita. Country A is growing at 7% and country B is growing at 4%. After 70 years, how much larger is country A?  
a. 3 times larger  
b. 4 times larger  
c. 6 times larger  
d. 8 times larger  
e. 10 times larger

2. Two countries start with the same real GDP per capita. Country A’s real GDP per capita is growing at 4% and after 140 years, it is 16 times larger than country B’s. What was country B’s growth rate?  
a. 1%
b. 2%

c. 3%

d. 3.5%

e. Can not be determined with the given information

3. Two countries start with the same real GDP per capita. After 210 years, country B is 3 times larger than country A. What was country A’s growth rate?

a. 1%

b. 2%

c. 3%

d. 4%

e. Can not be determined with the given information

4. Country A starts with a real GDP per capita that is 3 times larger than Country B. Country A then grows at 2% per year and Country B grows at 4% per year. After 140 years, who is richer and by how much?

a. Country A, roughly 2 times larger

b. Country A, roughly 5 times larger

c. Country B, roughly 2 times larger

d. Country B, roughly 5 times larger

e. Cannot be determined with the given information

Video name: An Orgy of Innovation
1. To what rapid increase is the tale of “the hockey stick of human prosperity” referring?

a. Rapid increase in global population
b. Rapid increase in gross domestic product (GDP) per capita
c. Rapid increase in the standard of living
d. B & C only
e. A, B, & C

2. When did the world begin to shift from the handle to the blade section of the hockey stick (of human prosperity)?

a. 0 A.D.
b. 13th century
c. 18th century
d. 20th century

3. True or false: All countries shifted from the handle to the blade portion of the hockey stick (of human prosperity) at about the same time.

a. True
b. False

4. In addition to improved access to education and reliable energy sources, what other changes do scholars cite as a reason(s) why we experienced the recent, rapid increase in human prosperity?

a. Improvements in institutions
b. Increase in religiosity
c. Change in attitude
d. A & C only
e. A, B, & C

**Video name:** Growth Miracles and Growth Disasters

1. Which of the following countries’ economies fell further behind in the 20th century?

   a. Japan
   b. Niger
   c. Argentina
   d. South Korea
   e. c & d only
   f. b & c only

2. *Between 1950 and 1970, Japan doubled its GDP per capita every 8.2 years. Using the Rule of 70, calculate Japan’s approximate annual growth rate during that time period.*

   a. 6.5% per year
   b. 7.5% per year
   c. 8.5% per year
   d. 9.5% per year
   e. Greater than 9.5% per year
3. We also learned that Argentina doubled its GDP per capita only once from 1950-2015. Using the Rule of 70, calculate Argentina’s approximate annual growth rate during that time period.

a. .5% per year
b. 1.1% per year
c. 1.7% per year
d. 2.1% per year
e. Greater than 2.1% per year

Video name: The Importance of Institutions

1. The following institution(s) promote(s) economic growth:

a. Communism
b. Property rights
c. Price controls
d. Redistributive justice
e. b & d only
f. b, c, & d only

2. When Korea split into two countries in 1945, the northern and southern portions were similar if not identical in all of the following except

a. Language
b. Human capital
c. Real GDP per capita
d. Institutions

3. Today, the main reason that North Korea has far fewer lights when viewed from outer space than South Korea is that

a. North Korea has less available energy than South Korea.

b. North Korea has fewer people than South Korea.

c. North Korea has different institutions than South Korea.

d. North Koreans have different norms around using electricity than South Korea.

e. North Korea’s population is more dispersed than South Korea’s.

Video name: Geography and Economic Growth

1. In 1967, the Suez Canal suddenly closed and remained closed for 8 years, temporarily shutting down a major trade route for many countries. Based on the facts from the video, this temporary canal closure

a. increased the GDP per capita of countries most reliant on the canal.

b. decreased the GDP per capita of countries most reliant on the canal.

c. increased international trade of countries most reliant on the canal without affecting their GDP per capita.

c. decreased international trade of countries most reliant on the canal without affecting their GDP per capita.

2. Adam Smith argued in 1776 that central Africa was resistant to growth because

a. Central Africa was too hot.

b. Central Africa’s education levels were too low.
c. Central Africa’s tropical diseases were deadly.

d. Central Africa lacked large rivers flowing to the coasts.

**Video name:** The Puzzle of Growth

1. *Which of the following is a factor of production and best defined as ideas and inventions?*
   
a. Human capital  
b. Physical capital  
c. Organization  
d. Technical knowledge

2. *A reason why countries have good institutions is*
   
a. Luck  
b. Geography  
c. Planning  
d. Hard work  
e. a & b only  
f. b & c only

3. *All of the following are key institutions of economic growth except*
   
a. good incentives.  
b. property rights.
c. a just legal system.

d. a competitive market.

e. honest government.

f. political stability.
Growth, Capital Accumulation, and the Economics of Ideas

Video name: Introduction to the Solow Model

1. Japan’s and Germany’s economic growth after World War II are both examples of
   a. Catching-up growth.
   b. Cutting-edge growth.

2. The Solow model is a simple model to explain
   a. Economic growth.
   b. Country differences.
   c. Income inequality.

3. Select the order of symbols below that mimics the following order: human capital, physical capital, ideas.
   a. eL, eK, A
   b. L, A, K
   c. eK, L, A
   d. L, K, eA
   e. eL, K, A

Video name: Physical Capital and Diminishing Returns

1. The following diagram appeared in the video; what does portion B represent?
1. a. Capital accumulation  
   b. Function  
   c. Output  
   d. Input  

2. In the equation \( Y = f(k) \), \( Y \) equals  
   a. Output  
   b. Knowledge  
   c. Factors of production  
   d. Inputs  
   e. A constant  
   f. A function  

3. Which of the following graphs best represents the relationship between \( Y \) and \( K \) in the Solow model?
a. 

b. 

c. 

d. a & b only 

e. Can not be determined from the given information.
Video name: The Solow Model and the Steady State

1. For the next two questions, consider the following: Country A has $K=10,000$ and produces GDP according to the following equation: $Y=5$. If the country devotes 25% of its GDP to making investment goods, how much is the country saving?

   a. 12.5
   b. 25
   c. 125
   d. 1,250
   e. Can not be determined with the given information.

2. If 1% of all machines become worthless every year (they depreciate, in other words) in Country A, GDP is

   a. Increasing.
   b. Decreasing.
   c. In steady state.
   d. Can not be determined with the given information.

3. According to the Solow model, when a country is in steady state,

   a. Depreciation > investment.
   b. Depreciation < investment.
   c. Depreciation = investment.
   d. Depreciation < output.
   e. Depreciation > output.
f. Depreciation = output.

**Video name:** Office Hours: The Solow Model

1. For the following two questions, recall Country A’s economy from the video:

   GDP = 5√K
   Country A invests 25% of GDP
   K = 10,000
   K depreciates (D) at 1% per year

   **How much is Country A consuming?**

   a. 375
   b. 400
   c. 475
   d. 500
   e. Cannot be determined from the given information

2. **At what point will Country A be in steady state?**

   a. K = 13453
   b. K = 15625
   c. D = 13453
   d. D = 15625
   e. A and C
   f. B and D

3. **Country B has the following economic conditions:** GDP = 2√K, initial capital stock (K) = 2,500. If this country is consuming 25, what percent of the country’s GDP is being invested?
4. For the following two questions, suppose two countries have the following economic conditions:

Country A's GDP=$5V$, it invests 25% of GDP each year, its capital stock is 10,000 and depreciates at 1% each year.
Country C's GDP=$5V$, it invests 50% of GDP each year, its capital stock is 10,000 and depreciates at 1% each year.

Once both countries achieve steady state, which country will consume a higher proportion of its GDP?

a. Country A

b. Country C

5. Once both countries achieve steady state, which country will have higher consumption?

a. Country A

b. Country C

Video name: Human Capital and Conditional Convergence

1. Human capital has which of the following properties:

a. diminishing returns.

b. increasing returns.

c. Depreciation.
2. Which countries will likely be growing faster: cutting-edge countries or catching-up countries?
   a. Cutting edge
   b. Catching up

3. The Solow model predicts that countries with similar ________ will eventually converge to similar levels of output.
   a. human capital depreciation rates
   b. institutions
   c. growth rates
   d. consumption preferences
   e. a and b only

4. The Solow model predicts ____ economic growth in the steady state.
   a. 0%
   b. 2%
   c. 1-3%
   d. 8%
   e. There is no specific growth rate; rather, prediction varies by type of country.
5. In the Solow model, the capital stock doesn't change when

a. Investment = Depreciation.

b. Investment > Depreciation.

c. Investment < Depreciation.

d. Investment = Savings.

e. Investment > Savings.

f. Investment < Savings.

Video name: The Solow Model and Ideas

1. A country's economic growth is given by the following equation: \( Y = \) and the country invests 25% to making investment goods. Suddenly, through some invention, the country's new production function becomes \( Y = 4 \). Which of the following equations represents the country's new investment function?

a. \( I = .25 \)

b. \( I = .5 \)

c. \( I = \)

d. \( I = 2 \)

e. Can not be determined with the given information.

