Instructions:
40 multiple-choice questions, each with 4 responses
Students need to bring: (1) Sanddollar ID card; (2) scantron Form 882-E; (3) pencil; (4) calculator (optional)

Chapter 25
- ✓ Productivity
- ✓ Diminishing returns
- ✓ Production functions and the catch up effect/convergence hypothesis
- ✓ FDI
- ✓ Factors affecting growth in developing countries

Chapter 24
- ✓ CPI and its problems
- ✓ Nominal vs real interest rate
- ✓ CPI vs GDP deflator
- ✓ Adjusting prices through time

Chapter 28
- ✓ Unemployment rate
- ✓ Labor force participation rate
- ✓ Stock vs flow variables
- ✓ Types of unemployment
- ✓ Natural rate of unemployment

Chapter 29
- ✓ Definition of money
- ✓ Functions of money
- ✓ Commodity vs fiat money
- ✓ Liquidity
- ✓ Monetary aggregates
- ✓ Central banking
- ✓ The Federal Reserve, it's structure, the Board of Governors and the FOMC
- ✓ Reserves
- ✓ Fractional reserve banking
- ✓ Money multiplier
- ✓ Financial crisis of 2008-09
- ✓ 3 tools of monetary policy
- ✓ Problems with tools
- ✓ Bank runs
- ✓ Fed funds rate vs discount rate

Chapter 30
- ✓ General definition of inflation
- ✓ Disinflation, deflation and hyperinflation
- ✓ Classical theory of money
- ✓ Demand and supply of money
- ✓ Classical dichotomy
- ✓ Quantity theory of money
- ✓ Equation of exchange
- ✓ Monetary neutrality
- ✓ Evidence for quantity theory – hyperinflation episodes

- ✓ Inflation tax
- ✓ Fisher effect/hypothesis
- ✓ Costs of inflation – shoeleather, menu, higher variability
- ✓ Tax distortions
- ✓ Anticipated vs unanticipated money supply increase effects
- ✓ Deflation
- ✓ Wizard of Oz

Chapter 31
- ✓ Trade balance and what determines it
- ✓ Net capital outflow and what determines it
- ✓ Relation between trade balance and net capital outflow
- ✓ Simple national income algebra to evaluate saving, investment and the trade balance
- ✓ US external balance history
- ✓ Nominal exchange rates – appreciation and depreciation
- ✓ Real exchange rates
- ✓ PPP and its limitations
- ✓ Big mac standard

Test 2 Examples

Multiple Choice
Identify the choice that best completes the statement or answers the question.

_____ 1. Which of the following would be considered physical capital?
 a. the available knowledge on how to make semiconductors
 b. a taxi-cab driver's knowledge of the fastest routes to take
 c. bulldozers, backhoes and other construction equipment
 d. All of the above are correct.

_____ 2. Country A and country B both increase their capital stock by one unit. Output in country A increases by 15 while output in country B increases by 12. Other things the same, diminishing returns implies that country A is
 a. richer than Country B. If Country A adds another unit of capital, output will increase by more than 15 units.
 b. richer than Country B. If Country A adds another unit of capital, output will increase by less than 15 units.
 c. poorer than Country B. If Country A adds another unit of capital, output will increase by more than 15 units.
 d. poorer than Country B. If Country A adds another unit of capital, output will increase by less than 15 units.

_____ 3. The Bureau of Labor Statistics places people in the "employed" category if they
 a. are without a job, but are available for work and have tried to find a job during the previous 4 weeks.
 b. work without pay in a family member's business.
 c. are waiting to be recalled to a job from which they had been laid off.
 d. All of the above are correct.

Table 28-1

Labor Data for Aridia

Year	2010	2011	2012
Adult population	2000	3000	3200
Number of employed	1400	1300	1600
Number of unemployed	200	600	200

____ 4. **Refer to Table 28-1.** The labor-force participation rate of Aridia in 2011 was
   a. 43.3%.
   b. 54.2%.
   c. 63.3%.
   d. 68.4%.

____ 5. Mia puts money into a piggy bank so she can spend it later. What function of money does this illustrate?
   a. store of value
   b. medium of exchange
   c. unit of account
   d. None of the above is correct.

____ 6. Which of the following is included in both M1 and M2?
   a. savings deposits
   b. demand deposits
   c. small time deposits
   d. money market mutual funds

____ 7. The Federal Reserve
   a. was created in 1836.
   b. serves as a lender of last resort.
   c. was created to facilitate the federal government's collection of taxes as well as its expenditures.
   d. All of the above are correct.

____ 8. If the reserve ratio is 5 percent, then $1,000 of additional reserves can create up to
   a. $5,500 of new money.
   b. $5,000 of new money.
   c. $4,000 of new money.
   d. None of the above is correct.

____ 9. To increase the money supply, the Fed could
   a. sell government bonds.
   b. increase the discount rate.
   c. decrease the reserve requirement.
   d. None of the above is correct.

____ 10. The principle of monetary neutrality implies that an increase in the money supply will
   a. increase real GDP and the price level.
   b. increase real GDP, but not the price level.
   c. increase the price level, but not real GDP.
   d. increase neither the price level nor real GDP.

_____ 11. If M = 4,000, P = 1.5, and Y= 6,000, what is velocity?
   a. 2.25
   b. 3.00
   c. 6.50
   d. None of the above is correct.

_____ 12. If inflation is higher than what was expected,
   a. creditors receive a lower real interest rate than they had anticipated.
   b. creditors pay a lower real interest rate than they had anticipated.
   c. debtors receive a higher real interest rate than they had anticipated.
   d. debtors pay a higher real interest rate than they had anticipated.

_____ 13. Which of the following statements is correct for an open economy with a trade surplus?
   a. The trade surplus cannot last for very many years.
   b. The trade surplus must be offset by negative net capital outflow.
   c. The trade surplus implies that the country's national saving is greater than domestic
       investment.
   d. None of the above is correct.

_____ 14. Other things the same, the real exchange rate between American and Mexican goods would be lower if
   a. prices of Mexican goods were higher, or the number of pesos a dollar purchased was
       higher.
   b. prices of Mexican goods were higher, or the number of pesos a dollar purchased was
       lower.
   c. prices of Mexican goods were lower, or the number of pesos a dollar purchased was
       higher.
   d. prices of Mexican goods were lower, or the number of pesos a dollar purchased was lower.

Test 2 Examples
Answer Section

MULTIPLE CHOICE

   1. C
   2. D
   3. B
   4. C
   5. A
   6. B
   7. B
   8. D
   9. C
  10. C
  11. A
  12. A
  13. C
  14. B