

sgch17-18**Multiple Choice**

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. There was hyperinflation
- during 1880-1896 in the United States.
 - in post-World War I Germany.
 - during the 1970s in the United States.
 - All of the above are correct.
- _____ 2. Nominal GDP measures
- the total quantity of final goods and services produced.
 - the dollar value of the economy's output of final goods and services.
 - the total income received from producing final goods and services in constant dollars.
 - None of the above are correct.
- _____ 3. The idea that nominal variables are heavily influenced by the quantity of money and that money is largely irrelevant for understanding the determinants of real variables is called the
- velocity concept.
 - Fisher effect.
 - classical dichotomy.
 - Mankiw effect.
- _____ 4. You put money in an account that earns 5 percent. The inflation rate is 3 percent, and your marginal tax rate is 20 percent. What is your after-tax real rate of interest?
- 3.4 percent
 - 1.6 percent
 - 1 percent
 - None of the above is correct.
- _____ 5. The country of Aquilonia has a tax system identical to that of the United States. Suppose someone in Aquilonia bought a parcel of land for \$20,000 in 1960 when the price index equaled 100. In 2002, the person sold the land for \$100,000, and the price index equaled 600. If the person must pay 20 percent of any capital gain in taxes, then the after-tax real capital gain (in 2002 dollars) on the land was
- \$64,000.
 - \$36,000.
 - \$16,667.
 - \$3,333.
- _____ 6. International trade
- raises the standard of living in all trading countries.
 - lowers the standard of living in all trading countries.
 - leaves the standard of living unchanged.
 - raises the standard of living for importing countries and lowers it for exporting countries.
- _____ 7. Clear Brook Farms, a U.S. manufacturer of frozen vegetarian entrees, sells cases of their product to stores overseas. Its sales
- decrease U.S. exports but increase U.S. net exports.
 - decrease both U.S. exports and U.S. net exports.
 - increase both U.S. exports and U.S. net exports.
 - increase U.S. exports but decrease U.S. net exports.

- _____ 8. A citizen of Saudi Arabia uses previously obtained U.S. dollars to purchase apples from the United States. This transaction
- increases Saudi net capital outflow, and increases U.S. net exports.
 - increases Saudi net capital outflow, and decreases U.S. net exports.
 - decreases Saudi net capital outflow, and increases U.S. net exports.
 - decreases Saudi net capital outflow, and decreases U.S. net exports.
- _____ 9. A U.S. computer maker sells computers to a German firm. The U.S. company uses all of the revenues from this sale to purchase automobiles from German firms. These transactions
- increase both U.S. net exports and U.S. net foreign investment.
 - decrease both U.S. net exports and U.S. net foreign investment.
 - increase U.S. net exports and do not affect U.S. net foreign investment.
 - None of the above is correct.
- _____ 10. Suppose the real exchange rate is 1/2 gallon of Canadian gasoline per gallon of U.S. gasoline, a gallon of U.S. gasoline costs \$1.50 U.S., and a gallon of Canadian gas costs \$3.90 Canadian. What is the nominal exchange rate?
- .385 Canadian dollars per U.S. dollar
 - .65 Canadian dollars per U.S. dollar
 - 1.30 Canadian dollars per U.S. dollar
 - None of the above is correct.
- _____ 11. If the U.S. real exchange rate appreciates, net exports
- increase and net capital outflow decreases.
 - decrease and net capital outflow increases.
 - increase and net capital outflow increase.
 - decrease and net capital outflow decrease.

Use the (hypothetical) information in the following table to answer the following questions.

Table 18-1

Country	Currency	Currency per U.S. Dollar	U.S. Price Index	Country Price Index
Brazil	Real	4.00	200	800
Japan	Yen	125.00	200	50,000
Mexico	Peso	10.00	200	2,000
Sweden	Krona	9.00	200	2,000
Thailand	Baht	45.00	200	8,000

- _____ 12. Refer to Table 18-1. In real terms, U.S. goods are less expensive than goods in which country(ies)?
- Brazil and Mexico
 - Japan, Sweden, and Thailand
 - Japan and Sweden
 - Thailand
- _____ 13. In the United States, a three-pound can of coffee costs about \$5. Suppose the exchange rate is about 0.8 euros per dollar and that a three-pound can of coffee in Belgium costs about 3 euros. What is the real exchange rate?
- 5/3 cans of Belgian coffee per can of U.S. coffee
 - 4/3 cans of Belgian coffee per can of U.S. coffee
 - 3/4 cans of Belgian coffee per can of U.S. coffee
 - 3/5 cans of Belgian coffee per can of U.S. coffee

Name: _____

ID: A

Short Answer

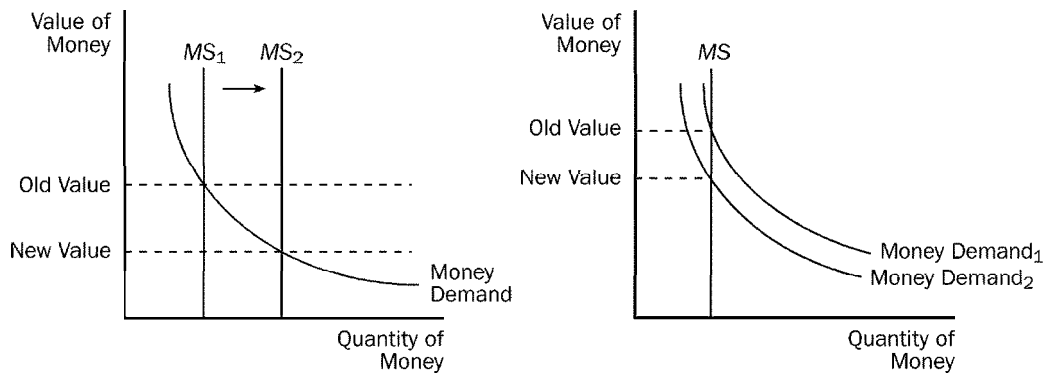
14. Using separate graphs, demonstrate what happens to the money supply, money demand, the value of money, and the price level if:
 - a. the Fed increases the money supply.
 - b. people decide to demand less money at each value of money.

sgch17-18
Answer Section**MULTIPLE CHOICE**

- | | | | |
|-----|------------------------|--------|--------------------|
| 1. | ANS: B
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 17.0 |
| 2. | ANS: B
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 17.1 |
| 3. | ANS: C
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 17.1 |
| 4. | ANS: C
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 17.2 |
| 5. | ANS: B
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 30.2 |
| 6. | ANS: A
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 18.0 |
| 7. | ANS: C
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 18.1 |
| 8. | ANS: C
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 18.1 |
| 9. | ANS: D
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 18.1 |
| 10. | ANS: C
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 18.2 |
| 11. | ANS: D
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 18.2 |
| 12. | ANS: C
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 18.3 |
| 13. | ANS: B
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 18.2 |

SHORT ANSWER

14. ANS:



- The Fed increases the money supply. When the Fed increases the money supply, we find the consequences of their action by shifting the money supply curve to the right from MS_1 to MS_2 . This shift causes the value of money to fall, so the price level rises. See Exhibit 3.
- People decide to demand less money at each value of money. Since people want to hold less at each value of money, it follows that the money demand curve will shift to the left from MD_1 to MD_2 . The decrease in money demand results in a lower value of money and so a higher price level. See Exhibit 4.

DIF: 2

REF: SECTION: 17.1

OBJ: TYPE: S