Exam: Applied Macroeconomics
Sample Midterm
ECO 3202.U02
Spring 2010

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following is most likely to lead to an increase of 1% in the nominal demand for money?
   A) An increase in real income of 0.5%
   B) An increase of 1% in the price level
   C) A decline of 1% in the price level
   D) A decrease in real income of 0.5%

2) Money demand is given by
   \( \frac{Md}{P} = 1000 + 0.2Y - 1000i \).
   Given that \( P = 200 \), \( Y = 2000 \), and \( i = 0.1 \), real money demand is equal to
   A) 1,300.
   B) 260,000.
   C) 1,500.
   D) 300,000.

3) If the interest elasticity of money demand is -0.1, by what percent does money demand change if the nominal interest rate rises from 2% to 3%?
   A) 0%
   B) -5%
   C) -0.1%
   D) 5%

4) Money demand is given by
   \( \frac{Md}{P} = 1000 + 0.2Y - 1000i \).
   Given that \( P = 200 \), \( Y = 2000 \), and \( i = 0.1 \), velocity is equal to
   A) 1.54.
   B) 0.75.
   C) 1.33.
   D) 0.65.

5) Suppose velocity is constant at 4, real output is 10, and the price level is 2. From this initial situation, the government increases the nominal money supply to 6. If velocity and output remain unchanged, by how much will the price level increase?
   A) 20%
   B) 24%
   C) 2.4%
   D) 50%

6) The opportunity cost of holding currency decreases when
   A) the interest rate on money decreases.
   B) income decreases.
   C) wealth decreases.
   D) the interest rate on bonds decreases.

7) Suppose real money demand is
   \( L = 0.8 Y - 100,000 (r + \pi^e) \).
   If the nominal money supply is 12,000, real output is 15,000, the real interest rate is .02, and the expected inflation rate is .01, then the price level is
   A) 1
   B) 3
   C) 4/3
   D) 3/4

8) If nominal money supply grows 3% and real money demand grows 8%, the inflation rate is
   A) 8/3%.
   B) 5%.
   C) -5%.
   D) 11%. 
9) The FE line shows the level of output at which the _______ market is in equilibrium.
   A) Money                B) Goods                C) Asset                D) Labor

10) The IS curve would unambiguously shift up and to the right if there were
    A) an increase in the expected future marginal product of capital and a decrease in expected future output.
    B) a decrease in both corporate taxes and the expected future marginal product of capital.
    C) an increase in both government purchases and the expected future marginal product of capital.
    D) an increase in both government purchases and corporate taxes.

11) A temporary adverse supply shock directly causes
    A) a shift up and to the right of the IS curve.
    B) a shift to the left of the FE line.
    C) a shift down and to the right of the LM curve.
    D) a shift down and to the left of the IS curve.

12) A temporary decrease in government purchases causes the real interest rate to _______ and output to _______ in the short run, before prices adjust to restore equilibrium.
    A) rise; rise             B) rise; fall            C) fall; fall            D) fall; rise

13) Which of the following changes shifts the long-run aggregate supply curve to the right?
    A) A decrease in taxes (assuming Ricardian equivalence doesn’t hold)
    B) A decrease in the demand for labor
    C) A demographic change that increases the labor supply
    D) An increase in consumer confidence

14) With a nominal interest rate of 4%, an expected inflation rate of 1%, and interest income taxed at a rate of 25%, what is the expected after-tax real interest rate?
    A) 0%  B) 3%  C) 1%  D) 2%

15) An economy has full-employment output of 5000. Government purchases are 1000. Desired consumption and desired investment are given by
    \[ C^d = 3000 - 2000r + 0.10Y \]
    \[ I^d = 1000 - 4000r \]
    where \( Y \) is output and \( r \) is the real interest rate. The real interest rate that clears the goods market is equal to
    A) 2.50%.  B) 1.25%.  C) 8.33%.  D) 25.00%.  
1) B
2) A
3) B
4) A
5) A
6) D
7) C
8) C
9) D
10) C
11) B
12) C
13) C
14) D
15) C