

Final Exam Review (Chapters 11-20)

True/False

Indicate whether the sentence or statement is true or false.

- ___ 1. Wampum was a form of currency used in colonial Virginia.
- ___ 2. Benjamin Franklin and Alexander Hamilton devised the monetary system used in the United States today.
- ___ 3. To be a successful medium of exchange money must exist in an unlimited supply.
- ___ 4. Spanish pesos circulated in the early United States economy partly due to the triangular trade.
- ___ 5. Fiat money has no inherent worth.
- ___ 6. Despite the Federal Reserve System, massive banking failures occurred during the Great Depression.
- ___ 7. The National Banking Act created the currency called greenbacks.
- ___ 8. Half of all savings and loan associations went out of business during the 1980s.
- ___ 9. Bond ratings can be used as a measure of the bond's risk.
- ___ 10. Money markets have assets with maturities of less than one year.
- ___ 11. Assets traded in capital markets are those that have to be redeemed by the issuer.
- ___ 12. When consumers build up a lot of debt, they may choose to apply for a bill consolidation loan that they can use to pay off their other bills.
- ___ 13. When people invest in mutual funds, they are making loans to banks and their investments are insured by the FDIC.
- ___ 14. The risk of investing in junk bonds is usually lower than the risk of investing in CDs.
- ___ 15. A 401(k) plan is a tax-deferred investment and savings plan that serves as a personal pension plan for employees.
- ___ 16. If a bond's par value is \$1,000 and its coupon is 5 percent, the investor will receive an annual coupon payment of \$100.
- ___ 17. A Treasury bill usually matures in 13 to 52 weeks and can be purchased for a minimum amount of \$10,000.
- ___ 18. The American Stock Exchange is the oldest, largest, and most prestigious of the organized stock exchanges in the United States.
- ___ 19. The S&P 500 reports on stocks listed on the NYSE, AMEX, and OTC markets.
- ___ 20. When people invest in the futures markets, they are usually investing in livestock and grain.
- ___ 21. The term *net immigration* refers to the effect on the population of people moving into the country.
- ___ 22. The analysis of population trends is important to political leaders, community leaders, and businesses.
- ___ 23. The current population pyramid shows a bulge in the middle, reflecting the large number of people born during the baby boom of the 1980s and 1990s.
- ___ 24. The capital-to-labor ratio shows the average cost of workers to businesses.
- ___ 25. The four factors of production influence economic growth.
- ___ 26. Long-term economic growth is measured most accurately by current GDP.
- ___ 27. Increasing labor productivity helps promote economic growth and raise living standards.
- ___ 28. Gross Domestic Product is an index that measures price changes by domestic producers.
- ___ 29. Net national product and Gross National Product are two measures of national income.

