Economics 1021, Section 1 **Prof. Steve Fazzari**
Practice Multiplier Choice Questions for Exam 3 **Spring, 2013**

_B___ 18. There is a good argument to be made that small economies that sell much of their GDP abroad and import a high share of consumption goods have a lower multiplier than large economies like the U.S. Which of the following factors is most likely to explain this result?

(A) Lower investment accelerator in the small economy.
(B) Higher share of imports in GDP for the small economy.
(C) Higher share of exports in GDP for the small economy.
(D) Lower marginal propensity to consume in the small economy.

_B___ 19. Which of the following alternatives is *not* a practical challenge of using monetary policy to respond to insufficient aggregate demand?

(A) Uncertainty about what the target level of output should be.
(B) A long lag between identifying an AD problem and implementing stimulative policy.
(C) Estimating how much interest rates must fall to reach target output.
(D) Lags between policy implementation and the convergence of output to the new equilibrium level.

_A___ 20. Which of the following statements about U.S. federal government spending and taxation is most likely to be *false*?

(A) Major percentage reductions in U.S. spending on foreign aid and business regulation will lead to a substantial percentage reduction in total federal spending.
(B) The federal deficit increased dramatically in the Great Recession of 2008 and 2009 in large part because a slow economy reduced income growth.
(C) Transfer payments constitute a large and growing share of federal spending.
(D) Federal spending on goods and services fell as a share of output in recent decades.

**Note that we covered this material on exam #2. You will not be responsible for the detailed trends of government spending and taxation on exam #3, although exam #3 will cover the government deficit and other macroeconomic effects of fiscal policy.

_B___ 21. Which of the following aspects of modern monetary policy can be explicitly attributed to inflation targeting rather than more general monetary policy pursued for macroeconomic stabilization?

(A) Monetary policy stimulates demand by reducing the federal funds interest rate.
(B) Monetary policy transparency helps anchor inflation expectations
(C) Stimulative monetary policy causes higher inflation in the long run.
(D) An increase in bank reserves through Fed open market purchases drives up inflation immediately.

_A___ 22. Which of the following statements accurately describes the dilemma for the "new consensus" macroeconomic model if the federal funds interest rate hits the "zero bound?"

(A) Monetary policy, as described by the Taylor Rule, can no longer effectively boost aggregate demand.
(B) Further easing of monetary policy will produce inflation only, with no effect on output and employment.
(C) Inflation will quickly fall to zero and the economy may fall into a damaging deflation.
(D) Banks will no longer accept reserve payments from the Fed in return for valuable assets like U.S. Treasury bonds.

_B___ 23. For a developed country operating with modern technology, which of the following alternatives most likely describes the long-run source of rising labor productivity and improving living standards?

(A) Higher investment that raises the capital stock.
(B) Improvements in technology.
(C) Effective monetary policy following the Taylor rule.

(D) Long-term increases in consumer spending that encourage firms to raise production.

_C___ 24. Suppose the Fed wants to reduce the threat of inflation. Which of the following statements best describes the policy action the Fed would take?

(A) Open market purchase of government bonds to raise the federal funds interest rate.
(B) Open market purchase of government bonds to lower the federal funds interest rate.
(C) Open market sale of government bonds to raise the federal funds interest rate.
(D) Open market sale of government bonds to lower the federal funds interest rate.

_B___ 25. Which statement below best describes the historical link between inflation and the state of the overall U.S. economy?

(A) When the economy weakens inflation usually rises creating "stagflation" as in the 1970s.
(B) Inflation usually declines when the economy weakens, but there has been little acceleration of inflation in strong economic conditions over recent decades.
(C) Inflation has been more or less constant regardless of the state of the U.S. economy for the past 30 years.
(D) Inflation accelerates when the Fed attempts to stimulate a weak overall economy.

_D___ 26. Which of the following alternatives occur when a crazy fraternity boy dressed like a cow runs into a large macroeconomics lecture?

(A) Students encourage the silliness by nudging the instructors to go along with the joke.
(B) A somewhat flustered professor consumes a drink he doesn't really like.
(C) The class breaks into the most rousing applause in the professor's multi-decade teaching career.
(D) All of the above.