2. Cutting-edge growth occurs primarily because of increases in

a. Investment.

b. Ideas

c. Depreciation.
For the next three questions, consider the following two countries: Thrifty and Inventive. In Thrifty, people devote 50% of GDP (Y) to making new investment goods, so $\sigma = 0.5$, and their production function is $Y = \sigma K$. In Inventive, people devote 25% of GDP to making new investment goods, $\sigma = 0.25$, and their production function is $Y = 2$. Both countries begin with $K = 100$.

3. What is the amount of investment in Inventive?
   a. 0.5
   b. 2.5
   c. 5
   d. 10
   e. 25

4. What is the amount of consumption in Thrifty? (Hint: Anything that is not invested of GDP is consumed)
   a. 0.5
   b. 2.5
   c. 5
   d. 10
   e. 25
5. In which country would you rather live?

a. Thrifty

b. Inventive

c. Indifferent between the two countries.

d. Cannot be determined from the given information.

Video name: Office Hours: The Solow Model: Investments vs. Ideas

For questions 1 - 6, consider the following two countries: Inventive and Thrifty. In Inventive, the country’s economy grows according to the following production function: GDP = 2√K and it devotes 25% of GDP to making investment goods. Thrifty’s production function is given by GDP = √K and it devotes 50% of its GDP to making new investment goods. Both countries begin with 100 dollars worth of K and both countries have the same capital depreciation rates and the same population. Additionally, assume that depreciation for both countries is 3% of the capital stock.

1. What is the approximate steady-state capital stock for Inventive?

a. 13

b. 100

c. 111

d. 192

e. 278

2. What is the approximate steady-state capital stock for Thrifty?

a. 13

b. 100
3. What is the approximate steady-state consumption for Inventive citizens?
   a. 5
   b. 8
   c. 10
   d. 19
   e. 25

4. What is the approximate steady-state consumption for Thrifty citizens?
   a. 5
   b. 8
   c. 10
   d. 19
   e. 25

5. Where would you rather live?
   a. Inventive
   b. Thrifty
c. Indifferent

6. In the steady state, Inventive citizens consume roughly _____ more times than Thrifty.
   a. 2
   b. 3
   c. 4
   d. 5
   e. 6

**Video name:** *The Economics of Ideas*

1. In the United States, about ____ of all engineers and scientists work for private firms.
   a. 10%
   b. 30%
   c. 50%
   d. 70%
   e. 90%

2. Ideas are fostered by
   a. capital accumulation.
   b. institutions.
   c. incentives.
d. the marginal product of capital.

e. a and b only

f. b and c only

3. True or false: John Kay invented the flying shuttle during the Industrial Revolution and was financially rewarded for this innovation.

a. True

b. False

**Video name:** *Patents, Prizes, and Subsidies*

1. Ideas are

a. Rivalrous.

b. Nonrivalrous.

2. *Patents give entrepreneurs a _____________ on their ideas.*

a. price floor

b. price ceiling

c. negative externality

d. positive externality

e. monopoly
3. True or false: Patents have costs and benefits when it comes to encouraging idea creation and adoption.

a. True
b. false

4. To encourage the creation of ideas, governments use

a. patents.
b. subsidies.
c. internet taxes.
d. a and b only.
e. a, b, and c only.

Video name: The Idea Equation

1. In the United States in 2012, the number of researchers, or idea creators, per 1000 people was approximately

a. 2.5.
b. 4.0.
c. 8.0.
d. 20.0.
e. None of the above.

2. The number of countries investing heavily in research and development (i.e. idea creation) is
a. Increasing

b. Decreasing

c. Relatively constant

3. True or false: Given that China has far fewer researchers per 1000 citizens than the United States, they are not yet playing an important role in the world’s production of ideas.

a. True

b. False

4. Idea production, or ideas created per hour, is subject to

a. Increasing returns.

b. Diminishing returns.

c. Constant returns.

d. Unknown.
Savings, Investment, and the Financial System

Video name: Saving and Borrowing

Gwen is a real estate agent, and she knows that she will have some good years and some bad years, but she wants to smoothe her consumption over time. She figures that half the time she’ll earn $90,000 per year, and half the time she’ll earn $20,000 per year. These numbers are after taxes and after saving for retirement, so these numbers are all she has to worry about.

1. If we ignore interest costs just to keep things simple, how much should Gwen consume in an average year?
   a. $20,000
   b. $45,000
   c. $55,000
   d. $80,000
   e. Depends on the year.

2. How many dollars will she save during the good years?
   a. 0
   b. $10,000
   c. $35,000
   d. $45,000
   e. $70,000
   f. Depends on the year.
3. How many dollars will she borrow during the bad years? (Note: “Borrowing,” in this context, is basically the same as “pulling money out of savings.”) 

a. 0  
b. $10,000  
c. $35,000  
d. $45,000  
e. $70,000  
f. Depends on the year.

4. The typical savings supply curve has a positive slope. If a nation’s saving supply curve is perfectly vertical, what would that mean?

a. People in this country save the same amount no matter what the interest rate is.  
b. People in this country are extremely sensitive to interest rates when deciding how much to save.

5. Sometimes, in supply and demand models, it’s not clear who “supplies” and who “demands.” For instance, in the labor market, it’s individual workers (not firms) who supply labor. In the loanable funds market, who is usually the supplier and who is usually the demander?

a. Entrepreneurs supply loanable funds and savers demand loanable funds.  
b. Entrepreneurs supply loanable funds and savers also supply loanable funds.  
c. Entrepreneurs demand loanable funds and savers demand loanable funds.  
d. Entrepreneurs demand loanable funds and savers supply loanable funds.

Video name: What Do Banks Do?
In this video, we focus on two big functions that banks perform:

i. They evaluate business ideas to see to whom it’s worth lending.

ii. They spread an investment’s risk among many different projects.

None of these functions are unique to banks. In the following 4 anecdotes, which function is the person performing?

1. Emmanuel donates a little money to five different charities, in the hopes that at least one of them will do some good in the world.
   a. Function i
   b. Function ii
   c. Functions i and ii

2. In Maria’s family, she’s the one who everyone asks for restaurant recommendations.
   a. Function i
   b. Function ii
   c. Functions i and ii

3. Scooter wants a good education, so he takes a variety of different classes: some history, some economics, some physics.
   a. Function i
   b. Function ii
   c. Functions i and ii

4. Frances subscribes to Consumer Reports to decide which washing machine to buy.
5. The financial analysts at Lexmark have evaluated three major projects. Each project, if it actually goes forward, will be financed by going to a bank to borrow the money. They’ve calculated a “break-even interest rate”: If they can borrow cash to pay for the project at less than that rate, the project will likely be a success; if the rate is higher, then it’s not worth it. If the interest rate is 11%, which projects will Lexmark take on?

<table>
<thead>
<tr>
<th>Project</th>
<th>Cost</th>
<th>Break-even interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$100 million</td>
<td>8%</td>
</tr>
<tr>
<td>B</td>
<td>$50 million</td>
<td>12%</td>
</tr>
<tr>
<td>C</td>
<td>$150 million</td>
<td>10%</td>
</tr>
</tbody>
</table>

a. A only
b. B only
c. C only
d. A and C only
e. None of the above

Video name: Intro to Stock Markets

In each of the following, answer either “bank account” or “stocks.”

1. Which investment is typically the riskiest?
   a. bank account
2. Which one usually lets you “withdraw” part of your investment at any time, for any reason?
   a. bank account
   b. stocks

3. Which form of investment usually spreads your money over the largest number of investment projects?
   a. bank account
   b. stocks

**Video name: Intro to the Bond Market**

For the following 3 questions, answer either “bank account,” “bonds,” or “stocks.”

1. Which is a corporate IOU?
   a. bank account
   b. bonds
   c. stocks

2. Which one gives you an ownership, or “share,” in a company?
   a. bank account
   b. bonds
   c. stocks

3. Which one is offered by the U.S. government as well as by private corporations?
   a. bank account
b. bonds

c. stocks

4. Government bonds and corporate stocks are
   a. Substitutes.
   b. Complements.

5. Which bond will usually pay a higher interest rate?
   a. Bond rated AAA
   b. Bond rated BBB

6. Which bond will usually pay a higher interest rate?
   a. U.S. government bond
   b. General Motors bond

7. Which bond will usually pay a higher interest rate?
   a. Citibank bond that gets repaid in 30 years.
   b. Citibank bond that gets repaid in 1 year.

8. Suppose you’d like to invest in a company and you’ve narrowed your choice down to three firms: Company A is offering a zero-coupon bond with a face value of $1000 to be repaid in 1 year for $963. Company B has the same face value and maturity date but sells for $871. And company C also has the same face value and maturity but sells for $985. In which would you rather invest?
   a. Company A
   b. Company B
   c. Company C
d. Cannot be determined with the given information.

**Video name: Office Hours: The Bond Market**

1. Suppose Company D is selling a zero-coupon bond with a face value of $2000 which matures in one year for $1850. What is the implied rate of return?
   
   a. 4%
   
   b. 6%
   
   c. 8%
   
   d. 10%
   
   e. None of the above.

2. Suppose Company E is selling a zero-coupon bond with a face value of $1400 maturing in a year for $1300 today. Which company is offering the higher rate of return?
   
   a. Company D
   
   b. Company E
   
   c. Can not be determined with the given information.