- ___ 30. The consumer sector is the largest part of the macroeconomy.
- ___ 31. The market basket is a year that serves as the basis of comparison in a price index.
- ___ 32. GDP that has been adjusted to remove inflation is called current GDP.
- ___ 33. Although the population of the United States has grown steadily since colonial times, the rate of growth has slowed.
- ___ 34. Factors affecting population growth include fertility rate, life expectancy, and net immigration.
- ___ 35. The worst downturn of the business cycle in the United States occurred during the Cold War.
- ___ 36. All of the recessions between World War II and the 1980s took place fairly regularly.
- ___ 37. Business fluctuations are systematic increases and decreases in real GDP.
- ___ 38. The two phases of the business cycle are peaks and troughs.
- ___ 39. Econometric models are used to predict future economic activity.
- ___ 40. The unemployment rate does not take into account the number of part-time workers who want to have full-time jobs.
- ___ 41. Full employment is reached when the unemployment rate drops below 7 percent.
- ___ 42. Under Regulation Z, the Fed can extend truth-in-lending disclosures to benefit millions of individuals when they borrow money or make purchases.
- ___ 43. The balance sheet discloses all the assets and liabilities of a bank on one form.
- ___ 44. Banks may use excess reserves to purchase federal securities, which are secure but cannot be quickly converted to cash.
- ___ 45. The Fed can implement its monetary policy by buying and selling government securities.
- ___ 46. If the Fed increases the interest rate, it will increase the supply of money.
- ___ 47. A long-run effect of increasing the money supply can be inflation.
- ___ 48. The real rate of interest is the interest rate minus the rate of inflation.
- ___ 49. Economic instability has high economic and social costs.
- ___ 50. The discomfort index is one measure of the economic costs of instability.
- ___ 51. Damaged family values is one example of a social cost of economic instability.
- ___ 52. Strong economic health is necessary for a community to have strong mental and social health.
- ___ 53. Stagflation is a combination of inflation and unemployment.
- ___ 54. Fiscal policies are designed to affect the aggregate demand curve through federal spending and taxing decisions.
- ___ 55. Demand-side policies were the hallmark of President Reagan's administration.
- ___ 56. Automatic stabilizers are critical to the success of supply-side policies.
- ___ 57. Health inspections on food products limit trade between nations.
- ___ 58. Free traders often argue that new or emerging industries should be protected from foreign competition.
- ___ 59. The use of trade barriers to protect domestic industries and jobs works only if other countries do not retaliate with their own trade barriers.
- ___ 60. The World Trade Organization recently replaced the General Agreement on Tariffs and Trade.
- ___ 61. Imports are goods and services that one country sells to other countries.

- ___ 62. A country has a comparative advantage in trade when it is able to produce a product relatively more efficiently.
- ___ 63. Free traders favor few or even no trade restrictions.
- ___ 64. Congress passed the Smoot-Hawley Tariff in 1930 and successfully protected U.S. industry while increasing trade.
- ___ 65. The foreign exchange rate is the price of one country's currency in terms of another country's currency.
- ___ 66. When President Nixon refused to redeem foreign-held dollars for gold in 1971, the world went from a fixed exchange rate to a floating exchange rate.
- ___ 67. When the dollar falls in relation to foreign currencies, American consumers can buy imported goods more cheaply.
- ___ 68. An advantage of flexible exchange rates is that trade deficits tend to automatically correct themselves.
- ___ 69. Lenin's New Economic Policy (NEP) was designed to reintroduce some capitalist methods in the Soviet Union.
- ___ 70. The Soviet Union underwent a forced transformation from an agricultural to an industrial economy under Mikhail Gorbachev.
- ___ 71. The process of collectivization contributed to the starvation of millions of Soviet peasants during the 1930s.
- ___ 72. Boris Yeltsin introduced the policy of perestroika to restructure the Soviet government and economy in the 1980s.
- ___ 73. All capitalist countries practice the same form of capitalism.
- ___ 74. Japan experienced outstanding economic growth during the 1970s and 1980s.
- ___ 75. North Korea is one of the economically successful Asian Tigers.
- ___ 76. During the 1990s, Sweden restructured its economy to pure capitalism.
- ___ 77. Takeoff is the first stage of economic development.
- ___ 78. The World Bank recommends that industrialized nations reduce trade barriers to promote the growth of export industries in developing countries.
- ___ 79. The World Bank suggests that politicians in developing countries should make the WHAT, HOW, and FOR WHOM allocation decisions.
- ___ 80. Traditionally, the majority of United States foreign aid has been granted to achieve political aims.
- ___ 81. South Korea is one of the most successful developing nations.
- ___ 82. The European Union is an example of a cartel.
- ___ 83. Ten ASEAN countries are working to develop a free trade area by 2008.
- ___ 84. The gap between industrialized and developing countries has narrowed markedly in recent decades.
- ___ 85. Population growth is one major obstacle to economic development.
- ___ 86. The five stages of economic development are: primitive equilibrium, breaking with primitive equilibrium, takeoff, semidevelopment, and high development.
- ___ 87. The World Bank urges industrialized nations to reduce trade barriers with developing nations.
- ___ 88. The World Bank urges developing countries to utilize deficit spending to finance industrialization and the building of necessary infrastructure.
- ___ 89. In many cases, internal funds may be the only source of capital available to developing nations.

