Eco202, Spring 1998, Quiz 4 (Ch. 15-16).
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1. An increase in the money supply is likely to
   a. increase aggregate demand by lowering interest rates and stimulating investment.
   b. increase aggregate demand by raising interest rates and stimulating investment.
   c. decrease aggregate demand by lowering interest rates and reducing investment.
   d. decrease aggregate demand by raising interest rates and reducing investment.

To answer the next 3 questions, suppose that the Federal Reserve adopted a policy that targets the growth rate of M1 at 4% per year.

2. Using this constant money supply growth rate and assuming nominal wages are “sticky” if the economy slips into a recession and real GDP begins to fall, we should expect to see:
   a. inflation rising and real wages falling.
   b. inflation and real wages rising.
   c. inflation falling and real wages rising.
   d. inflation and real wages falling.

3. Assuming that nominal wages are sticky, if the economy slips into a recession and real GDP begins to fall, we should expect to see
   a. real wages falling which induces firms to hire more workers.
   b. real wages falling which induces firms to lay off workers.
   c. real wages rising which induces firms to hire more workers.
   d. real wages rising which induces firms to lay off workers.

4. If the Fed announces that over the past several month the money supply grew at 2% (which is below their target growth of 4%), it is likely that financial markets will respond with:
   a. higher interest rates and higher bond prices.
   b. higher interest rates and lower bond prices.
   c. lower interest rates and lower bond prices.
   d. lower interest rates and higher bond prices.

5. Which of the following could explain a simultaneous decline in short term interest rates but an increase in long term interest rates?
   a. an increase in the money supply accompanied by a decrease in the expected long term level of inflation.
   b. an increase in the money supply accompanied by an increase in the expected long term level of inflation.
   c. a decrease in the money supply accompanied by a decrease in the expected long term level of inflation.
   d. a decrease in the money supply accompanied by an increase in the expected long term level of inflation.

6. In 1994, Federal government spending was approximately _____ percent of GDP and ______ dollars.
   a. 25; 1.5 trillion
   b. 25; 500 billion.
   c. 10; 500 billion
   d. 10; 3 trillion

7. Over the past 30 years, Federal government spending as a percentage of GDP has
   a. increased.             b. decreased.
8. Over the past 30 years, the largest growth in federal government spending has been on _____.
   a. defense and transfers.  
   b. transfers and interest on the debt.  
   c. defense and interest on the debt.  
   d. transfers and nondefense spending.  

To answer the next 5 questions, suppose the federal government increases spending on defense by $50 billion but does not raise taxes.

9. According to the majority view, this increase in government spending will lead to:
   a. a larger deficit and an increase in loan demand.  
   b. a larger deficit and a decrease in loan demand.  
   c. a smaller deficit and a decrease in loan supply.  
   d. a smaller deficit and an increase in loan supply.  

10. According to the majority view, this increase in government spending will lead to:
    a. higher interest rates and less private investment.  
    b. higher interest rates and more private investment.  
    c. lower interest rates and less private investment.  
    d. lower interest rates and more private investment.  

11. According to the minority view, this increase in government spending implies that:
    a. people will increase saving in response to a larger government budget deficit.  
    b. people will decrease saving in response to a larger government budget deficit.  
    c. people will not adjust their level of saving in response to a larger government budget deficit.

12. According to the minority view, the increase in government spending will lead to:
    a. higher interest rates and less private investment.  
    b. higher interest rates and more private investment.  
    c. no change in either interest rates or private investment.  
    d. no change in interest rates and an increase in consumption.

13. In the minority view an increase in government spending _____ aggregate demand. In the majority view, an increase in government spending _____ aggregate demand.
    a. increases; increases.  
    b. increases; decreases.  
    c. decreases; does not affect.  
    d. does not affect; increases.

14. During a recession, the federal budget deficit is likely to ___.
    a. increase since transfers will rise and tax revenues will fall.  
    b. increase since transfers will fall and tax revenues will rise.  
    c. decrease since transfers will fall and tax revenues will rise.  
    d. decrease since transfers will rise and tax revenues will fall.

15. The Laffer curve shows that:
    a. as tax rates rise, tax revenue may either fall or rise.  
    b. as the inflation rate rises, the unemployment rate falls.  
    c. as interest rates rise, private investment rises.  
    d. as the term on a bond increases, its yield generally rises.

16. Supply side economists believe that aggregate supply can be increased by:
    a. lower tax rates.  
    b. deregulation.  
    c. incentives for research and development.  
    d. all of the above.
17. The first U.S. president to promote supply side economics in a presidential campaign was _______.

18. The Social Security trust funds (as a group) are currently running a
   a. surplus      b. deficit.

19. Under the intermediate assumptions employed by Trustees of the Social Security Trust Fund, the Health Insurance trust fund used to finance Medicare payments is projected to be exhausted in:

20. Under the intermediate assumptions employed by Trustees of the Social Security Trust Fund, the OASI fund (used to fund retirement benefits) is projected to be exhausted in:
   a. 2001      b. 2017      c. 2021      d. 2031

21. The OASI Trust fund will likely be exhausted at a later date than under the intermediate assumptions if:
   a. future wage growth is lower than assumed by the Trustees.
   b. future population growth is lower than assumed by the Trustees.
   c. people die sooner than assumed by the Trustees.
   d. all of the above.

22. A person’s Social Security benefits depend upon:
   a. the average of their highest 15 years of nominal Social Security earnings without adjusting for inflation.
   b. the average of their highest 35 years of nominal Social Security earnings without adjusting for inflation.
   c. the average of their highest 15 years of nominal Social Security earnings after indexing for inflation.
   d. the average of their highest 35 years of nominal Social Security earnings after indexing for inflation.

23. Currently, the payroll tax for all parts of the Social Security system (i.e. Medicare, disability, retirement and survivor benefits) is:
   a. 7.65 percent by only the employee.
   b. 7.65 percent by both the employer and employee.
   c. 3.45 percent by only the employee.
   d. 3.45 percent by both the employer and employee.

24. Suppose John and Mary both paid Social Security taxes all their lives, started work and retired at the same ages, but Mary earned twice as much and paid twice as much in Social Security taxes. Based on this, it is most likely that:
   a. Mary will receive the same Social Security benefit as John.
   b. Mary will receive a Social Security benefit that is twice as large as John’s.
   c. Mary will receive a Social Security benefit that is less than twice as large as John’s.
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