**Economics 203/Test 5**

1. When looking at government spending, in general, and not during recessions alone, the evidence suggests that the government spending multiplier is about

a. 0.2 b. 0.7

c. 1.0 d. 1.5

2. Choose the answer below which makes an accurate statement about the nature of post World War II business cycles

a. the time between recessions is almost always the same

b. the severity of recessions is nearly equal

c. recessions since World War II have tended be shorter and less frequent than before WWII

d. all of the above

3. What are the two most widely watched economic figures indicating whether an economy is in an expansion or recession?

a. unemployment rate and money supply

b. GDP growth rate and fed funds rate

c. unemployment rate and GDP growth rate

d. fed funds rate and CPI

4. The organization that officially determines when the economy enters and exits a recession period is

a. the Federal Reserve b. the U.S. Department of Treasury

c. The Office of Management and Budget d. the National Bureau of Economic Research

5. Reference Figure 1 for the correct answer below

a. A represents a “peak”

b. B represents a “trough”

c. C represents long run trend growth

d. all of the above

6. During the Great Depression in the US,

a. unemployment reached a peak of about 15%

b. real GDP declined by just over 10%

c. about 12,000 banks failed

d. all of the above

7. Accumulated evidence to date indicates that recessions arise from

a. large shocks to resources such as oil prices

b. financial market overinvestment and collapse

c. shifts and readjustments in types of goods produced

d. all of the above

8. A fiscal policy multiplier of 1.5 would imply that

a. GDP will increase more than the increase in government spending

b. GDP will increase more than the increase in the money supply

c. GDP will increase less than the increase in government debt

d. A 1.5% increase in government spending will increase GDP by 1%

9. The official dates for the most recent recession are

a. early 2007- late 2008 b. late 2007- mid 2009

c. late 2008-present d. mid 2009-present

10. To find a recession equal to the most recent one in length and intensity, you would need to go back to

a. 1929-33 b. 1969-70

c. 1980-82 d. 1990-91

11. In order fiscal stimulus to work,

a. individuals must be willing to live with higher than normal interest rates

b. time is needed for the effects to work through the economy

c. markets must treat government bonds as if they were increases in real income

d. the amount of stimulus must exceed the growth rate of the labor force

12. One adjustment to economic data during the Great Depression is that

a. GDP grew faster than reported data because of WWII

b. unemployment was lower than reported data because of WWII

c. prices would have fallen by more without the price restrictions imposed during WWII

d. none of the above

13. Countries, such as the U.S., that stayed on a fixed conversion rate between gold and dollars (a gold standard),

a. experienced a much quicker recovery than non-gold standard countries

b. experienced large price deflations as goods dropped in price relative to gold

c. experienced lower unemployment rates because individuals could spend their gold

d. all of the above

14. For the past 100+ years of U.S. living standards,

a. recessions have been a bigger influence than long run growth

b. the Great Depression dominated the impact of long run growth for more than 40 years

c. long run growth has dominated the effects of recessions, even the Great Depression

d. the effects of long run growth and recessions have been about equal

15. The Great Depression in the U.S. took place

a. during the 1930s b. during the 1920s

c. during the 1910s d. none of the above

16. Cause and effect in events like the Depression are difficult to determine. In terms of our class discussion, I placed an emphasis on which of the following as a major cause:

a. the gold standard

b. the financial bubble/collapse and subsequent banking crisis

c. the build-up toward World War II across the globe

d. none of the above

17. From our reading and our class discussion, which of the following probably acted as an “amplifier” of the Depression?

a. the Smoot-Hawley tariff b. World War II

c. World War I d. Lindbergh’s flight

18. Which of the following reflects the limits that the economy faces:

a. consumption (now) + consumption (future) = income (now) + income(future) + govt debt

b. consumption (now) + consumption (future) = income (now) + income(future)

c. government debt = 0

d. fiscal multiplier = 1.0

19. The work of Harvard economist Robert Barro on the debt highlights the point that higher government debt now

a. implies higher GDP now because of higher Govt spending

b. implies higher taxes in the future if Government spending stays the same

c. implies using debt during economic expansions and reducing it during recessions

d. none of the above

20. Which of the following is the largest contraction of the US economy?

a. recent recession b. recessions (combined) in the 1970s

c. Bank Panic of 1907 d. Great Depression

21. Put “A” for the answer

Correct Answers: 1b, 2c 3c, 4d, 5d, 6c, 7d, 8a, 9b, 10c, 11b or c, 12d, 13b, 14c, 15a, 16b, 17a, 18b, 19b, 20d, 21a