- ___ 90. Developing nations are more successful in attracting foreign private investment if they have a history of expropriation.
- ___ 91. Member nations of OPEC have been able to take advantage of a natural monopoly.
- ___ 92. The traditional response to pollution problems has been to legislate regulations.
- ___ 93. Pollution taxes are designed to give firms the incentive not to pollute.
- ___ 94. According to an economist, a resource becomes scarce when it is polluted.
- ___ 95. People have become increasingly concerned about pollution in recent years.
- ___ 96. The National Council on Economic Education recommends that the first step in economic decision making should be to state the problem or the issue.
- ___ 97. Cost-benefit analysis can be used to make choices among economic goals.
- ___ 98. Socialism is the dominant economic force in the world today.
- ___ 99. Capitalism has remained the same for the past 100 years.
- ___ 100. Many economists believe capitalism is the economic system best able to accommodate the unforeseen events of the future.

Multiple Choice

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

- ___ 101. Money that has an alternative use as an economic good is
 - a. commodity money.
 - b. fiat money.
 - c. wampum.
 - d. specie.
- ___ 102. Money loses its value when it
 - a. becomes too portable.
 - b. is divisible.
 - c. is durable.
 - d. becomes too plentiful.
- ___ 103. When a bank is about to collapse,
 - a. up to \$10,000 can be paid to depositors.
 - b. up to \$10,000 can be paid to shareholders.
 - c. the FDIC may secretly seize the bank.
 - d. the FDIC must publicly seize the bank.
- ___ 104. The FDIC was established to
 - a. protect the savings of the American people.
 - b. help with the financing of World War II.
 - c. federalize the banking system.
 - d. create a government banking monopoly.
- ___ 105. When Congress reformed the thrift industry in 1989, all of the following occurred EXCEPT
 - a. the Federal Home Loan Bank Board was abolished.
 - b. the FDIC assumed insurance responsibilities for the thrift industry.
 - c. the government set up a temporary agency to dispose of failed thrifts.
 - d. remaining S&Ls were merged with commercial banks.
- ___ 106. The problem with Continental dollars was that
 - a. so much was printed they became nearly worthless.
 - b. they were backed by gold and not silver.
 - c. they were fiat money.
 - d. they were backed by individual states.
- ___ 107. In order for money to have value, it must have all of the following characteristics EXCEPT
 - a. portability.
 - b. plentiful availability.
 - c. durability.
 - d. divisibility.
- ___ 108. Local banks in the 1800s that printed too much money were called

- a. wildcat banks.
- b. central banks.
- c. treasuries.
- d. national banks.

109. The Federal Reserve System was established in

- a. 1799.
- b. 1863.
- c. 1881.
- d. 1913.

110. As a result of the financial institution crisis of the 1980s, S&Ls are now insured by the

- a. FSLIC.
- b. FDIC.
- c. Fed.
- d. National Banking System.

111.

To get its new Sacajawea dollar into circulation, the U.S. Mint has issued more than 500 million of the golden coins since the end of January, not only to banks, but also to Wal-Mart and Sam's club stores.

But in what may be the greatest coin trick ever, the dollars have all but vanished. People are making them into jewelry, auctioning them off on eBay, and leaving them under pillows on behalf of the tooth fairy—anything but spending them.... The Mint expects Sacajawea to be back in circulation by year-end, when more than a billion of the dollars will have been minted and the novelty, it hopes, will have worn off.

Source: *Kiplinger's Personal Finance Magazine*, July 2000.



Based on the passage, Sacajawea dollars have disappeared because many people believe they are

- a. worth more as a commodity than as currency.
- b. worth less than a dollar.
- c. not real money.
- d. too numerous to have value as money.

112.

Because Russian currency is not trusted, real money plays a fairly small part in Russia's economy today. Most business is conducted by barter or with IOUs. For example, workers rarely receive wages in the form of cash. A bicycle factory outside the city of Perm pays its workers in bicycles! To get cash, the workers have to sell their "paychecks." More often than not, they simply trade the bicycles for the products they want.