3. Suppose Company F has a zero-coupon bond with a face value of $250 maturing in one year and with an implied rate of return of 3%. Approximately what is the bond's sale price today?
   
   a. $243
   
   b. $245
   
   c. $247
   
   d. $249

4. Suppose Company G is selling a zero-coupon bond with a face value of $100 that matures in two years at a price of $82.64 today. What is the implied rate of return? (Hint: this one is tricky!)
Video name: Four Reasons Financial Intermediaries Fail

1. If savers don’t feel safe putting their money in banks or buying bonds, which of the following best summarizes what’s happening in the market for loanable funds?
   a. Supply of savings falls and the interest rate falls.
   b. Supply of savings falls and the interest rate rises.
   c. Demand for savings falls and the interest rate falls.
   d. Demand for savings falls and the interest rate rises.

2. When governments outlaw high interest rates and the ceiling is binding, what likely happens to the total amount of money borrowed?
   a. It rises because borrowers are protected against high interest rates.
   b. It falls because savers aren’t willing to lend as much money at this lower interest rate.

3. If financial intermediation breaks down, what category of GDP will probably fall the most:
   a. Consumption
   b. Investment
   c. Government purchases
   d. Net exports
4. During the Great Depression banking panics led people to pull their money from the banking system. Which of the following would NOT be an effect of a banking panic?

a. Reduced investment.

b. Fewer loans

c. Firms having difficulty paying wages on time

d. Greater savings

5. The purpose of the FDIC is to

a. Monitor the safety of the food system.

b. Insure that the deposits of the Federal government are safe

c. Insure bank deposits to prevent widespread panics

d. Tax banks to help fund the federal government

6. On Oct. 3, 2008 the FDIC temporarily raised the insured amount on a bank account from $100,000 to $250,000 (since made permanent). Why did the FDIC raise the insured amount at this time?

a. A run was developing at investment banks and the FDIC wanted to make sure that the panic didn't extend to commercial banks

b. The FDIC wanted to give banks a bonus

c. The FDIC had extra money in its insurance fund

d. Inflation had increased the size of nominal bank account holdings and increases like this are needed periodically to keep real insured amounts the same

Video name: The Great Recession

1. Justine buys a $500,000 home by making a down payment of $25,000 and borrowing the rest. Her owner’s equity is

a. $475,000
b. $250,000
c. $100,000
d. $25,000
e. None of the above.

2. Her leverage ratio is
a. 15
b. 18
c. 19
d. 20
e. None of the above

3. In general, higher leverage ratios are _____________ than lower leverage ratios.
a. Riskier
b. Less risky

4. An insolvent firm has
a. Equity that exceeds its assets
b. Debts that exceed its assets
c. Equity that exceeds its debts
d. Assets that exceed its debts
e. Debts that exceed its equity

5. All of the following are shadow banks except
a. Hedge funds
b. Money market funds

c. Commercial banks

d. Investment banks

e. b and c only

6. Leading up to the 2008 financial crisis, mortgage-backed securities were purchased by

a. American pension funds

b. Dentists in Germany

c. Banks

d. a and b only

e. a, b, and c
Personal Finance

Video name: How Expert Are Expert Stock Pickers?

1. Mutual fund managers tend not to beat the market over an extended period of time. Why?
   a. Mutual fund managers aren't very smart.
   b. Markets prices are always wise.
   c. Market prices aggregate dispersed information that no single investor is likely to comprehend.
   d. Mutual fund managers do beat the market.

2. True or false. Actively managed mutual funds usually have lower fees than passively managed mutual funds.
   a. True
   b. False

3. According to a study referenced in the video, of the top 25% of actively managed mutual funds in 2012, what percent were also ranked in the top 25% of performance 5 years later?
   a. 25%
   b. 10%
   c. 1%
   d. none

4. Suppose that 100 financial ‘experts’ were to flip a coin at the start of each new year. Those who flip ‘heads’ will say the market is going up this year and those who flip ‘tails’ will say the market is going down this year. Roughly what percent of these experts would have a perfect prediction streak 3 years in a row?
   a. 50%
   b. 25%
   c. 22%
5. What percent of these experts would successfully predict the market’s direction at least 2 out of the 3 years by simply flipping a coin? (Hint: this question is tricky!)

a. 50%

b. 25%

c. 22%

d. 12%

e. 10%

f. 6%

Video name: Can You Beat the Market?

1. Suppose some damaging information comes out about company Y this morning. The stock has been trading for a few hours today. When the bad news came out about the stock, what probably happened to the stock price after a few minutes?

a. it went up

b. it went down

c. it did not change

2. According to the efficient-market hypothesis, should you sell your shares now, a few hours after the bad news emerged?

a. Yes

b. No
3. On average, buyers in the stock market have
a. more information than sellers do.
b. less information than sellers do.
c. the same amount of information as sellers do.

4. Is it better to invest in a mutual fund that has performed well for the past 5 years in a row or one that has performed poorly for five years in a row?
   a. Good past performance mutual fund
   b. Bad past performance mutual fund
   c. Can not be determined with the given information.

**Video name:** Investing: Why You Should Diversify

1. There are three stocks available: a solar energy firm, an oil firm, and an airline. You can invest in two. Which two? (Hint: think about the rule of diversification.)
   a. solar energy firm and oil firm
   b. solar energy and airline firm
   c. oil firm and airline firm

2. Which of the following would be the least risky thing for you to do if you work as a real estate agent?
   a. Invest in construction companies.
   b. Buy a house.
   c. Marry a doctor.
   d. Buy mortgage-backed securities.
   a and b only.
For questions 4-6, let’s see how fees can hurt your investment strategy. Let’s assume that your mutual fund grows at an average rate of 7% per year—before subtracting the fees. Using the rule of 70:

4. Approximately how many years will it take for your money to double if fees are 0.5% per year?
   a. 8.1 years
   b. 9.3 years
   c. 10 years
   d. 10.8 years
   e. 11.2 years

5. Approximately how many years will it take for your money to double if fees are 1.5% per year (not uncommon in the mutual fund industry)?
   a. 8.2 years
   b. 9.5 years
   c. 10 years
   d. 11.4 years
   e. 12.7 years

6. Approximately how many years to double if fees are 2.5% per year?
   a. 7.4 years
   b. 11.5 years
   c. 13.5 years
   d. 15.5 years
   e. 16.3 years

Video name: Who Is More Rational? You or the Market?
1. In 2008, Warren Buffet and a money management firm (Protege Partners) made a million-dollar bet. Warren Buffet bet that a passive, low-fee mutual fund of his choosing could outperform an actively managed investment portfolio by a team of financial wizards. Buffett picked a boring S&P 500 index fund, like this video recommends. Protege Partners chose a “portfolio of funds of hedge funds.” While the bet doesn’t conclude until 2018, who do you think is on track to win?

a. Warren buffett and his boring S&P 500 index fund.

b. The very smart financial managers and their complex ‘funds of funds.’

2. The market has some known anomalies such as the January effect mentioned in this video. Given these known anomalies, should you try to beat the market?

a. Yes

b. No

3. Warren Buffet tells his children to invest

a. In actively managed mutual funds.

b. In index funds.

c. In funds of funds.

d. After speaking to a financial manager.
Unemployment and Labor Force Participation

Video name: The Economics of Choosing the Right Career

1. In 2014, there were _______ as many bachelor degrees conferred in information technology than in psychology.
   a. half
   b. 1.5 times
   c. twice
   d. three times

2. In 2014, the median starting salary for computer science majors was roughly _______ as much as the median starting salary for psychology majors.
   a. half
   b. 1.5 times
   c. twice
   d. three times

3. Which job is least likely to be negatively affected by increases in global markets and technology?
   a. Plumber
   b. Uber driver
   c. Umpire
   d. Factory worker
4. What percent of jobs in the US require some form of occupational licensing?

a. 15%
b. 25%
c. 40%
d. 50%
e. none of the above

Video name: Defining the Unemployment Rate

1. Which of the following individuals are counted as unemployed?

a. A military soldier.
b. An adult who is out of work, wants a job, and applied to a job 2 weeks ago but not since then.
c. An adult in prison.
d. An adult who is out of work, wants a job, and applied to a job 5 weeks ago but not since then.
e. a and b only.
f. b and d only.

2. Complete the following equation: Unemployment Rate = (Unemployed/ ______________) * 100

a. Employed
b. Labor Force
c. US adult population
d. US population
e. None of the above.
3. Since 1950, in which year was the unemployment rate 0%?

a. 1953  
b. 1969  
c. 1994  
d. a and b only.  
e. It’s never been 0%  

4. Calculate the unemployment rate with the following data: Unemployed: 10 million, US Population: 200 million, Employed: 90 million

a. 3%  
b. 5%  
c. 8%  
d. 10%  

5. According to the video, the average unemployment rate between 1950 and 2015 was approximately

a. 0%  
b. 3%  
c. 6%  
d. 8.5%  
e. None of the above.

Video name: Is Unemployment Undercounted?

1. The official unemployment rate definition is

a. An adult out of work who has been looking for work in the past year.
b. An adult who is out of work and has been looking for work in the past 15 weeks.
c. An adult who is out of work and has been looking for work in the past 4 weeks.
d. An adult who is out of work and has been looking for work in the past week.

