



## FINAL EXAM

# Course # 371003 Understanding the Economy

based on the electronic .pdf file(s):

### **Understanding the Economy**

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pages



12 CPE Credit Hours  
Financial Planning

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*This exam sheet is made available for your convenience in answering questions while offline.  
Please note that you will still need to enter your answers on the online exam sheet for grading.  
Instructions are provided at the end of this document.*

## Chapter 1 - Understanding Economic Data and Indicators

1. \_\_\_\_\_ is a good indicator of the housing market's momentum.
  - Median home prices.
  - Housing starts.
  - Existing-home sales.
  - Inventory of unsold homes.
  
2. Which of the following is NOT a leading economic indicator?
  - Average weekly hours for U.S. manufacturing workers.
  - Average weekly initial claims for unemployment insurance.
  - GDP
  - Manufacturers' new orders, consumer goods and materials.
  
3. Consumer confidence is measured by
  - The Consumer Confidence Index.
  - Index of Consumer Sentiment.
  - J.D. Power Survey.
  - Answers (A) and (B)
  
4. Institute for Supply Management's Index measures new orders, inventories, exports, and employment in the \_\_\_\_\_ sector.
  - Export.
  - Service.
  - Manufacturing.
  - Outsourcing.
  
5. Steep yield curve is a sign of
  - Healthy economic outlook.
  - Recession.
  - Inflation.
  - Full employment
  
6. \_\_\_\_\_ is NOT included in the International Profit Associates' Small Business Confidence Index?
  - Inflation.
  - Revenue growth.
  - Hiring.
  - State of economy.

## Chapter 2 - The Scope of Economics

7. The economy consists of two primary sectors:

- Foreign and domestic.
- Private and public.
- Households and business.
- Profit and nonprofit.

8. Economics attempts to solve a wide variety of problems, NOT including

- Allocation of scarce resources.
- Unemployment.
- Real estate bubble.
- Inflation.

9. Economic systems do NOT include

- Capitalist system.
- Command system.
- Bureaucratic system.
- Market system.

10. Major goals of economic policy in the USA include all EXCEPT:

- Price stability.
- Full employment.
- Economic growth.
- Social justice.

## Chapter 3 - Basic Concepts in Economics

11. Economic decisions are based on \_\_\_\_\_ analysis of output, revenue, and profit.

- Environmental.
- Marginal.
- Ecofriendly.
- Rational.

12. Which of the following is NOT one of the basic economic concepts in the United States?

- Inflation control.
- Economic growth.
- Equal income share.
- Full employment.

13. At the market determined equilibrium price

- The consumers get what they want.
- The quantity consumers need equals stocks on hand.
- The quantity supplied equals quantity demanded.
- The quantity purchased equals quantity sold.

14. Economic decisions are based on marginal analyses of output, revenue, profit, and so on. Marginal concepts do NOT include

- Marginal revenue.
- Marginal externality
- Marginal costs.
- Marginal profit.

15. Tennis rackets and tennis balls may be described as

- Complementary goods.
- Inferior goods.
- Derived demand goods.
- Substitute goods.

## Chapter 4 - Fundamental Macroeconomic Concepts

16. There are two types of inflation.

- Demand-pull and cost-push.
- Consumer and Producer.
- Production and service.
- Core and durable.

17. Which one of the following is NOT true about recession?

- Three or more straight monthly drops of the Index of Leading Economic Indicators are generally considered a sign of recession.
- An unusual drop in the money supply is recessionary.
- Two consecutive quarterly drops of Gross Domestic Product (GDP) signals recession.
- Consecutive monthly drops of durable goods orders which most likely results in less production and increasing layoffs in the factory sector.

18. Unemployment indicators do NOT include

- Cost of supply management.
- Unemployment rate.
- Initial jobless claims.
- Help-wanted index.

19. Unemployment will eventually rise if

- Aggregate demand remains constant
- The money supply increases
- Aggregate supply remains vertical
- Money demand declines

20. The trough of a business cycle is generally characterized by

- Shortages of essential raw materials and rising costs.
- Increasing purchasing power and increasing capital investments.
- Rising costs and an unwillingness to risk new investments.
- Unused productive capacity and an unwillingness to risk new investments.