According to the passage, most business in Russia is conducted without currency because Russian currency is not

- a. accepted.
- b. portable.
- c. divisible.
- d. durable.

113.

United States Constitution

Article 1, Section 8:

The Congress shall have the power

To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures;

To provide for the punishment of counterfeiting the securities and current coin of the United States;...

To make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof.

Article 1, Section 10:

No State shall...coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts....



These passages in the Constitution made which of the following statements true at that time?

- a. Only the states could make coins.
- b. Only the states could print paper money.
- c. The government could not print paper money.
- d. Only gold coins were acceptable money.

114. A nonbank financial intermediary that primarily makes loans to construction companies for building homes is the

- a. life insurance company.
- b. finance company.
- c. mutual fund.
- d. real estate investment trust.

115. The par value of a bond is

- a. the stated interest on the debt.
- b. the total amount borrowed.
- c. a rating of the quality of a bond.
- d. its purchase price.

116. Junk bonds

- a. carry a low rate of return.
- b. are usually tax-exempt.
- c. are issued by municipalities.
- d. are exceptionally risky.

117. The Efficient Market Hypothesis argues that

- a. stocks are always priced about right.
- b. stocks are generally overpriced.
- c. all investments are the same.
- d. every investment has some risk.

118. Investors who sign a contract guaranteeing them the option of selling shares of stock at a specified price in the future have agreed to a

- a. push option.
- b. spot option.
- c. call option.
- d. put option.

119. The largest borrowers are

- a. governments and businesses.
- b. households and businesses.
- c. governments and households.
- d. insurance companies and households.

120. Bonds

- a. pay a fixed interest rate over a specified period of time.
- b. are insured by the federal government.
- c. are a consistently low-risk investment choice.
- d. are rated according to risk from A through G.

121. Municipal bonds, or munis,

- a. pay higher interest rates than most bonds.
- b. are not usually tax-exempt.
- c. are often risky investments.
- d. are usually a safe investment.

122. Most stocks in the United States are traded on the

- a. New York Stock Exchange.
- b. over-the-counter market.
- c. American Stock Exchange.
- d. regional stock exchanges.

123. A stock transaction that is made immediately at the market price is made in the

- a. futures market.
- b. spot market.
- c. futures options market.
- d. options market.

124.

Money is burning a hole in consumers' pockets. Again last month, U.S. wage earners spent nearly as much as they made, contributing to record low savings. But consumers have good reason to be out there spending. They've got jobs, their incomes are rising, confidence is high, and the stock market is booming. This trend dragged down the savings rate—savings as a percentage of after-tax income—to a record low.

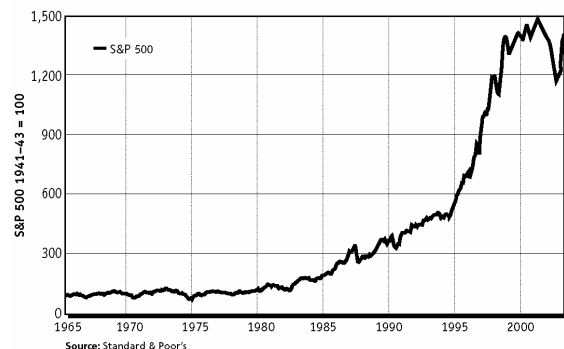
Source: *The Columbus Dispatch*, May 29, 1999.



This passage suggests that the low savings rate is due to

- a. high unemployment.
- b. the booming economy.
- c. low prices.
- d. falling incomes.

Tracking Stocks With Standard & Poor's (S&P) 500



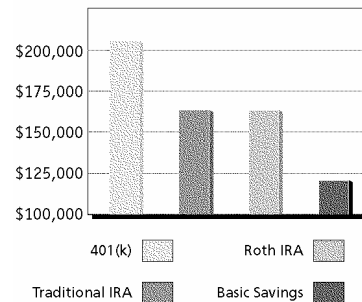
125. According to the graph, when did the most significant bull market occur?
- a. 1985-1990
 - b. 1990-1995
 - c. 1995-2000
 - d. after 2000
126. During what period on the graph did the S&P 500 rise above 300 and then dip below it?
- a. 1980-1985
 - b. 1985-1990
 - c. 1990-2000
 - d. after 2000
- 127.