2. Which of the following gives the highest definition of unemployment?
   a. U-1
   b. U-3
   c. U-4
   d. U-6
   e. Depends on the year.

3. Discouraged workers are unemployed individuals who say they want a job, but although they haven't looked for work in the past ________, they have looked in the past ________.
   a. 4 weeks, 15 weeks
   b. 4 weeks, year
   c. 15 weeks, year
   e. 2 weeks, 15 weeks

4. If we include discouraged workers as unemployed when calculating the unemployment rate,
   a. Stays the same.
   b. Doubles.
   c. More than doubles.
   d. Less than doubles.

Video name: Frictional Unemployment
1. True or false. It would be very beneficial for the US economy if we could greatly reduce or eliminate frictional unemployment.

a. True
b. False

2. If the news reported that 100,000 “new” jobs were created and there were 1,000,000 job separations in the United States in July 2016, how many new hires occurred in the US that month?

a. 100,000
b. 900,000
c. 1,000,000
d. 1,100,000
e. 1,500,000

3. In the above scenario, how many jobs are created for every job destroyed?

a. .1
b. .9
c. 1
d. 1.1
e. 1.5

Video name: Structural Unemployment

1. Which of the following is a major cause of structural unemployment?

a. Short-term unemployment caused by college graduates searching for employment.
b. Large and long-lasting shocks to the economy.
c. Decreases in labor force participation amongst older workers.
d. a and b only.

2. All of the following have had an effect on structural unemployment EXCEPT:

a. Unemployment benefits
b. Just-cause employment laws
c. Active duty military population

3. Which of the following is an example of structural unemployment?

a. Yellow Cab lays off 6,000 taxi drivers and replaces them with automated self-driving cars. The taxi drivers look for work in another industry.
b. The economy is doing worse, so Yellow Cab closes down 10 dispatch offices and lays off taxi drivers.
c. Each month, on average three Yellow Cab drivers quit their jobs in the city to move to the countryside and start searching for work in their new town.
d. Each month, on average, one of the Yellow Cab drivers who quits and moves to the country will decide to stop job searching for a new job and retire.

4. In countries with high costs of hiring and firing, firms have a more difficult time __________ labor resources during economic fluctuations, making structural unemployment more prevalent.

a. training
b. paying
c. reallocating

5. Those who are most likely to oppose moving from having ‘just-cause’ employment laws to ‘at-will’ employment laws are

a. Employed workers.
b. Unemployed workers.
Video name: Cyclical Unemployment

1. Cyclical unemployment is defined as:
   a. The amount of workers who have given up looking for work but would still take a job if it paid enough.
   b. The natural rate of unemployment.
   c. Unemployment correlated with business fluctuations.
   d. Short-term unemployment caused by the difficulty of matching employees to open positions.
   e. Persistent, long-term unemployment caused by long-lasting shocks to the economy.

2. Which of the following contribute to why wages are considered sticky?
   a. People get upset when wages fall, particularly if they think their employer is causing the wage cut, which negatively impacts workplace morale.
   b. If wages were easily cut, workers might respond by working less or disrupting their work, thus negatively affecting productivity.
   c. Minimum wage requirements make it difficult to lower wages quickly or often.
   d. All of the above.

3. The natural rate of unemployment is defined as:
   a. Frictional plus structural unemployment.
   b. Cyclical plus frictional unemployment.
   c. Cyclical unemployment.
   d. The rate at which workers retire from the labor force.
   e. Structural unemployment plus the rate at which domestic jobs are replaced by outsourcing skills internationally.
4. Under some conditions, the government can reduce cyclical unemployment using _________ and _________ policies.

a. humanitarian & tax

b. monetary & fiscal

c. domestic & foreign

d. industrial & anti-trust

5. According to the video and this graph, in what year might monetary and fiscal policy be effective tools to smooth the unemployment rate?

a. 1971

b. 1997

c. 2010

d. 2015

Video name: Labor Force Participation

1. 

\[
\text{The Labor Force Participation Rate} = \frac{\text{Employed} + \text{Unemployed}}{\text{Adult Population}}
\]

a. Employed & unemployed

b. Prisoners & military

c. Full time workers & part time workers

d. Employed & underemployed

2. The decline in which industry since the 1950s has caused a reduction in low-skill, low-education, male labor force participation rates?

a. Services
b. Technology

c. Agriculture

d. Manufacturing

3. Suppose in the next few years, a very large increase in college graduates opt to pursue PhD programs full-time instead of accepting offers for financial analyst and consultant positions. All else equal, what is likely to happen to the labor force participation rate in those coming few years?

a. It will increase, due to a more educated population.

b. It will decrease, due to more adults in their working prime opting out of jobs.

c. It will stay the same, because being a PhD student counts as a full-time job.

d. It will increase, due to the U.S. outsourcing those jobs overseas.

4. Which of the following is an important demographic factor that can influence the labor force participation rate?

a. Race

b. Religion

c. Age

d. Citizenship status

Video name: Taxing Work

1. The implicit tax rate on working captures both the actual taxes on earnings, as well as which of the following:

a. The monetary value of lost leisure time.

b. Increased costs to employers for installing wheelchair ramps and other accommodations for aging workers.

c. The additional costs to employers for insuring aging workers.
d. The monetary value of lost retirement benefits.

2. What would we expect to happen to the labor force participation rate if the U.S. government raised the age at which senior citizens could begin collecting retirement benefits from 62 to 67?
   a. Decrease, due to fewer retirees.
   b. Increase, due to more senior citizens postponing retirement.
   c. Stay the same, since elderly are not counted as part of the labor force.
   d. Stay the same, since retirees are already counted as part of the labor force.

3. What would we expect to happen to the labor force participation rate if the U.S. government began diminishing retirement benefits to senior citizens who chose to stay in the workforce past the age of 65?
   a. Decrease, due to more aging people having a higher incentive to retire.
   b. Increase, due to more senior citizens postponing retirement.
   c. Stay the same, since elderly are not counted as part of the labor force.
   d. Stay the same, since retirees are already counted as part of the labor force.

4. In the graph, which country has the highest tax incentive for adult males to retire?
   a. Japan
   b. Spain
   c. France
   d. Italy

Video name: Women Working: What's the Pill Got to Do With It?

1. Female labor force participation rates started to increase dramatically in
   a. The early 1920s
b. The late 1940s  
c. The mid 1960s  
d. The early 1980s

2. According to research by Claudia Goldin and Lawrence Katz (2006), states that legalized oral 
a. contraceptives earlier also experienced  
b. Larger increases in marriage rates.  
c. Higher costs for oral contraceptives.  
d. Larger increases in female labor force participation rates.

3. According to the graph in the video, by 1995 just over ______ of graduate students pursuing 
law degrees were women.  
a. 20%  
b. 30%  
c. 40%  
d. 50%  
e. 60%
Inflation and Quantity Theory of Money

Video name: Zimbabwe and Hyperinflation: Who Wants to Be a Trillionaire?

1. Hyperinflation occurs when
   a. a country’s productivity is increasing at a very high rate.
   b. a country’s prices are increasing at a very high rate.
   c. a country’s GDP is increasing at a very high rate.

2. Hyperinflation can occur when
   a. The government prints money to fund itself.
   b. The government raises taxes to fund itself.
   c. The government increases regulation on an industry.
   d. a and b only.

3. In 2006, prices in Zimbabwe were rising at roughly
   a. 200% per year.
   b. 500% per year.
   c. 1000% per year.
   d. 2000% per year.

4. According to the video, hyperinflations have occurred in all of the following countries except:
   a. Germany
   b. South Africa
   c. Yugoslavia
   d. China
   e. Zimbabwe
Video name: **Measuring Inflation**

1. Which of the following situations is an example of inflation occurring in a two-good economy?

a. The price of apples is about 2% higher than it was five years ago, while the price of pears fell by about 2% over the same time period.

b. The price of apples and the price of pears both increased by about 2% in the last five years.

c. The price of apples and the price of pears have remained the same over the past 5 years, but wages for factory workers have increased since then.

d. The price of apples and the price of pears both decreased about 5% in the past 5 years.

2. The Consumer Price Index (CPI) is a weighted average of the prices of:

a. thousands of goods and services bought by US consumers.

b. the top ten goods and services bought by US consumers.

c. only durable goods bought by US consumers.

d. hundreds of grocery items bought by US consumers.

3. The inflation rate is measured as the percentage change in the index over a time period. What variable should be plugged in for the denominator? \[ \frac{P_2 - P_1}{P_1} \times 100 \]

a. \( P_2 \)

b. \( \pi \)

c. \( P_1 \)

d. \( x^2 \)

4. If the CPI is 93 in 2014 and 97 in 2015, calculate the rate of inflation from 2014 to 2015.

a. 4%
b. 4.12%

c. 4.3%

d. 5.2%

**Video name:** Quantity Theory of Money

1. The quantity theory of money is expressed by the identity equation:

   a. \( \frac{M \times V}{P \times Y} \)

   b. \( M \times V = Y \)

   c. \( M = P \times Y \times V \)

   d. \( M \times V = P \times Y \)

2. Both sides of the quantity theory of money identity represent ____________.

   a. Real GDP

   b. Inflation

   c. Nominal GDP

   d. The Money Supply

3. In the quantity theory of money, \( V \) represents:

   a. The velocity of a dollar.

   b. The value of a dollar.

   c. The velocity of production.

   d. The value of a good.

