Midterm Quiz

MBA 774
Macroeconomics
Fall 2007
Greg Brown

If your exam is not graded correctly or you feel that your answer is correct, you must submit an appeal in writing along with your original exam answer sheet.

Average = 13.7
Standard Deviation = 3.0
Min = 3
Max = 20
1. Which of the following is a problem with how real GDP is typically measured:
   A. Measurements do not account for inflation.
   B. **It is difficult or impossible to measure black market (illegal) activity.**
   C. GDP overstates the effects of pollution and other externalities.
   D. All of the above.
   E. None of the above.

2. The combined size of the economies of high income countries (using GDP at market exchange rates) is about what fraction of the total global economy?
   A. **Much more than 50%**
   B. About 50%
   C. About 25%
   D. About 10%

3. Which of the following transactions will directly decrease the French current account?
   A. A US mutual fund buys French stocks worth 5 million Euro.
   B. A US mutual fund sells French stocks worth 5 million Euro.
   C. Airbus ships 10 new airplanes produced in France to a customer in England.
   D. **French movie-goers go to the new Hollywood action movie (produced in the US).**
   E. Bill Gates buys a Renoir painting from a French art dealer.

4. The downturn in the US economy in 2001-2002 was especially concentrated in
   A. Consumer durables.
   B. Consumer non-durables.
   C. Residential investment.
   D. **Business investment.**
   E. Government expenditures.

5. Which of the following gives the broadest measure of inflation?
   A. Producer Price Index for crude goods.
   B. Producer Price Index for intermediate goods.
   C. Producer Price Index for finished goods.
   D. Consumer Price Index.
   E. **GDP Deflator.**

6. Suppose country X has a current account surplus, which of the following is true?
   A. Net foreign wealth (i.e., wealth held by citizens of country X) will tend to increase.
   B. Imports will be greater than exports.
   C. national savings will be lower than if the country has a current account deficit.
   D. All of the above.

7. Which of the following is not a useful property of fiat money.
   A. Its use as a medium of exchange.
   B. **Its ability to be redeemed for a hard commodity (i.e., gold or silver).**
   C. Its use as a unit of account.
   D. Its ability to transfer wealth through time (i.e., as a store of value).
8. In general, monetary policy in developed countries would try to affect the economy by having high real interest rates when
   A. actual GDP is greater than potential GDP and the unemployment is above NAIRU.
   B. actual GDP is less than potential GDP and the unemployment is above NAIRU.
   C. **actual GDP is greater than potential GDP and the unemployment is below NAIRU.**
   D. actual GDP is less than potential GDP and the unemployment is below NAIRU.

9. In the month of September, US durable goods orders
   A. declined for the 2\textsuperscript{nd} straight month.
   B. increased when considering only “nondefense capital goods excluding aircraft”.
   C. **both A and B**
   D. neither A nor B

10. US existing home sales fell significantly in the month of September. However,
    A. the decline was much less than expected.
    B. **the inventory of unsold homes declined slightly from 10 months to 9.6 months supply.**
    C. both A and B
    D. neither A nor B

11. Which of the following has happened in the last few months in the foreign exchange market?
    A. The US dollar has hit a record low against the Euro.
    B. The US dollar reached parity (1-to-1 exchange rate) with the Canadian dollar.
    C. Chinese officials have suggested that they might prefer investing in other currencies instead of the dollar.
    D. **All the above.**
    E. None of the above.

12. The advance estimate of 3\textsuperscript{rd} quarter US GDP growth showed
    A. an economy clearly sliding into recession.
    B. clear evidence that the weakness in residential investment has spread into consumption.
    C. a continued negative contribution from the net exports component.
    D. All the above.
    E. **None of the above.**

13. At the recent meeting of the Federal Open Market Committee (FOMC), the committee decided to
    A. unexpectedly leave their target for Fed Funds Rate unchanged.
    B. as expected leave their target for Fed Funds Rate unchanged.
    C. unexpectedly decrease their target for Fed Funds Rate by 0.25%.
    D. **as expected decrease their target for Fed Funds Rate by 0.25%.**
    E. unexpectedly decrease their target for Fed Funds Rate by 0.50%.

14. Recent declines in both the University of Michigan consumer sentiment index and the Conference Board consumer confidence index indicate
    A. that personal consumption has declined significantly already.
    B. that personal consumption will almost surely decline in the next few months.
    C. that consumers will increase savings significantly for the remaining months of this year.
    D. **nothing of any significance if recent trends are used as a guide.**
15. The recent increases in oil prices have resulted in
   A. accelerating US inflation as measured by the closely watched employment cost index.
   B. **little in the way of higher US inflation by most measures that exclude food and energy**.
   C. higher real (inflation adjusted) US imports of oil.
   D. All the above

16. The October report on the US employment showed
   A. an unexpectedly large increase in nonfarm payrolls.
   B. an unchanged unemployment rate of 4.7%.
   C. job gains in the service sector but job losses in goods-producing industries.
   D. **All the above**.
   E. None of the above

17. The November 6th front page Wall Street Journal article on the European Central Bank (ECB) revealed that the ECB
   A. was unprepared to deal with the credit market crisis in August.
   B. had failed to conduct simulations of how they would respond to financial crises.
   C. actually intended to let short-term interest rates spike up to punish banks for poor lending decisions.
   D. **All the above**.
   E. None of the above.

18. The Economist article “Our Mutual Friend” discussing the hyperinflation in Zimbabwe suggests that a potentially useful way of approximating the true exchange rate is to
   A. decompose official statistics by region.
   B. **use the ratio of stock prices for a company that trade in Zimbabwe and elsewhere**.
   C. take the ratio of GDP growth in local versus foreign markets.
   D. None of the above

19. A bank run (where many bank depositors try to quickly withdraw their money)
   A. can only happen in emerging markets.
   B. has not happened in a developed economy since the great depression.
   C. is always preventable by qualified central bankers.
   D. All the above
   E. **None of the above**

20. The economist article “Making More with Less” discussed the slowing trend in US productivity through the 2nd quarter of 2006. Which of the following correctly describes a point made in the article?
   A. **Slower productivity growth is typical in the later stages of an economic expansion.**
   B. Slower productivity growth will tend to reduce inflation and increase the standard of living.
   C. The decline residential building is not responsible for the slower growth.
   D. All the above
   E. None of the above
# Answer Sheet

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