...75 years ago, ...three salesmen created the first mutual fund and opened up what was once an exclusive province of the affluent to just about everyone. When the Massachusetts Investors Trust made its debut in March 1924, it had \$50,000 in assets and owned 45 stocks.... By pooling investments, the fund made shares in American companies accessible to a broader market... (the) true innovation was allowing investors to redeem shares upon request, at market value of the underlying stocks.

Source: *U.S. News & World Report*, April 5, 1999.

127. According to the passage, when investors in the first mutual fund decided to sell their shares, how much money did they receive?
- a. the amount they originally paid
 - b. the amount they originally paid, plus interest
 - c. the amount other investors were paying for the same stocks the fund held
 - d. the amount another investor agreed to pay them for their shares

How Much Will You Have at Retirement?



- Data is based on:
- \$2,000 in income invested each year for 30 years
 - 8% return on investment
 - Company matching 25% of employee contributions
 - 28% income tax; 20% capital gains tax (paid yearly for basic savings)

Source: Quicken.com, 1999

128. Based on the illustration, you would earn more in any of the three retirement plans than you would on basic savings because you would
- a. pay yearly taxes on savings.
 - b. invest more each year in the retirement plans.
 - c. invest in the retirement plans for a longer time.
 - d. receive a higher rate of return on the retirement plans.
129. Based on the illustration and on what you know about retirement plans, the 401(k) in this illustration earned more than the traditional IRA or Roth IRA because
- a. the investor paid no annual tax on the 401(k).
 - b. the company matched the employee's contributions in the 401(k).
 - c. all interest earned on the 401(k) was tax-free forever.
 - d. the investor didn't have to take the money out of the 401(k) until retirement.
- 130.

A Treasury bond refers to a Treasury security with a maturity greater than 10 years. The only difference between a Treasury bond and a Treasury note is the longer maturity of the bond. Coupon interest on a Treasury bond is paid semiannually.

Source: Standard & Poor's.


130. Based on the passage, which of the following statements is true?
- a. A Treasury bond matures in less than 10 years.

- b. A Treasury bond matures in less time than a Treasury note.
 c. Coupon interest on a Treasury note is paid twice a year.
 d. A Treasury note matures in 10 years or less.
- ___ 131. To determine Gross National Product,
 a. multiply all final goods and services by their prices.
 b. divide all final products and services by their prices.
 c. add to GDP all payments received by Americans outside the U.S. and subtract payments made to foreign-owned resources in the U.S.
 d. add to GDP all payments made to foreign-owned resources in the U.S. and subtract payments received by Americans outside the U.S.
- ___ 132. The census is taken every
 a. two years.
 b. four years.
 c. eight years.
 d. ten years.
- ___ 133. Baby boomers are those people born between
 a. 1935 and 1945.
 b. 1946 and 1964.
 c. 1955 and 1965.
 d. 1965 and 1975.
- ___ 134. Economic growth benefits the government by
 a. enlarging the tax base.
 b. reducing budget surpluses.
 c. reducing the need for highway and defense spending.
 d. justifying tax increases.
- ___ 135. The largest sector of the macroeconomy is the
 a. investment sector.
 b. government sector.
 c. foreign sector.
 d. consumer sector.
- ___ 136. An index of average level of prices for *all* goods and services in the economy is the
 a. implicit GDP price deflator.
 b. consumer price index.
 c. producer price index.
 d. current GDP.
- ___ 137. Since the colonial period, the census has revealed
 a. a movement of population to rural areas.
 b. growth of extended family households.
 c. a trend toward smaller households.
 d. an increase in the number of children per family.
- ___ 138. The population center of the United States in 1990 was near
 a. Baltimore, Maryland.
 b. Evansville, Indiana.
 c. Lawrence, Kansas.
 d. Steelville, Missouri.
- ___ 139. The benefits of long-term economic growth include all of the following EXCEPT
 a. an increase in the standard of living.
 b. an increase in employment.
 c. a boost in economic growth of other nations.
 d. an increase in the availability of land.