4. In the quantity theory of money, \( P \) and \( Y \) represent the price and quantity of:
a. all raw materials and natural resources sold in an economy.

b. all financial services sold in an economy.

c. all durable capital (tractors, manufacturing equipment) purchased in the economy.

d. all finished goods and services sold in an economy.

5. Nominal GDP in terms of _______ is represented by how much money there is and how many times it is spent, while Nominal GDP in terms of ________ is represented by all goods and services and their prices.

a. buyers & sellers

b. domestic production & international production

c. profit & loss

d. imports & exports

Video name: Causes of Inflation

1. A change in which variable in the quantity theory of money is most likely to cause large and sustained changes in prices?

a. Y, the real GDP.

b. V, velocity of money.

c. M, the money supply.

d. None of the above

2. The growth rate in prices is also called:

a. the velocity of prices.

b. GDP spread.

c. Escalation.

d. Inflation.
3. The phrase that “money is neutral in the long run,” means:

a. if the money supply triples, prices will triple.
b. after enough time, money is worthless.
c. currency exchange rates are always fluctuating.
d. money is just a middle-man for the barter system.

4. The velocity of money is affected by which of the following?

a. How quickly the treasury prints new money.
b. If a consumer makes purchases with large bills or smaller bills.
c. If workers are paid weekly, bi-weekly, or monthly.
d. If a consumer uses a payment plan to purchase something or pays outright.

Video name: Costs of Inflation: Price Confusion and Money Illusion

1. Inflation increases:

a. All prices, including wages.
b. All prices, except wages.
c. Prices of input goods only.
d. Prices of finished goods only.

2. Inflation interferes with the price system in which costly way?

a. Inflation raises all prices so that consumers must pay more than they make.
b. Inflation distorts price signals, making it difficult for consumers to tell if the price increase is due to scarcity or inflation, and react appropriately.
c. Inflation wastes seller resources, as they spend time and money changing prices.
d. Inflation wastes buyer resources as they engage in more searching for lower prices.

3. *Money illusion is the phrase used to describe when people mistake:*  
   a. Changes in prices with changes in costs.  
   b. Changes in prices with changes in quality.  
   c. Changes in nominal prices with changes in wages.  
   d. Changes in nominal prices with changes in real prices.  

4. *Which type of inflation is described as worrisome and costly?*  
   a. Low and steady.  
   b. High and steady.  
   c. High and volatile.  
   d. Low and volatile.

**Video name:** Costs of Inflation: Financial Intermediation Failure  

1. *The real interest rate is equal to:*  
   a. The inflation rate minus the nominal interest rate.  
   b. The nominal interest rate plus the inflation rate.  
   c. The nominal interest rate minus the inflation rate.  
   d. The nominal interest rate times the inflation rate.

2. *How does inflation redistribute wealth when the rate is higher than expected?*  
   a. Unexpected inflation reduces the real return on a loan, so wealth moves from the lender to the borrower.
b. Unexpected inflation increases the real return on a loan, so wealth moves from the lender to the borrower.

c. Unexpected inflation raises prices, so wealth moves from buyers to sellers.

d. Unexpected inflation lowers prices so wealth moves from sellers to buyers.

3. The Fisher effect states that:

a. Nominal interest rates will fall with expected inflation rates.

b. Nominal interest rates will fall with unexpected inflation rates.

c. Nominal interest rates will rise with unexpected inflation rates.

d. Nominal interest rates will rise with expected inflation rates.

4. If the inflation rate is expected to be 7% over the next year, and Bank of Bigbucks aims to secure a real return on loans of 6%, what will the bank set interest rates at for borrowers?

a. 6%

b. 7%

c. 13%

d. 16%

5. The effect uncertainty about future inflation rates and the real rate of return on loans is problematic for the economy overall because:

a. As prices increase borrowers have less disposable income to repay mortgages.

b. As interest rates rise, banks make exorbitant amounts of money and hoard it for the 1%.

c. As interest rates rise, government taxes must increase, leaving consumers with less disposable income.

d. As long-term lending become more costly and less common, the economy invests less.
Refer to the above table when solving the next four questions. Let’s see how taxes can affect your incentive to save when there is expected inflation. We know the government taxes any nominal interest you earn on a savings account, so for the following scenarios, assume a realistic 33% tax rate.

8. Calculate the nominal rate of return after taxes if the nominal interest rate is 6%.
   a. 6%
   b. 4%
   c. 2%
   d. 1%

9. Now calculate the real rate of return after taxes, which takes inflation into account. In this scenario, inflation is 3%.
   a. 3%
   b. 2%
   c. 1%
   d. -1%

8. Calculate the nominal rate of return after taxes if the nominal interest rate is 12%.
   a. 12%
   b. 9%
9. Now calculate the real rate of return after taxes, which takes inflation into account. In this scenario, inflation is 9%.

a. 9%
b. 6%
c. 3%
d. 1%
e. -1%

Video name: Office Hours: Costs of Inflation

For the following two questions, assume the nominal interest rate is 900%, inflation is 897%, and the tax rate is $\frac{1}{3}$.

1. What is the nominal rate of return after taxes?

a. 300%
b. 600%
c. 800%
d. 900%

2. What is the real rate of return after taxes?

a. -597%
b. -297%
c. -97%
d. -27%
The above examples assumed that inflation, though very high, was expected. Now let’s see what happens when inflation is high and unexpected. For the next two questions, assume the nominal interest rate is 6% and inflation is unexpectedly 15% that year. Assume the government tax rate is $\frac{1}{3}$.

3. What is the nominal rate of return after taxes?
   
   a. 0%
   b. 2%
   c. 3%
   d. 4%
   e. 6%

4. What is the real rate of return after taxes?
   
   a. 19%
   b. 4%
   c. 0%
   d. -7%
   e. -11%

Video name: Why Governments Create Inflation

1. While money is neutral in the long run, an increase in the money supply can lead to which event in the short run?
   
   a. A decrease in real output GDP.
   b. An increase in real output GDP.
   c. A run on banks, as they have too much money.
d. A run on banks, as they have too little money.

2. What is most likely to happen when a government repeatedly boosts the economy by printing more money?
   a. People come to expect the increases so they prepare for higher prices.
   b. People end up with a higher standard of living in the long run.
   c. The economy grows faster and becomes more stable.
   d. The banks have too much money on hand and lend it at much cheaper interest rates.

3. In the short run, attempting to reduce inflation can lead to what effect until the prices “catch up” to the smaller money supply?
   a. A reduction in real GDP.
   b. A recession or slower economy.
   c. Higher unemployment.
   d. All of the above

4. One of the biggest costs of inflation is:
   a. The deadweight loss spent by producers to change prices more often.
   b. The negative economic effects of reducing inflation.
   c. The cost of re-writing paychecks to adjust wages.
   d. The loss of revenue from decreasing prices during deflation.
Business Fluctuations

Video name: Intro to Business Fluctuations

1. Recessions are declines in
   a. real GDP.
   b. nominal GDP.
   c. employment.
   d. a and c only.
   e. b and c only.

2. Over the last 60 years, the US’ real GDP has grown at an average rate of
   a. 1%.
   b. 2%.
   c. 3%.
   d. 4%.

3. True or false: A business fluctuation is a type of recession.
   a. True.
   b. False.

Video name: The Aggregate Demand Curve

1. Given $\bar{M} + \bar{V} = \pi + Y_r$, if the aggregate demand curve has $\bar{M} = 8\%$ and $\bar{V} = 0\%$, what will inflation plus real growth be?
   a. 0%
   b. 4%
2. Given your answer to question 1, if we discover that real growth ($Y_r$) is 2%, what is inflation ($\pi$)?

a. 0%

b. 2%

c. 6%

d. 10%

d. 16%

3. Given your answer to question 1, if real growth ($Y_r$) is 0%, what is inflation ($\pi$)?

a. 0%

b. 8%

c. 10%

d. 16%

d. 16%

4. Inflation occurs when more money chases the same amount of goods and services. If ________ increases, we can expect a corresponding decrease in inflation, because more money will be chasing more goods.

a. real growth

b. velocity

c. money supply

d. unemployment
5. If $\pi + Y_r$ represents inflation plus the real growth rate, then $\dot{M} + \dot{V}$ can be interpreted as the growth rate of spending in the economy, also known as:

a. Real GDP growth rate  
b. Inflation  
c. Consumption  
d. Nominal GDP growth rate

6. An increase in spending growth will shift the AD curve ______________, while a decrease in spending growth will shift the AD curve ___________.

a. outward/inward  
b. inward/outward  
c. outward/upward  
d. inward/upward

Video name: The Long-Run Aggregate Supply Curve

1. All of the following factors are fundamental to an economy’s potential growth rate except for:

a. Labor  
b. Capital  
c. Money supply  
d. Ideas
2. How does inflation affect the long-run real growth?

a. Inflation causes long run real growth to increase.

b. Inflation causes long run real growth to decrease.

c. Inflation does not have an effect on long run real growth.

d. There are many other factors to consider before determining how inflation will affect long run real growth.