## Chapter 5 - Measuring Economic Activity

21. Measures of money supply do NOT include

- Eurodollars.
- Money market mutual fund shares.
- Repurchase agreements (overnight).
- Trade deficits.

22. A broadly used measure of money supply is

- M2.
- M3.
- M1.
- L.

23. Which one of the following would NOT be included in the calculation of the gross domestic product (GDP)?

- Corporate profits.
- An automotive worker's wages.
- A tenant's rent.
- Homemakers' activities.

24. The \_\_\_\_\_ is a nation-wide measure of the average increase in prices for all domestic personal consumption

- CPI.
- PPI.
- PCE index
- Employment cost index

## Chapter 6 - Equilibrium Output and Income

25. Equilibrium outputs and income is the income level at which

- Planned savings and planned investments are equal.
- The total output of goods and services are greater than the total quantity of goods and services demanded.
- Aggregate supply is less than aggregate demand.
- Full employment and actual employment are equal.

26. The interest rate that equates saving and investment at full employment is known as the

- Equilibrium rate.
- Discount rate.
- Real rate.
- Natural rate.

27. Economists and economic policy makers are interested in the multiplier effect because the multiplier explains why

- A small change in investment can have a much larger impact on gross domestic product (GDP).
- Consumption is always a multiple of savings.
- The money supply increases when deposits in the banking system increase.
- The velocity of money is less than one.

28. When the addition to capital goods (gross investment) in an economy is less than depreciation (capital consumption allowance), the economy has experienced

- Negative net investment.
- Equilibrium investment.
- Positive gross investment.
- Positive net investment.

29. If personal consumption expenditures increase from \$720 billion to \$760 billion when disposable income increases from \$900 billion to \$980 billion, the marginal propensity to save equals

- 0.20
- 0.40
- 0.50
- 0.80

## Chapter 7 - Fiscal Policy

30. Which one of the following statements is NOT true as to fiscal policy?

- Fiscal policy is the overall program for directing government spending and taxation for the purpose of keeping the actual GDP close to the potential full employment GDP.
- Both lower taxes and higher government spending will generate a multiplier effect.
- Fiscal policy ensures not to overheat the economy and to cause inflation.
- Fiscal policy endeavors to avoid excessive unemployment and idle production

capability and to create conditions whereby the economy can achieve a growth rate that is neither too rapid nor too slow.

31. Major components of aggregate demand stems from all EXCEPT:

- Government.
- Environments.
- Households.
- Businesses.

## Chapter 8 - Money, Financial Markets, and the Banking System

32. The most prominent role for money is to serve as a

- Standard of value.
- Form of credit.
- Source of income.
- Unit of account.

33. An example of a financial instrument in the capital market is

- Negotiable bank CDs.
- Debt-instruments.
- Commercial paper.
- U.S. Treasury bills.

34. An important role of financial institutions is to

- Buy primary securities.
- Provide borrowers with low interest rates.
- Serve as intermediaries between lenders and borrowers.
- Control the money supply.

35. The Federal Reserve Bank includes 12 banks and \_\_\_ branches:

- 25.
- 60.
- 15.
- 75.

36. Each regional Federal Reserve Bank is owned by

- The Federal Deposit Insurance Corporation.
- The taxpayers in its district.
- Those who purchase its stock on the open market.
- The member banks in its district.

37. Funding for the operations of the Board of Governors of the Federal Reserve is derived from

- Federal Reserve district banks.
- Appropriations from the United States Congress.
- The governments of the states in which the district banks operate.
- Taxes collected from commercial banks.

38. In the Keynesian model, which of the following will cause a reduction in interest rates?

- A decline in saving.
- An increase in money supply.
- An increase in money demand.
- An increase in saving.

39. The prime rate is

- The interest rate the Fed charges its member banks to "cover their requirement."
- What banks charge their best customers for short-term loans.
- The rate on short-term loans among commercial banks for overnight use.
- A closely watched indicator of long-term interest rates since the entire bond market (and sometimes the stock market as well) often moves in line with this rate.

40. Interest rates are determined by the supply and demand for

- Currency.
- Loanable funds.
- Financial service.
- Corporate stock.