Per Capita GDP	
Luxembourg	\$33,609
United States	\$33,586
Switzerland	\$27,126
Japan	\$23,311
Iceland	\$23,230


- ___ 140. Economists use numbers such as those in the table as a measure of
 a. standard of living.
 b. total dollar value of all final goods and services.

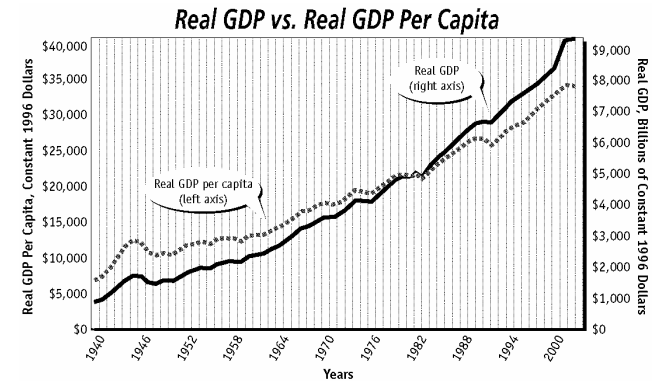
- c. net exports.
 d. national income.

- ___ 141.  The numbers in this table were calculated by
 a. adding the dollar value of all final goods and services produced in the nation.
 b. subtracting net exports from GDP.
 c. multiplying GDP by total population.
 d. dividing GDP by total population.


___ 142.

$$\text{GDP} = \text{C} + \text{I} + \text{G} + \text{F}$$

-  In this model, the "F" represents the
 a. total of the dollar value of goods sent abroad and goods purchased from abroad.
 b. difference between the dollar value of goods sent abroad and goods purchased from abroad.
 c. total investments in the United States by foreign nationals.
 d. total investments in other nations by United States citizens.



___ 143.

-  A dip in real GDP per capita, such as the one shown for 1991 in the graph, could be caused by
 a. population decline during an economic expansion.
 b. population growth during an economic expansion.
 c. population decline during a recession.
 d. population growth during a recession.

Annual Growth Rates of Real GDP Per Capita (in percents)										
Ending Year										
1929										
1933	-8.2									
1939	0.2									
1940	0.9									

1945	3.7	10.3												
1950	2.4	4.1	-1.8											
1955	2.4	3.6	0.4	2.7										
1960	2.2	2.9	0.6	1.7	0.8									
1965	2.4	3.0	1.3	2.3	2.1	3.5								
1970	2.3	2.9	1.5	2.3	2.2	2.9	2.3							
1975	2.3	2.7	1.5	2.2	2.0	2.4	2.0	1.6						
1980	2.3	2.7	1.7	2.2	2.1	2.5	2.2	2.1	2.6					
1985	2.3	2.6	1.7	2.2	2.2	2.4	2.2	2.1	2.4	2.2				
1990	2.3	2.6	1.8	2.2	2.2	2.4	2.2	2.2	2.4	2.2	2.3			
1995	2.2	2.5	1.7	2.1	2.1	2.3	2.1	2.0	2.1	1.9	1.8	1.3		
2001	2.3	2.5	1.9	2.2	2.2	2.3	2.2	2.2	2.3	2.2	2.2	2.1	2.8	
	1929	1940	1945	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	
Starting Year														

Source: *Economic Report of the President*, various years.