3. An economy’s potential growth rate is also known as what?

a. Solow growth rate.

b. Keynesian growth rate.

c. Inflation rate.

d. Real interest rate.

4. Which of the following is an example of a negative real shock to an economy?

a. Consumer confidence in the future of the economy falls.

b. A drought stifles crop growth for the season.

c. The government spends more money on a war.

d. The government reduces taxes.

5. A negative real shock to the economy shifts the LRAS curve to the left, causing a(n) ____________ in growth and a(n) ____________ in inflation.

a. increase/increase
b. decrease/decrease

c. decrease/increase

d. increase/decrease

**Video name:** Sticky Wages

1. The phenomenon of sticky wages usually leads to ______________ unemployment during a recession.

   a. higher

   b. lower

   c. stabilized

2. If inflation is 6% and you receive a 1% raise in your nominal wage, by how much did your real wage change?

   a. -7%.

   b. -5%.

   c. 1%.

   d. 5%.

   e. 7%.

3. If inflation is 1% and you receive a 1% raise in your nominal wage, by how much did your real wage change?

   a. -2%.

   b. -1%.
c. 0%

d. 1%

e. 2%

4. In theory, inflation in an economy should __________________ the sticky-wage phenomenon.

a. exacerbate

b. lessen

c. inflation should have no effect on sticky wages.

Video name: The Short-Run Aggregate Supply Curve

1. What happens in the short run when spending increases?

a. Increased spending doesn’t immediately cause full inflation, so there is short run growth.

b. Increased spending immediately causes inflation, so there is no growth.

c. More spending makes prices sticky, so inflation skyrockets in the short run.

d. More spending makes prices more volatile, so inflation drops and often turns into deflation.

2. Using both a long-run aggregate supply curve and a short-run aggregate supply curve can help demonstrate what effects in a real economy?

a. The effects of investment.

b. The effects of sticky prices and wages.

c. The effects of capitalism.

d. The effects of consumer choice.
3. A positive shock to the AD curve will cause inflation to __________ in the short run and growth to __________ in the short run.

a. increase/decrease
b. increase/increase
c. decrease/increase
d. decrease/decrease

Video name: Changes in Velocity

*If the velocity of money increases, then the growth rate of which of the following must also change?*

a. Consumption
b. Investment
c. Government spending
d. Any of the above could change

2. In the short run, a decrease in consumption would lead to a(n) _________ in growth and a(n) _________ in inflation.

a. increase/decrease
b. increase/increase
c. decrease/increase
d. decrease/decrease

3. Which of the following would increase the velocity of money?

a. Drop in confidence in the future economy.
b. Higher taxes.
c. A war leads to more government spending.

d. Increased saving.

**Video name:** [Understanding the Great Depression](#)

1. While a series of negative aggregate demand shocks largely caused the Great Depression, ______ contributed and led to a slow recovery.
   a. negative real shocks
   b. positive real shocks
   c. high inflation
   d. excessive capital stock

2. When banks failed, people lost their money and had less to spend, leading to a negative AD shock. Which of the following describes how bank failures also resulted in a negative real shock to the economy?
   a. The supply of gold was looted and stolen, so money wasn’t backed by enough hard value.
   b. The bridge between saving and investing collapsed, making the economy less efficient.
   c. Banks printed more money to make up for the withdrawals and caused hyperinflation.
   d. Bank shut-downs meant that direct deposit failed and workers didn’t get paid on time.

3. In the 1930s, instead of ______ the money supply, the Federal Reserve ______ the money supply, which prolonged the Great Depression.
   a. expanding / contracted
   b. contracting / expanded
   c. contracting / inflated
   d. expanding / inflated
4. What were the intentions of the Smoot-Hawley Tariff, and what was the actual outcome of the policy?

a. The tariff taxed domestic goods intending on decreasing the demand for foreign goods, and it succeeded.

b. The tariff supplemented domestic goods intending to increase the demand for cheap foreign goods, but it backfired and domestic demand increased.

c. The tariff taxed foreign goods intending on increasing demand for domestic goods, and it succeeded.

d. The tariff taxed foreign goods intending on increasing demand for domestic goods, but it backfired when other nations also imposed tariffs and trade fell.

5. Tariffs, like the Smoot-Hawley Tariff of 1930, make which of the following less efficient?

a. Taxes

b. Sales

c. Trade

d. Immigration

6. Which of the following natural shocks hit the United States early-on in the Great Depression, contributing to the length and slow recovery?


b. The Dust Bowl drought.

c. The Agricultural Industrial Act.

d. The Roaring Twenties boom of bars.

Video name: Office Hours: Using the AD-AS Model

1. Which of the following would not affect the long-run aggregate supply curve?
a. A major technological innovation.
b. A fall in velocity caused by consumer pessimism.
c. A significant increase in the percentage of the population attending higher education.
d. A devastating hurricane.

2. Suppose the money supply growth rate is 4%, velocity is 5%, and the real GDP growth rate is 3%. What is the inflation rate?
   a. 9%
   b. 6%
   c. 4%
   d. 2%

3. Suppose the money supply growth rate of the economy shown above is 5.5%. What is the nominal GDP growth rate?
   a. 4%
   b. 1.5%
   c. 7%
Video name: Office Hours: Multiple Shocks with the AD-AS Model

1. Think back to the scenario in which scientists create a new invention, and consumers become more optimistic. Compared to the inflation rate after short-run effects have taken place, what will happen to inflation in the long run?
   
a. It will increase.
   b. It will decrease.
   c. It will stay the same.
   d. It’s ambiguous.

2. Think back to the scenario in which there is a year of good weather and the government cuts spending. Compared to the inflation rate after short-run effects have taken place, what will happen to real GDP in the long run?
   
a. It will increase.
   b. It will decrease.
   c. It will stay the same.
   d. It’s ambiguous.

3. Think back to the scenario in which a war causes a decrease in the supply of oil, and the Fed decreases the money supply. Compared to the inflation rate before any shocks occurred (eg, the war and the Fed’s actions), what will happen to inflation in the long run?
   
a. It will increase.
   b. It will decrease.
   c. It will stay the same.
   d. It’s ambiguous.
4. Suppose a negative real shock is accompanied by an increase in aggregate demand. This would cause ______________ in the short run.

a. An increase in the inflation rate and decrease in the real GDP growth rate.
b. A decrease in the inflation rate and decrease in the real GDP growth rate.
c. An increase in the inflation rate, but the change in real GDP growth rate is indeterminate.
d. A decrease in the real GDP growth rate, but the change in the inflation rate is indeterminate.

5. Which of the following graphs depicts the scenario described in question #4?

a. 

b. 

c.

d.
Business Cycle Theories

Video name: Game of Theories: The Keynesians

1. Which of the following is not a component of aggregate demand?
   
   a. Consumption.
   
   b. Net exports.
   
   c. Interest rates.
   
   d. Investment.
   
   e. Government spending.

2. Which of the following is a reason for sticky wages?
   
   a. Fiscal policy.
   
   b. Monetary policy.
   
   c. Aggregate demand.
   
   d. Long-term contracts.
   
   e. All of the above.

3. According to Keynesian business cycle theory, if consumption and investment fall, what will happen to government spending?
   
   a. It will fall.
   
   b. It will stay the same.
   
   c. It will rise.
   
   d. Insufficient information to answer the question.

4. According to Keynesian business cycle theory, what should the government do in response to a recession?
a. Cut government spending.
b. Increase government spending.
c. Increase interest rates.
d. Expand the money supply.
e. a and d only.
f. b and d only.

5. What are some problems with Keynesian business cycle theory?
a. It does not predict stagflation.
b. Falling aggregate demand may be a symptom, not cause, of recession.
c. Wages are only sticky during recessions.
d. a and b only.
e. b and c only.

Video name: Game of Theories: The Monetarists

1. On which of the following do monetarists and Keynesians disagree?
a. Deflation causes unemployment.
b. Wages are sticky.
c. High inflation leads to misallocation of resources.
d. In the short run, an increase in the money supply boosts economic output.
e. c and d only.

2. Which of the following is not a reason that monetarists want to constrain the Fed?
a. Policy implementation lags are long and variable.
b. Policymakers have institutional incentives to keep business cycles unstable.
c. A stable inflation rate should be enough to stabilize business cycles.
d. The information of policymakers is limited.

3. What is a problem with monetarism?
   a. Stabilizing one measure of the money supply may destabilize other measures of it.
   b. It leaves the Fed unable to act in case of negative real shocks and velocity shocks.
   c. It does not conform to the quantity theory of money.
   d. It only applies to times when inflation is too high, such as the 1970s.
   e. a and b only.

4. How does market monetarism differ from standard monetarism?
   a. It allows the market to determine monetary policy.
   b. It sets the inflation rate based on velocity.
   c. It sets the inflation rate based on the overall health of the economy.
   d. It allows the Fed discretion to react to velocity shocks.
   e. None of the above.

Video name: Game of Theories: Real Business Cycle

1. According to real business cycle theory, negative real shocks initially affect ________.
   a. Long run aggregate supply
   b. Wages
   c. Aggregate demand
   d. The money supply
   e. None of the above.
2. According to real business cycle theory, how can we avoid recessions?
   a. Stabilize monetary policy.
   b. Offset negative real shocks with lower aggregate demand.
   c. Use fiscal policy to avoid negative real shocks.
   d. Diversify the economy.