41. Empirical evidence indicates that money demand is determined by

- Interest rates and the level of GDP.
- Interest rates and the money supply.
- The money supply and the level of GDP.
- The inflation rate and the unemployment rate.

42. The Federal Open Market Committee directive is a

- Statement specifying the maximum level of inflation the Federal Reserve will accept.
- General statement of Federal Reserve policy goals.
- Detailed description of government security purchases to be carried out by the New York Federal Reserve bank.
- Statement specifying the maximum level of unemployment the Federal Reserve will accept.

43. The equation of exchange is equal to

M3 minus M1

$MV=PQ$

The velocity of M1

GDP multiplied by M2

44. Excess reserves immediately increase if

The discount rate decreases.

The discount rate increases.

Reserve requirements decrease.

Reserve requirements increase.

45. If investment is interest-insensitive,

Fiscal policy has no impact on equilibrium income.

Monetary policy has no impact on equilibrium income.

Fiscal policy has no impact on the equilibrium interest rate.

Monetary policy has no impact on the equilibrium interest rate.

## Chapter 10 - The Full Macroeconomic Model

46. Ideally, policy makers wish to find a policy mix that would shift the Phillips curve \_\_\_\_\_, thus making price stability and full employment more compatible and bearable.

Downward and to the left

Upward and to the right.

Downward and to the right.

Upward and to the left.

47. Stagflation is a combination of \_\_\_\_\_.

Deflation and recession.

Inflation and depression.

Inflation and recession.

Deflation and full employment.

48. Which of the following arguments is against budget deficits?

Possible inability to make the required payments

Budget deficits can be inflationary.

Debt represents government use of resources better used by the private sector

Financing the debt disrupts private capital markets and investment.

49. Market measures for curing stagflation do NOT include

- Public service job programs.
- Various employment programs.
- Import foreign labor.
- Productivity improvement programs.

## Chapter 11 - International Trade and Finance

50. The foreign exchange market is

- Located in NYSE.
- Not located in any one place, most transactions being conducted by telephone, wire service, or cable.
- Located in Hong Kong.
- Located in London.

51. Long-term capital movements show up on the

- Current account balance.
- Capital account.
- Merchandise trade balance.
- Goods and services balance.

52. There are basically three forces that will lead to alleviation of a country's payments imbalance. Which of the following is NOT one of those forces?

- A rise in the home country's price of imports.
- A change in gold reserve.
- A fall in the foreign country's price of exports.
- A possible rise in interest rates.

53. Trade restrictions do NOT include

- Tariffs
- Sanctions.
- Embargos.
- Import quotas.

54. The spot rate is

- The rate quoted for immediate delivery.
- Usually higher than the forward rate.
- A contract rate between the corporation and the foreign exchange trader at the bank for future delivery.
- Usually at a premium for sales and a discount for purchases.

55. \_\_\_\_\_ is NOT one of the functions of the foreign exchange market

- Transfer purchasing power.
- Transfer inflation.
- Provide credit.
- Minimize exchange risk.

56. If a U.S. firm can buy 1,100,000 yens for \$10,000, the rate of exchange for the yen is

- \$.0091
- \$110
- \$20
- \$50

## Chapter 12 - Issues in Macroeconomics

57. Monetarists argue that rising money supply leads to

- Declining interest rate
- Declining real output.
- Rising velocity.
- Rising spending on capital goods.

58. The key features of Keynesian economics do NOT include

- The dependency of consumption on income, called the consumption function.
- The multiplier effect of an autonomous spending on GDP.
- Inflation as a function of interest rate.
- The marginal efficiency of investment as a measure of business demand for investment.

59. The Laffer curve is a view of

- Classical economists.
- Supply side theorists.
- Monetarists.
- Keynesians.

60. Monetarists emphasize that stimulative fiscal measures lead to

- Inflation.
- Unstable money demand.
- Unemployment.
- Crowding out private investments.

*Instructions for Submitting Answers Online:*

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- Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.
- Enter your answers on the online exam sheet.
- Click the "Grade Exam" button at the bottom of the page. Your exam will be graded automatically. If your score exceeds 70%, a "Create Certificate" button will display. Otherwise, you may continue to retake the exam until you pass.
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