144. This table keeps changes in real GDP from being overstated by adjusting for
- population growth.
 - inflation.
 - standard of living.
 - productivity.
145. The business cycle since World War II has been characterized by
- extended expansions alternating with brief recessions.
 - brief expansions alternating with lengthy recessions.
 - uninterrupted expansion.
 - uninterrupted recession.
146. Unemployment that is directly related to swings in the business cycle is
- frictional unemployment.
 - structural unemployment.
 - cyclical unemployment.
 - seasonal unemployment.
147. According to the cost-push theory, inflation is caused by
- workers.
 - government.
 - consumers.
 - producers.
148. The forty percent of the population with the lowest income controls
- less than 2 percent of the nation's wealth.
 - about 10 percent of the nation's wealth.
 - nearly 20 percent of the nation's wealth.
 - about 40 percent of the nation's wealth.
149. This is a proposed market-based antipoverty program designed to encourage work and reduce administrative costs.
- Aid to Families with Dependent Children
 - earned income tax credit
 - workfare programs
 - negative income tax
150. This marked the beginning of the Great Depression in 1929:
- end of World War I
 - beginning of World War II
 - declaration of a "bank holiday"
 - stock market crash
151. Changes in technology and changes in consumer tastes can cause
- frictional unemployment.
 - structural unemployment.
 - cyclical unemployment.
 - seasonal unemployment.
152. According to the demand-pull theory, inflation is caused by
- workers.
 - government.
 - producers.
 - consumers.
153. The Lorenz curve is used to demonstrate
- consumer demand and spending.
 - the severity of a recession.
 - the severity of inflation.
 - the degree of income inequality.
154. All of the following account for the growing income gap EXCEPT

- a decline in unions.
- a shift in employment from the manufacturing to the service industry.
- lessening wage advantages for the well educated.
- a shift from married-couple families to single-parent families.

155.

A key gauge of future U.S. economic activity declined 0.5% last month, as the Sept. 11 terrorist attacks in New York and Washington weakened an already troubled economy.

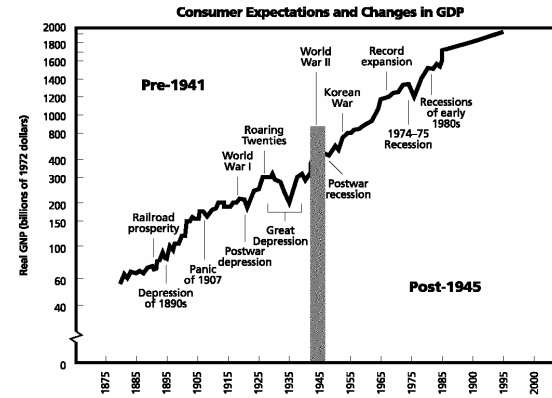
The Conference Board said Monday its index of leading economic indicators fell to 109.2 in September...the largest one-month decline since January 1996.... The index indicates where the overall U.S. economy is headed in the next three to six months....

The economy had been struggling for several months before the Sept. 11 attacks. Many economists have said they believe that a recession is unavoidable with the new uncertainties raised by the disaster.

Source: "Leading Indicators Decline," *USAToday.com*, October 22, 2001.



- The passage discusses a business fluctuation influenced by
- capital expenditures.
 - monetary factors.
 - innovation.
 - external shock.

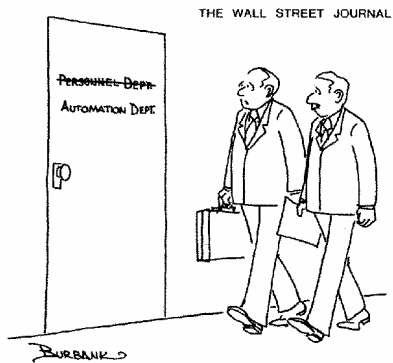


Source: Adapted from: William Baumof and Allan Blinder, *Macroeconomics*, Dryden Press, 1986.

156.



- The Roaring Twenties in the graph can be characterized as a period of economic
- contraction.
 - recession.
 - expansion.
 - trough.



"Uh-oh."

SOURCE: From *The Wall Street Journal*—Permission Cartoon Features Syndicate

157.



What type of unemployment does the cartoon depict?

- a. cyclical
- b. technological
- c. seasonal
- d. frictional

158.

Is the number of available but jobless workers in the United States shrinking to the point that employers may be forced to grant inflationary wage increases to attract new employees or keep the ones they have?

