Intermediate Macroeconomics (ECON 311)

Exam 2 Review

Key Terms

| Aggregate Demand | Inflation | Price Stickiness |
| Aggregate Supply (SR & LR) | Labor Force & participation rate | Quantity Theory of Money |
| Business Cycles & Indicators | Monetary Base | Real Money Balances |
| Classical Dichotomy | Money & Money functions | Reserves-to-Deposit ratio |
| Currency-to-Deposit ratio | Money Demand | Seignorage |
| Efficiency Wages | Money Multiplier | Structural Unemployment |
| Fisher Decomposition | Money Neutrality | Velocity of Money |
| Fractional Reserve Banking | Money Supply | Wage Rigidities |
| Frictional Unemployment | Open Market Operations |

True/False  Determine if the question is true or false (answer key at end of document)

1. Money is said by economists to be neutral in the short-run.

2. If velocity is stable, changes in the money supply should exert proportional changes in price levels in the longer run.

3. Increases in retirement rates and in numbers of discouraged workers have contributed to increases in the labor force participation rate in recent years.

4. A 5% reduction in the money supply will, according to most economists, reduce prices by 5% in the long-run but lead to unemployment and a reduction in output in the short run.

5. Other things equal, a decline in job finding rates will raise the unemployment rate.

Multiple Choice  Select the best answer from among the available choices

6. Along the aggregate demand curve, which of the following are held constant?
   a) real output and prices.
   b) nominal output and velocity.
   c) the money supply and real output.
   d) the money supply and velocity.

7. Discouraged workers are counted as:
   a) part of the labor force  b) out of the labor force  c) employed  d) unemployed

8. If nominal wages cannot be cut, then one way to cut real wages is by:
   a) inflation.
   b) unionization.
   c) legislation.
   d) productivity increases.

9. If the nominal interest rate is 1% and the inflation rate is 5%, the implied real interest rate is:
   a) 4%.  b) 6%.  c) −4%.  d) −6%. 
10. Suppose currency held by the (non-bank) public is $100 billion, total bank reserves are $50 billion, and bank deposits equal $500 billion, then the monetary base is:
   a) $150 billion.
   b) $550 billion.
   c) $600 billion.
   d) $650 billion.

11. If the short-run aggregate supply curve is horizontal and the long-run aggregate supply curve is vertical, then a change in the money supply will change _____ in the short run and change _____ in the long run.
   a) only prices; only output.
   b) only output; only prices.
   c) both prices & output; only prices.
   d) both prices & output; both prices & output.

12. The general demand function for real money balances depends on the level of income and:
   a) real output.
   b) nominal interest rates.
   c) the rate of inflation.
   d) price levels.

13. According to efficiency wage theories, firms benefit from paying higher-than-market clearing wages because worker __________ increases.
   a) productivity  b) turnover  c) unionization  d) absenteeism.

14. The Fed’s recent Quantitative Easing programs have been less effective than anticipated because:
   a) prices have risen.
   b) velocity has risen.
   c) banks have chosen to hold large amounts of excess reserves.
   d) banks have chosen to hold large amounts of required reserves.

15. Assume a country experiences a reduction in productivity that lowers the marginal product of labor for any given level of labor. In this case, the:
   a) labor supply curve shifts to the right
   b) labor supply curve shifts to the left.
   c) labor demand curve shifts up and to the right.
   d) labor demand curve shifts down and to the left.

16. If many banks fail, this seems likely to:
   a) increase the currency-to-deposits ratio.
   b) decrease the currency-to-deposits ratio.
   c) have no effect on the currency-to-deposits ratio.
   d) lower the amount of currency in the hands of the non-bank public.

17. If the short run aggregate supply is horizontal, and, if the general public chooses to hold a larger fraction of income as cash balances, then:
   a) output & employment will increase in the short run.
   b) output & employment will decrease in the short run.
   c) prices will increase in the short run.
   d) prices will decrease in the short run.

18. The theoretical separation of real and monetary variables is called:
   a) the classical dichotomy.
   b) monetary neutrality.
   c) the Fisher effect.
   d) the quantity theory of money.


You should also be able to:

- Draw and use (i.e., be able to make predictions from) the SRAS/LRAS AD model, esp. with respect to shorter run cyclical behavior
- Draw and explain the basic model of unemployment as a function of job finding and job separation rates