1. In the long run, the level of national income in an economy is determined by its:
   A. factors of production and production function.
   B. real and nominal interest rate.
   C. government budget surplus or deficit.
   D. rate of economic and accounting profit.

2. The production function feature called “constant returns to scale” means that if we:
   A. multiply capital by z1 and labor by z2, we multiply output by z3.
   B. increase capital and labor by 10 percent each, we increase output by 10 percent.
   C. increase capital and labor by 5 percent each, we increase output by 10 percent.
   D. increase capital by 10 percent and increase labor by 5 percent, we increase output by 7.5 percent.

3. The real wage will increase if:
   A. the supply of labor increases.
   B. the productivity of labor increases.
   C. the price of output decreases.
   D. the supply of capital decreases.

4. Accounting profit is:
   A. economic profit minus the return to capital.
   B. equal to economic profit.
   C. economic profit plus the return to capital.
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5. In fourteenth-century Europe, the bubonic plague:
A. reduced the population of Europe by about one-half.
B. substantially increased economic output in Europe.
C. substantially increased real rentals on land in Europe.
D. substantially increased real wages in Europe.

6. If \( Y = AK^{0.5}L^{0.5} \) and \( A, K, \) and \( L \) are all 100, the marginal product of capital is:
A. 50.  B. 100.  C. 200.  D. 1,000.

7. If the consumption function is given by \( C = 500 + 0.5(Y - T) \), and \( Y \) is 6,000 and \( T \) is given by \( T = 200 + 0.2Y \), then \( C \) equals:

8. Total investment in the United States averages about ______ percent of GDP.
A. 10  B. 15  C. 20  D. 25

9. The home that would have the highest mortgage payment on a 30-year fixed-rate mortgage would be a home with a mortgage of:
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8. To find \( C \):
\[
C = 500 + 0.5(Y-T) = 500 + 0.5(Y - 200 - 0.2Y) = 500 + 0.5(0.8Y - 200)
\]
\[
= 500 + 0.5 \times 0.8 \times 6000 - 0.5 \times 200 = 500 + 2400 - 100 = 2800
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10. The equation \( Y = C(Y - T) + I(r) + G \) may be solved for the equilibrium level of:
A. income.
B. consumption.
C. government purchases.
D. the interest rate.

11. In a closed economy, private saving equals:
A. \( Y - C - G \).
B. \( Y - T - C \).
C. \( Y - I - C \).
D. \( Y - T \).

12. If income is 4,800, consumption is 3,500, government spending is 1,000, and tax revenues are 800, private saving is:
A. 300.
B. 500.
C. 1,000.
D. 1,300.
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\[ Y - T - C = S \] (private saving)
\[ 4800 - 800 - 3500 = 500 \]
1. Economists use the term money to refer to:
A. income.     B. profits.
C. assets used for transactions.    D. earnings from labor.

2. In prisoner of war camps during World War II, the “currency” used was:

3. Open-market operations are:
A. Commerce Department efforts to open foreign markets to international trade.
B. Federal Reserve purchases and sales of government bonds.
C. Securities and Exchange Commission rules requiring open disclosure of market trades.
D. Treasury Department purchases and sales of the U.S. gold stock.

4. Currency equals:
A. M1.
B. the sum of funds in checking accounts.
C. the sum of checking accounts and paper money.
D. the sum of coins and paper money.

5. If the quantity of real money balances is kY, where k is a constant, then velocity is:
A. k.     B. 1/k.     C. kP.     D. P/k.
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A. income.  
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A. chocolates.  
B. cigarettes.  
C. gold.  
D. IOUs.

3. Open-market operations are:
A. Commerce Department efforts to open foreign markets to international trade.  
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D. the sum of coins and paper money.

5. If the quantity of real money balances is $kY$, where $k$ is a constant, then velocity is:
A. $k$.  
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4. Currency equals:
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D. the sum of coins and paper money.  
   \[ M/P = kY, \quad MV = PY, \]
   \[ M/P = Y/V, \quad V = 1/k \]

5. If the quantity of real money balances is kY, where k is a constant, then velocity is:
A. k.  B. 1/k.  C. kP.  D. P/k.
6. Evidence from the past 40 years in the United States supports the Fisher effect and shows that when the inflation rate is high, the _____ interest rate tends to be ______.
A. nominal; high  B. nominal; low  C. real; high  D. real; low

7. Consider a money demand function that takes the form \((M/P)d = Y/4i\), where \(M\) is the quantity of money, \(P\) is the price level, \(Y\) is real output, and \(i\) is the nominal interest rate. What is the average velocity of money in this economy?
A. I  B. 4i  C. 1/4i  D. 0.25

8. Inflation ______ the variability of relative prices and ______ allocative efficiency.
A. increases; increases  B. increases; decreases  
C. decreases; decreases  D. decreases; increases

9. In the case of an unanticipated inflation:
A. creditors with an unindexed contract are hurt because they get less than they expected in real terms.  
B. creditors with an indexed contract gain because they get more than they contracted for in nominal terms.  
C. debtors with an unindexed contract do not gain because they pay exactly what they contracted for in nominal terms.  
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   A. 1   B. 4i   C. 1/4i   D. 0.25

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9. In
   A. The costs of expected inflation:
      Relative price distortions
   B. Firms facing menu costs change prices infrequently.
      Example:
      A firm issues new catalog each January.
      As the general price level rises throughout the year, the firm’s relative price will fall.
      Different firms change their prices at different times, leading to relative price distortions...
      ...causing microeconomic inefficiencies
   C. in the allocation of resources.
      for in nominal terms.
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   B. creditors with an indexed contract gain because they get more than they contracted for in nominal terms.
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   D. debtors with an indexed contract are hurt because they pay more than they contracted for in nominal terms.
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A. lower taxes and raise government spending.
B. raise taxes and reduce government spending.
C. change from one kind of currency to another.
D. call for a new election.
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