

2007 NATIONAL ECONOMICS CHALLENGE
NCEE/Goldman Sachs Foundation

National Round II: Macroeconomics
Adam Smith Division

1. A policy mix of expansionary fiscal policy and contractionary monetary policy is likely to yield:
 - A. Higher output, lower interest rates, and increased inflation in the long run.
 - B. Uncertain output, higher interest rates, and reduced inflation in the long run.
 - C. Lower output, lower interest rates, and increased inflation in the long run.
 - D. Uncertain output, lower interest rates, and increased inflation in the long run.
 - E. Higher output, higher interest rates, and reduced inflation in the long run.

2. Okun's Law expresses a relationship between
 - A. inflation and unemployment rates.
 - B. interest rates and output.
 - C. the aggregate price level and real GDP.
 - D. the output gap and the deviation of unemployment rates from the natural rate.
 - E. the gap between wage growth & inflation and interest rates.

3. In going from national income to disposable personal income, one must
 - A. add depreciation and indirect business taxes.
 - B. subtract personal income taxes and add transfer payments.
 - C. subtract payroll and personal income taxes, and add transfer payments.
 - D. subtract corporate profits, social insurance contributions, personal tax and nontax payments, and net interest and add dividends, personal interest income, and government transfers to individuals.
 - E. add factor payments from abroad and subtract factor payments to abroad.

4. A Taylor Rule is used to
- A. describe how monetary policy should target short-term interest rates in order to achieve output stability and long-term inflation goals.
 - B. describe how fiscal policy should be conducted in order to achieve a cyclically balanced budget.
 - C. describe how fiscal policy should be conducted in order to achieve a structurally balanced budget.
 - D. describe how governments should sterilize monetary policy operations in order to prevent official foreign exchange purchases from influencing domestic monetary conditions
 - E. describe the means by which the current account and capital account are used to offset one another to achieve overall balance in the balance of payments.
5. Imagine a Keynesian model in which the federal government is maintaining a zero deficit and in which economic policymakers still wish to stimulate economic activity through activist fiscal policy yet still retain zero deficits. Which term best describes how this could be done?
- A. Sterilization
 - B. Monetization
 - C. Crowding Out
 - D. Automatic Stabilizers
 - E. Balanced Budget Multiplier
6. Suppose the velocity of money is constant and real GDP is growing at a 3% annual rate. If the money supply is growing at a 7% rate and the nominal interest rate is 9%, what is the value of the ex-post real interest rate?
- A. -2%
 - B. 1%
 - C. 4%
 - D. 5%
 - E. 15%

7. When the economy is in an inflationary gap and the Federal Reserve decides to engage in a persistent pattern of open market sales. In what ways are interest rates, investment expenditures, output, and the price level likely to change in response to this policy initiative?

	<u>Interest Rates</u>	<u>Investment</u>	<u>Output</u>	<u>Price Level</u>
A.	Increase	Increase	Decrease	Decrease
B.	Increase	Decrease	Decrease	Decrease
C.	Increase	Decrease	Decrease	Increase
D.	Decrease	Increase	Decrease	Decrease
E.	Decrease	Decrease	Decrease	Decrease

8. A real business cycle model
- A. attributes economic fluctuations to spending shocks
 - B. argues that monetary policy has a very powerful effect over economic activity
 - C. asserts that the multiplier effect of a change in autonomous expenditures leads to very large changes in output and income
 - D. attributes economic fluctuations to changes in such things as work/leisure preferences and productivity shocks
 - E. rules out that there can be any difference between real and nominal economic magnitudes
9. Which of the following is not likely to be included in the production function of a long-term economic growth model?
- A. the money supply
 - B. the capital stock
 - C. the labor force
 - D. a technology parameter
 - E. the stock of human capital
10. In a liquidity trap,
- A. an increase in the money supply will not cause an increase in economic activity
 - B. fiscal policy is doomed to failure
 - C. hyperinflation is likely to exist
 - D. interest rates are likely to be very high
 - E. people will choose to hold no money

11. Which of the following would be counted as investment when calculating GDP?
- A. The profit earned from the sale of bonds
 - B. The purchase of a share of Microsoft stock
 - C. A household purchase of a new automobile that has an expected useful life of 7 years
 - D. The construction of a new home
 - E. The tuition paid by a university student
12. When monetary policy actions cause interest rates on newly issued government bonds to rise from 7% to 8%, the prices of existing bonds:
- A. decrease
 - B. remain unchanged
 - C. increase
 - D. decrease only if the coupon rate on the bond is greater than 7%
 - E. increase only if the coupon rate on the bond is less than 8%
13. 100 people 16 years of age or older are not in the labor force in an economy whose labor force participation rate is 50 percent. Assuming the unemployment rate is 5%, how many people are employed in this economy?
- A. 5
 - B. 95
 - C. 100
 - D. 195
 - E. 200
14. When economies manage to add more capital to a production process in which the number of workers is fixed, average labor productivity _____ at a _____ rate. Fill in the blanks.
- A. decreases; decreasing
 - B. decreases; increasing
 - C. decreases; constant
 - D. increases; decreasing
 - E. increases; increasing

15. Which of the following does not tend to drain reserves from the banking system?
- A. Increased public demand for currency
 - B. Unsterilized Federal Reserve sales of foreign currency
 - C. A reduction in the float
 - D. Open market sales
 - E. Bad weather that limits check clearing