

ECON 101, Sen Finance Quiz 3
© Jayanta Sen 2008

Question 1) Suppose the leading indicators indicate that the economy is heading towards a recession. Then it is likely that:

- I) The Fed will increase the discount rate.**
- II) Then the FOMC will purchase Treasuries.**

I&II are: A) FT B) FF C) TT D) TF

Question 2) I) The main reason why economic agents (individuals and firms) hold money is for savings.

II) If interest rates are higher, then agents will want to invest their cash rather than hold the cash.

I&II are: A) FT B) FF C) TT D) TF

Question 3) I) The Fed Discount Rate and the Federal Funds Interest Rate tend to be close and move together.

II) Open market operations is the primary method used by the Fed to control money supply.

I&II are: A) FT B) FF C) TT D) TF

Question 4) I) Inflation is costly due to the risks it introduces into consumption and investment decisions.

II) The empirical record shows that there is no relation between increases in money supply and inflation.

I&II are: A) FT B) FF C) TT D) TF

Question 5) I) The activist view of monetary policy says that governments should watch indicators to identify approaching recessions, and then counter by expanding money supply.

II) The non-activist view of monetary policy says that government needs to do is to have a stable and announced growth rate of money supply.

I&II are: A) FT B) FF C) TT D) TF

Question 6) Which of the following is not a part of leading economic indicators?

- A) slower deliveries from suppliers**
- B) change in money supply**
- C) change in stock index**
- D) All the above are parts of leading indicators**

Question 7) I) Recognition lag, is the gap between change in economic conditions and its recognition by the government.

II) Administrative lag is the gap between policy implementation and it having impact.

I&II are: A) FT B) FF C) TT D) TF

Question 8) I) Interest rate in the economy is determined by the intersection of demand and supply schedules. II) An increase in interest rates will increase Aggregate Demand in the economy.

I&II are: A) FT B) FF C) TT D) TF

Question 9) If money is “neutral” then changes in the supply of money will:

I) impact nominal GDP.

II) impact real GDP.

I&II are: A) FT B) FF C) TT D) TF

Question 10) I) It is possible that due to lags, that macroeconomic policies rather than reduce, increase the severity of recessions and booms.

II) FOMC meets every few weeks, so for monetary policy the administrative gap is small.

I&II are: A) FT B) FF C) TT D) TF

Question 11) I) “Crowding Out” is the idea that government expenditure increases private investment.

II) In the “Crowding Out” model, government deficits push up interest rates, reducing private consumption and investment.

I&II are: A) FT B) FF C) TT D) TF

Question 12) I) If agents in the economy quickly anticipate the inflationary consequences of an expansionary government policy the impact will largely be on prices rather than real quantities.

II) An increase in tax rates is an expansionary fiscal policy.

I&II are: A) FT B) FF C) TT D) TF

Question 13) I) If the government follows a policy of balancing budgets, it would act like an automatic stabilizer.

II) Progressive income tax is an automatic stabilizer.

Question 14) I) An unanticipated expansionary monetary policy in the short run will cause both nominal and real interest rates to fall.

II) Suppose the past many years have seen low inflation and restrictive monetary policy. The government switches to an expansionary monetary policy. If we have adaptive expectations in the short run we will continue having low inflation.

1) A

2) A

3) C

4) D

5) C

6) D

7) D

8) D

9) D

10) C

11) A

12) D

13) A I Balancing the budget means cutting government expenses during times of recessions to maintain parity with falling tax revenues (due to lower incomes). II Progressive income taxes reduce (increase) taxes automatically during recessions (booms).

14) D II Adaptive expectations mean that agents will expect low inflation. However their expectations will turn out to be wrong.

© Jayanta Sen 2008