3. Which of the following is a weakness of real business cycle theory?
   a. It doesn’t explain why negative supply shocks affect the entire economy.
   b. It doesn’t explain why negative supply shocks happen in the first place.
   c. It doesn’t explain why unemployment is so high during recessions.
   d. It only makes sense for agricultural economies.

Video name: Game of Theories: The Austrians

1. According to the Austrian theory of business cycles, how does the central bank distort price signals?
   a. By increasing velocity, the central bank creates the illusion of greater consumer demand for short-term goods.
   b. By increasing velocity, the central bank creates the illusion of lower consumer demand for investment goods.
   c. By increasing inflation, the central bank causes interest rates to fall, falsely signaling an increase in consumer savings.
   d. By increasing inflation, the central bank causes interest rates to rise, falsely signaling a decrease in consumer savings.

2. According to the Austrian theory of business cycles, how does the boom part of the business cycle lead to the bust?
   a. Malinvestments made in response to distorted price signals fail when met with insufficient consumer demand.
b. The decrease in interest rates caused by distorted price signals creates an excess of consumer demand.

c. Overconfidence caused by the boom leads entrepreneurs to further invest in short-term goods, past the amount required to meet consumer demand.

d. The increased production of short-term goods caused by distorted price signals is met with insufficient consumer demand.

e. a and c only.

3. What is the Austrian solution to business cycles?

a. Reduce long-term investments.

b. Tie the central bank down to a stable rate of inflation.

c. Account for distortions in price signals caused by the central bank.

d. Limited government that doesn’t interfere with market price signals.

e. a and c only.

4. Which of the following is a problem with the Austrian theory of business cycles?

a. It fails to explain why entrepreneurs don’t account for the distortions in price signals caused by the central bank.

b. It incorrectly predicts that consumption and investment are positively correlated.

c. It fails to explain why failed investments cause so much unemployment.

d. a and c only.

Video name: Game of Theories: The Great Recession

1. According to the Keynesians, which of the following is a reason aggregate demand fell in 2008?

a. The bursting of the housing bubble meant consumers had to pay more in mortgages, and so had less money to spend. This caused consumer spending to drop.
b. The housing bubble encouraged banks to make bad loans. Entrepreneurs responded by saving these loans instead of investing them, causing investment to drop.

c. Unemployment and lower income, resulting from a drop in consumer spending and investment, meant governments took in less in tax revenue. This caused government spending to drop.

d. b and c only.

2. According to the real business cycle theorists, why was recovery so slow?

a. Subsidies encouraged bad investments.

b. Policy uncertainty.

c. Higher taxes.

d. b and c only.

3. According to market monetarists, what caused aggregate demand to fall in 2008?

a. Fed policy was too expansionary.

b. Fed policy was not expansionary enough.

c. Fed policy deviated from maintaining a stable inflation rate.

d. The Fed’s expansionary policy took too long to affect the economy.

4. According to the Austrians, which of the following was not a cause of the Great Recession?

a. Fed policy created artificially low interest rates.

b. Government housing policy encouraged bad mortgages.

c. The tax system incentivized borrowing to buy homes.

d. Housing price controls distorted price signals.
Monetary Policy and the Federal Reserve

Video name: Monetary Policy and the Fed

1. The Federal Reserve is considered a powerful institution because it has the power to:
   a. Act as a lender of last resort, control money supply in the long term, and print money.
   b. Create money, buy government bonds, and control long-term economic growth.
   c. Buy government bonds, act as a lender of last resort, and create money.
   d. Control short-term growth, create money, and buy government bonds.

2. The Federal Reserve can control short-run growth better than long-term growth but even then, there are limits to its powers to influence short-term growth, in part because:
   a. It cannot buy bonds, cannot use executive orders, and it cannot control the supply of money.
   b. It has a lack of direct control, incomplete data about the economy, and lack of the executive order.
   c. It has incomplete data about the economy, lagged results from policy to growth, and limited control.
   d. It cannot increase the money supply, has incomplete data about the economy, and can buy bonds.

3. How does the Quantity Theory of Money help us understand the limitations of the Federal Reserve’s power to control economic growth?
   a. The velocity of money does not adjust to monetary policy.
   b. Increases in the money supply result in increases in output in the long run.
   c. Increases in the money supply result in increases in velocity in the long run.
   d. Increases in the money supply result in price increases in the long run.

Video name: The U.S. Money Supplies
1. Which of the following count as money?
   a. Currency, checkable deposits, stocks.
   b. Jewelry, checkable deposits, currency.
   c. Currency, checkable deposits, savings deposits, bonds.
   d. Money market mutual funds, currency, checkable deposits.

2. Which of the following best describes the monetary base?
   a. Currency plus reserve deposits.
   b. M1 plus M2.
   c. Currency plus M1.
   d. Reserve deposits plus M1 and M2.

3. Over which aspect of the money supply does the Fed have the most direct control?
   a. Checkable deposits.
   b. Monetary base.
   c. M2.
   d. M1 and M2.

4. Gift cards are a part of:
   a. The monetary base.
   b. M1.
   c. M2.
   d. M1 and M2.
   e. None of the above.
Video name: **The Money Multiplier**

1. *If the Federal Reserve sets the minimum reserve ratio for private banks at 25%, then the money multiplier is:*

   a. 2.5
   
   b. 4
   
   c. 1
   
   d. 0.4

2. *If the Federal Reserve increases the minimum reserve ratio that private banks are required to hold, the following will occur:*

   a. The banks can make more loans and the money supply decreases.
   
   b. The banks can make more loans and the money supply increases.
   
   c. The banks can make fewer loans and the money supply decreases.
   
   d. The banks can make fewer loans and the money supply increases.

3. *The control the Federal Reserve has in manipulating the money supply by setting the minimum reserve ratio is limited because:*

   a. Banks can decide to hold more cash than the minimum reserve ratio requires.
   
   b. More people use credit cards than cash.
   
   c. People might not hold their money in banks, which limits the loanability of that cash.
   
   d. a and c.
   
   e. a and b.

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Video name: **How the Fed Worked: Before the Great Recession**

1. *Which of the following is not a reason that banks keep reserves?*

   a. To settle transactions with other banks.
b. To meet the Fed’s minimum reserve requirement.

c. To meet customers’ withdrawals.

d. To keep the interest rate from becoming too low.

2. What is the intended effect of expansionary open market operations (OMOs)?

a. Increase in the federal funds rate.

b. Banks keep reserves above the minimum requirement.

c. Increase in aggregate demand.

d. Greater savings in the economy.

3. Which of the following is not a result of expansionary OMOs?

a. Increase in the money supply.

b. Less investment spending.

c. Decrease in the federal funds rate.

d. Banks make more loans.

4. Contractionary OMOs are the reverse of expansionary OMOs and are intended to have the opposite effect. Which of the following should the Fed do to conduct contractionary OMOs?

a. Sell treasury bills to banks.

b. Buy treasury bills from banks.

c. Increase the money supply.

d. Lower the minimum reserve requirement.

5. What is the intended effect of raising the federal funds rate?

a. Banks hold more excess reserves.
b. Banks hold fewer excess reserves.

c. Increase in aggregate demand.

d. Decrease in aggregate demand.

**Video name:** How the Fed Worked: After the Great Recession

1. *What is quantitative easing?*

   a. When the Fed swaps money with banks for assets other than treasury bills.

   b. When the Fed changes the federal funds rate more slowly, so as to prevent a sudden shock to the economy.

   c. Open market operations that happen overnight at the Fed’s sole discretion.

   d. The Fed’s new ability to set interest rates directly, without having to go through transactions with banks.

2. *What is one reason open market operations stopped being as effective during and after the Great Recession?*

   a. With interest rates near zero, it became nearly impossible to impact the economy by lowering the federal funds rate.

   b. Banks are now legally mandated to hold higher reserves, making a federal funds market unnecessary.

   c. After the Great Recession, major firms began to account for changes in the federal funds rate, cancelling their effect.

   d. The Fed can now directly set the federal funds rate, making open market operations unnecessary.

3. *With quantitative easing, the Fed can now __________.*

   a. See the impact of its policies before it’s too late to reverse them

   b. Directly influence particular sectors of the economy

   c. Directly swap assets with banks overnight
d. Simply set interest rates without having to carry out purchases in a market

4. How does the Fed now influence how much banks hold in reserves?
a. By setting a legal reserve maximum.
b. By subsidizing any amount under the target amount.
c. By targeting longer-term interest rates, decreasing their influence on reserves.
d. By paying interest on reserves.

5. Reverse repurchase agreements are like temporary ____________.
a. Expansionary open market operations
b. Contractionary open market operations
c. Interest rates
d. Free trade agreements between banks and the Fed

6. Which of the following is an important difference between repos and OMOs?
a. Banks have no say in whether to participate in repos.
b. Repos swap money for other assets besides treasury bills.
c. Repos have a shorter term impact on the economy.
d. Repos are also conducted with other financial institutions besides banks.

Video name: The Federal Reserve as Lender of Last Resort

1. Prima Bank has the following characteristics: Short-term assets: $100M; Short-term liabilities: $120M; Total assets: $500M; Total Liabilities: $400M. Which type of bank is it?
a. Liquid and solvent.
b. Illiquid and solvent.
c. Liquid and insolvent.
d. Illiquid and insolvent.

