Soochow University, Winter Session I, 2021
ECON202 (Dr. Lei Pan)
Quiz 3 Solution
Due Monday, January 3 2022 at 5:00pm Taipei Time

Multiple Choice Questions [Total = 100 marks]

Choose ONE of the best answers for each of the following questions. Each question is worth 4 marks.

Question 1. [4 marks] Fiat money, such as the dollar bills we use nowadays:

A. is backed by gold.

B. has no intrinsic value at all.

C. is based on the amount of precious metals held by the government.

D. is printed and introduced into the economy by the Treasury of the United States.

Answer B

Question 2. [4 marks] Which of the following is included in M2, but is not included in M1?

A. traveler's checks

B. checkable deposits

C. money market mutual funds

D. demand deposits

Answer C

Question 3. [4 marks] Which of the following actions by the Fed will cause the supply of money to grow?

A. The Fed sells U.S. Treasury bonds.

B. The Fed increases the required reserve ratio.

C. The Fed reduces the discount rate.

D. The Fed audits banks more strictly.

Answer C

Question 4. [4 marks] Which of the following occurs when the Fed reduces the reserve requirement?

A. The money multiplier gets bigger.

B. Banks become more reluctant to lend.

C. The amount of money in the economy is reduced.

D. Interest rates tend to rise in the economy.

Answer A

Question 5. [4 marks] Suppose Gerard moves his $1,000 demand deposit from Bank A to Bank B. If both banks operate with a reserve ratio of 10 per cent, what is the potential change in money supply as a result of Gerard's action?

A. $10,000

B. $1,000

C. $9,000

D. $0

Answer D

Question 6. [4 marks] Suppose all banks maintain a 100 percent reserve ratio. If an individual deposits $1,000 of currency in a bank,

A. the money supply increases by more than $1,000.

B. the money supply increases by less than $1,000.

C. the money supply decreases by less than $1,000.

D. the money supply is unaffected.

Answer D

Question 7. [4 marks] According to the Classical Dichotomy:

A. nominal variables do not affect real variables.

B. real variables do not affect nominal variables.

C. nominal variables are not adjusted for inflation and real units are adjusted for inflation.

D. nominal variables are expressed in monetary units and real variables are expressed in physical units.

Answer D

Question 8. [4 marks] The resources wasted when inflation encourages people to reduce their money holdings is called:

A. menu costs.

B. shoeleather costs.

C. misallocation of resources.

D. relative price variability.

Answer B

Question 9. [4 marks] In the long run, the demand for money is most dependent upon

A. the level of prices.

B. the interest rate.

C. the availability of banking outlets.

D. the availability of credit cards.

Answer A

Question 10. [4 marks] An example of a real variable is

A. the wage rate in euros.

B. the price of corn.

C. the ratio of the value of wages to the price of soda.

D. None of these answers are real variables.

Answer C

Question 11. [4 marks] If the money supply grows 5 per cent, and real output grows 2 per cent, prices should rise by

A. 5 per cent.

B. more than 5 per cent.

C. less than 5 per cent.

D. none of these answers.

Answer C

Question 12. [4 marks] Suppose the nominal interest rate is 7 per cent while the money supply is growing at a rate of 5 per cent per year. If the government increases the growth rate of the money supply from 5 per cent to 9 per cent, the Fisher effect suggests that, in the long run, the nominal interest rate should become

A. 9 per cent.

B. 11 per cent.

C. 4 per cent.

D. 16 per cent.

Answer B

Question 13. [4 marks] Which of the following costs of inflation does not occur when inflation is constant and predictable?

A. Costs due to inflation induced tax distortions.

B. Arbitrary redistributions of wealth.

C. Shoeleather costs.

D. Menu costs.

Answer B

Question 14. [4 marks] If the real interest rate is 4 per cent, the inflation rate is 6 per cent, and the tax rate is 20 per cent, what is the after tax real interest rate?

A. 5 per cent

B. 2 per cent

C. 1 per cent

D. 3 per cent

Answer B

Question 15. [4 marks] Net Exports are affected by which of the following?

i. Tastes of consumers.
ii. Prices of goods at home and abroad.
iii. The incomes of consumers at home and abroad.
iv. Government policies toward international trade.

A. only i, ii, and iii

B. only ii, iii, and iv

C. only i, ii, and iv

D. all four

Answer D

Question 16. [4 marks] Other things remaining equal, if real interest rates increase abroad, our:

A. net exports will decrease.

B. net capital outflow will increase.

C. net capital outflow will decrease.

D. none of the above.

Answer B

Question 17. [4 marks] If the U.S. has a trade deficit, it means that:

A. saving in the U.S. is less than investment.

B. saving in the U.S. is grater than investment.

C. foreign incomes are greater than U.S. incomes.

D. foreign incomes are less than U.S. incomes.

Answer A

Question 18. [4 marks] If purchasing-power parity holds, and if prices in country A are the same as prices in country B, it means that the _______ exchange rate between these countries is equal to _______.

A. real, zero

B. real, one

C. nominal, zero

D. nominal, one

Answer D

Question 19. [4 marks] According to the Purchasing Power Parity Theory, if a dollar will buy more in the U.S. than abroad, traders will _______, which will cause the dollar to _______.

A. buy abroad and sell in the U.S., depreciate

B. buy abroad and sell in the U.S., appreciate

C. buy in the U.S. and sell abroad, appreciate

D. buy in the U.S. and sell abroad, depreciate

Answer C

Question 20. [4 marks] Which of the following would directly increase UK net capital outflow?

A. Rolls Royce sells an aircraft engine to Boeing of the USA.

B. The Japanese financial company Nomura buys shares in Vodafone.

C. BP builds a new oilrig in Venezuela.

D. Honda builds a new plant in Swindon, England.

Answer C

Question 21. [4 marks] In an open economy, the source of supply of loans in the loanable funds market is _______, and the source of demand is _______.

A. Investment and Net Capital Outflow, National Saving

B. Investment, National Saving and Net Capital Outflow

C. National Saving and Net Capital Outflow, Investment

D. National Saving, Investment and Net Capital Outflow

Answer D

Question 22. [4 marks] If the Net Capital Outflow increases, the _______ of dollars in the Foreign Currency Exchange Market will increase, causing the real exchange rate to _______.

A. supply, appreciate

B. supply, depreciate

C. demand, appreciate

D. demand, depreciate

Answer B

Question 23. [4 marks] Other things remaining equal, if the Federal government budget deficit increases, the real interest rate will _______, causing Net Capital Outflow and Net Exports to _______.

A. increase, increase

B. increase, decrease

C. decrease, increase

D. decrease, decrease

Answer B

Question 24. [4 marks] If an economic crisis were to occur in the U.S., domestic interest rates would _______, the real exchange rate would _______, and Net Exports would _______.

A. drop, depreciate, increase

B. drop, appreciate, decrease

C. rise, depreciate, increase

D. rise, appreciate, decrease

Answer C

Question 25. [4 marks] An increase in US private saving

A. increases US net exports and US net capital outflow the same amount.

B. increases US net exports and decreases US net capital outflow.

C. decreases US net exports and US net capital outflow the same amount.

D. decreases US net exports and increases US net capital outflow.

Answer A