Name: __________________________ Date: _05.08.2004_______

(write your name in capitals)

This closed book quiz is an individual work, any discussion with classmate(s) is considered as cheating. If you have any questions ask TA.

1. The U.S. economic slowdown of 2001 can be explained in part by a declining stock market and terrorist attacks. Both of these shocks can be represented in the *IS-LM* model by shifting the ______ curve to the ______.

A) *LM*; right
B) *LM*; left
C) *IS*; right
D) *IS*; left

2. The *LM* curve is steeper the ______ the interest sensitivity of money demand and the ______ the effect of income on money demand.

A) greater; greater
B) greater; smaller
C) smaller; smaller
D) smaller; greater

3. A liquidity trap occurs when:

A) banks have too much currency and close their doors to new customers.
B) the central bank mistakenly prints too much money generating hyperinflation.
C) interest rates fall so low that monetary policy is no longer effective.
D) dams and locks are built to prevent flooding.

4. In the *IS-LM* model when taxation increases, in short-run equilibrium, in the usual case, the interest rate ______ and output ______.

A) rises; falls
B) rises; rises
C) falls; rises
D) falls; falls

5. In the *IS-LM* model, changes in taxes initially affect planned expenditures through:

A) consumption.
B) investment.
C) government spending.
D) the interest rate.

6. If the short-run *IS-LM* equilibrium occurs at a level of income above the natural rate of output, in the long run the ______ will ______ in order to return output to the natural rate.

A) price level; increase

B) interest rate; decrease
C) money supply; increase
D) consumption function; decrease

7. If Congress passed a tax increase at the request of the president to reduce the budget deficit, but the Fed held the money supply constant, then the two policies together would generally lead to ______ income and a ______ interest rate.
A) lower; lower
B) lower; higher
C) no change in; lower
D) no change in; higher

8. If the *LM* curve is vertical and government spending rises by *G*, in the *IS*-*LM* analysis, then equilibrium income rises by:
A) *G*/(1 - *MPC*).
B) more than zero but less than *G*/(1 - *MPC*).
C) *G*.
D) zero.

9. According to the *IS*-*LM* model, when the government increases taxes and government purchases by equal amounts:
A) income, the interest rate, consumption, and investment are unchanged.
B) income and the interest rate rise, whereas consumption and investment fall.
C) income and the interest rate fall, whereas consumption and interest rise.
D) income, the interest rate, consumption, and investment all rise.

10. If money demand does not depend on income, then the ______ curve is ______.
A) *IS*; vertical
B) *IS*; horizontal
C) *LM*; vertical
D) *LM*; horizontal

11. The introduction of a stylish new line of Toyotas, which makes some consumers prefer foreign cars over domestic cars, will, according to the Mundell-Fleming model with fixed exchange rates, lead to:
A) a fall in income and net exports.
B) no change in income or net exports.
C) a fall in income but no change in net exports.
D) no change in income but a fall in net exports.

12. The introduction of automatic teller machines, which reduces the demand for money, will, according to the Mundell-Fleming model with fixed exchange rates, lead to:
A) a rise in income and net exports.
B) no change in income or net exports.

C) no change in income but a rise in net exports.
D) a rise in income but no change in net exports.

13. A fall in consumer confidence about the future, which induces consumers to spend less and save more, will, according to the Mundell-Fleming model, with fixed exchange rates, lead to:
A) a fall in consumption and income.
B) no change in consumption or income.
C) no change in income but a rise in net exports.
D) a fall in income but a rise in net exports.

14. In a small, open economy with a floating exchange rate, the exchange rate will depreciate if:
A) the money supply is decreased.
B) import quotas are imposed.
C) government spending is increased.
D) taxes are decreased.

15. In a small open economy with a fixed exchange rate, if the government increases government purchases, then in the new short-run equilibrium:
A) the exchange rate rises but income does not rise.
B) income rises but the exchange rate does not rise.
C) both income and the exchange rate rise.
D) neither income nor the exchange rate rises, as the money supply contracts.

16. In a small open economy with a fixed exchange rate, if the government imposes an import quota, then net exports:
A) decrease but the money supply falls and income falls.
B) increase, the money supply increases, and income increases.
C) are unchanged but the money supply falls and income falls.
D) are unchanged, the money supply is unchanged, and income is unchanged.

17. In a small open economy with a fixed exchange rate, if the central bank tries to increase the money supply, then in the new short-run equilibrium:
A) income rises.
B) income falls.
C) the exchange rate falls.
D) income remains constant.

18. The Mundell-Fleming model is a ______ model for a ______ open economy.
A) short-run; small
B) short-run; large
C) long-run; large
D) long-run; small

19. Under a fixed system, the exchange rate:
A) fluctuates in response to changing economic conditions.
B) is maintained at a predetermined level by the central bank.
C) is changed at regular intervals by the central bank.
D) fluctuates in response to changes in the price of gold.

20. Under a floating system, the exchange rate:
A) fluctuates in response to changing economic conditions.
B) is maintained at a predetermined level by the central bank.
C) is changed at regular intervals by the central bank.
D) fluctuates in response to changes in the price of gold.