2. The Federal Reserve has the power to
a. Regulate banks.
b. Insure bank deposits.
c. Loan money to banks.
d. Increase the economy’s money supply.
e. a and c only.
f. a, c, and d only.

3. The Federal Deposit Insurance Corporation (FDIC) has the power to
a. Regulate banks.
b. Insure bank deposits.
c. Loan money to banks.
d. Increase the economy’s money supply.
e. a and c only.
f. a, b, and c only.

Video name: Monetary Policy: The Best Case Scenario

1. Imagine you’re in charge of the Federal Reserve and the economy experiences the following AD shocks. Your job is to neutralize them. Identify all shocks below where the best course of action is to increase the money supply.

a. Investors become pessimistic about future profit opportunities.
b. State governments increase spending on schools, prisons, and health care.
c. The federal government passes a national sales tax.
d. The federal government increases military spending.

e. a and c only.

f. a, b, and c only.

2. Suppose the economy operates as below. Which graph best illustrates what happens if consumers and investors become more optimistic?
3. Now suppose you’re a central banker in this economy and you want to neutralize this change in the economy. That is, you want to return the economy to its original state by pushing monetary...
policy in the opposite direction of the shock. If you do your job perfectly and the economy returns to its original state, what will the inflation rate be?

a. 4%
b. 7%
c. 10%
d. 14%
e. Cannot be determined with the information given.

**Video name:** Monetary Policy: The Negative Real Shock Dilemma

The following scenario relates to questions 1 - 3.

Suppose that an oil shock causes the long run aggregate supply curve (LRAS) to decrease by 10%, but the Fed mistakes the noticeable increase in inflation as caused by a positive shock to aggregate demand.

1. If the graph above represents the original state of the world, which graph below properly represents the LRAS true shock (LRAS-T) and the AD false shock (AD-F)?
2. If the goal were to get the economy closer to its original growth rate, what policy would the Fed take based on its incorrect assumption that this is an aggregate demand shock?

a. Decrease the money supply.

b. Increase the money supply.

3. If the goal were to get the economy closer to its original growth rate (albeit temporarily), what is the correct policy to take given the actual real shock?

a. Decrease the money supply.

b. Increase the money supply.

4. Aggregate supply shocks are often accompanied by aggregate demand shocks. In the following scenario, identify which of the following has definitely occurred to the economy. Biologists learn how to use computer simulations to rapidly search for molecules that would make promising medicines, and investors become optimistic about future profit opportunities.

a. Rise in inflation.

b. Fall in inflation.

c. Rise in real GDP growth.

d. Fall in real GDP growth.

e. a and c only.
f. b and c only.

**Video name:** When the Fed Does Too Much

Some of the questions below assume you’re familiar with the Quantity Theory of Money (in its static and dynamic form), so check out those videos first if you’d like to brush up before diving in.

1. Let’s suppose there is a massive, negative velocity shock to the economy. If the Federal Reserve is following annual monetary growth rule of 3%, what will happen to inflation and real GDP in the short run?

   a. Inflation will fall and real GDP will fall.
   
   b. Inflation will rise and real GDP will rise.
   
   c. Inflation will stay the same and real GDP will fall.
   
   d. Inflation will fall and real GDP will stay the same.

2. What will happen to inflation and real GDP in the long run?

   a. Inflation will fall and real GDP will fall.
   
   b. Inflation will rise and real GDP will rise.
   
   c. Inflation will stay the same and real GDP will fall.
   
   d. Inflation will fall and real GDP will stay the same.

3. Now suppose the Fed is trying to follow a Nominal GDP Rule of 3%. If v, velocity, suddenly fell by 4%, what action, if any, should the Fed take?

   a. Increase the Money Supply by 3%.
   
   b. Decrease the Money Supply by 3%.
   
   c. Increase the Money Supply by 4%.
   
   d. Decrease the Money Supply by 4%.
   
   e. No action necessary.
For the next four questions, let’s look at the money supply (M2) and velocity ‘before’ and ‘after’ the banking crises of the Great Depression, as seen in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>M2</th>
<th>v (velocity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>$35.3 billion</td>
<td>2.16</td>
</tr>
<tr>
<td>1934</td>
<td>$33.1 billion</td>
<td>2.36</td>
</tr>
</tbody>
</table>

4. What was the level of nominal GDP in 1932?
   a. $16.3 billion.
   b. $37.4 billion.
   c. $76.2 billion.

5. What was the level of nominal GDP in 1934?
   a. $14.0 billion.
   b. $35.36 billion.
   c. $78.1 billion.

6. What was the approximate growth of nominal GDP between these two years? (Hint: this question is difficult!)
   a. -3.1%
   b. +3.1%
   c. -15.7%
   d. +15.7%
7. If velocity growth would have been zero during this period, but money growth stayed the same, what would have happened to nominal GDP?

a. -3.1%

b. +3.1%

c. -6.2%

d. +6.2%

e. None of the above.
Fiscal Policy

Video name: Introduction to Fiscal Policy

For the following scenarios, identify what type of fiscal policy phenomenon is being described.

1. The government hires 2000 workers for new infrastructure projects. Over half of the newly hired construction workers, however, were employed in other sectors of the economy and quit their jobs to take this better paying opportunity.

a. Expansionary fiscal policy.
b. Contractionary fiscal policy.
c. Crowding out.
d. Fiscal multiplier.
e. a and c only.
f. a and d only.

2. The government increases taxes on corporations.

a. Expansionary fiscal policy.
b. Contractionary fiscal policy.
c. Crowding out.
d. Fiscal multiplier.
e. a and c only.
f. a and d only.

3. During a recession, the government increases spending by $300B, which in turn increases GDP by $350B.

a. Expansionary fiscal policy.
b. Contractionary fiscal policy.
c. Crowding out.
4. During a recession, the government sends $500 checks to every American family. 70% of American families save the money or use it to pay off their debt.

a. Expansionary fiscal policy.
b. Contractionary fiscal policy.
c. Crowding out.
d. Fiscal multiplier.
e. a and c only.
f. a and d only.

---

1. Suppose a change in fiscal policy causes the AD curve to shift from AD(1) to AD(2) as shown above. Which response below would most likely cause that shift?

a. A rise in taxes OR a rise in government spending
b. A rise in taxes OR a fall in government spending
c. A fall in taxes OR a rise in government spending
d. A fall in taxes OR a fall in government spending

2. Which policy is likely to shift the AD curve more?
   a. A tax increase in the same year there is a government spending increase.
   b. A tax increase that occurs without a government spending increase.

3. Given your answer above, in which direction will the AD curve shift?
   a. To the right and up.
   b. To the left and down.
   c. Cannot be determined from the information given.

Video name: The Limits of Fiscal Policy

1. Which of the following are automatic stabilizers used by the government?
   a. Unemployment insurance.
   b. Temporary tax cuts passed by Congress when bad economic news hits.
   c. Temporary spending increases passed by Congress when bad economic news hits.
   d. a and b only.
   e. a and c only.

2. It’s often very difficult to time fiscal policy correctly. Suppose each fiscal lag identified in the video lasts approximately 3 months. If the average U.S recession since World War II lasts around 11 months, is the total fiscal lag longer or shorter than the typical recession?
   a. Shorter.
   b. Longer.
3. Given that an ideal stimulus is timely, targeted, and temporary, which of the following scenarios would most benefit from expansionary fiscal policy?

a. Consumption spending declines rapidly as many people fear a recession.

b. American workers get laid off by the hundreds of thousands because of a sudden collapse in investment purchases.

c. American wages have grown slowly for many years.

d. a and b only.

e. a and c only.

Video name: The Dangers of Fiscal Policy

1. Suppose there is a negative oil shock and oil prices dramatically increase. What has happened?

a. The aggregate demand curve shifts right.

b. The aggregate demand curve shifts left.

c. The aggregate supply curve shifts right.

b. The aggregate supply curve shifts left.

e. a and c only.

2. If the government performs expansionary fiscal policy, which curve shifts and in what direction?

a. The aggregate demand curve shifts right.

b. The aggregate demand curve shifts left.

c. The aggregate supply curve shifts right.

b. The aggregate supply curve shifts left.

3. According to the quantity theory of money, expansionary fiscal policy will do all of the following except:
a. Increase inflation in the short run.
b. Increase inflation in the long run.
c. Increase GDP growth in the short run.
d. Increase GDP growth in the long run.

**Video name:** Fiscal Policy and Crowding Out

1. *When consumers save a tax cut instead of spending it, this is known as*
   
a. A monetary offset.
b. Ricardian equivalence.
c. Contractionary fiscal policy.
d. The fiscal multiplier.
e. b and c only.
f. All of the above.

2. *When the central bank contracts the money supply in response to expansionary fiscal policy, this is known as*
   
a. A monetary offset.
b. Ricardian equivalence.
c. Contractionary fiscal policy.
d. The fiscal multiplier.
e. b and c only.
f. All of the above.

3. *The effects of expansionary fiscal policy depend on the behavior of*
   
a. Consumers.
b. The central bank.
c. Businesses.
d. b and c only.
e. All of the above.