"Should labor markets continue to tighten, significant increases in wages, in excess of productivity growth, will inevitably emerge, absent the unlikely repeal of the law of supply and demand," [Federal Reserve Chairman Alan] Greenspan told Congress.

Source: "Shrinking Labor Pool Raises Fear of Wage Pressures and Higher Prices," *The Washington Post*, June 25, 1999.



This passage is describing a(an)

- a. job shortage.
- b. decrease in productivity.
- c. worker shortage.
- d. increase in unemployment.

159.

For all the recent talk of cutting taxes, Congress rarely cuts them when the economy is growing robustly, as it is now, and unemployment is low. The worry among economists is that the extra money in people's pockets may make an already strong economy too strong, finally stoking inflation after a long period of relatively stable prices.

Source: *The New York Times*, July 14, 1999.



The passage describes rising inflation as a possible result of

- a. tax cuts.
- b. a booming economy.
- c. rising unemployment.
- d. a prolonged period of stable prices.

160.

- a. The Federal Reserve is made up of 12 district banks and 25 branch banks.

- b. is made up of district banks that operate independently from one another.
- c. is managed by a 12-member board of directors.
- d. was established in 1930s.

161.

- a. reserves a bank must set aside.
- b. debts and obligations.
- c. cash a bank can use for making loans.
- d. the same as net worth.

162.

- a. bank assets on the right of the T account.
- b. net worth.
- c. legal reserves.
- d. deposits and loans.

163.

- a. lower interest rates.
- b. higher interest rates.
- c. economic expansion.
- d. increased consumer spending.

164.

- a. must respond to pressure from the public.
- b. recognizes high interest rates as a sign of an unhealthy economy.
- c. is concerned about short-term interest rates.
- d. is concerned about the long-run health of the economy.

165.

- a. advises the Fed on the overall health of the economy.
- b. regulates savings and loan associations, savings banks, and credit unions.
- c. advises the Fed on consumer credit laws.
- d. is the Fed's primary monetary policymaking body.

166.

- a. properties, possessions, and claims on others.
- b. cash a bank owes to depositors.
- c. the same as net worth.
- d. legal reserves.

167.

- a. 1 percent
- b. 2-3 percent
- c. 5-6 percent
- d. 8-9 percent

168.

- a. increased to keep interest rates stable.
- b. decreased to keep interest rates stable.
- c. increased to increase interest rates.
- d. decreased to decrease interest rates.

169.

- a. money market funds.
- b. savings deposits.
- c. traveler's checks and currency.
- d. stocks.

170.

Like a driver applying a quick tap of the brakes, the Federal Reserve yesterday raised the cost of borrowing to keep the U.S. economy from running ahead too fast. As a result, consumers can expect to pay a little more when buying homes, cars, and other big-ticket items, as well as when carrying credit-card balances.

Source: *The Columbus Dispatch*, July 1, 1999.



Why will the Fed's action in the passage cause the result described?

- a. Sellers of expensive items will raise their prices.
- b. Banks will raise their loan interest rates.
- c. Inflation will increase.

d. Banks will have to meet a higher reserve requirement.

171.

...[Federal Reserve] Chairman Alan Greenspan decided seven years ago to publicize the central bank's interest-rate moves once they were made. Now, each meeting of the Fed—whether the central bank changes rates or not—triggers a chorus of instant analysis of what it means for the economy and the financial markets.

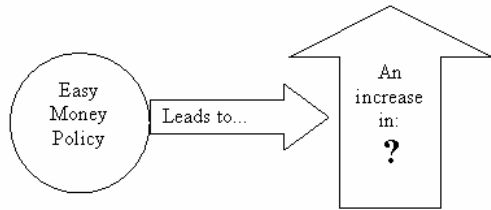
Source: *Business Week*, July 23, 2001.



Which function of the Federal Reserve is the subject of this passage?

- a. serving as the federal government's banker
- b. holding and settling reserve requirements
- c. regulating the money supply
- d. supplying paper currency

Federal Reserve Easy Money Policy

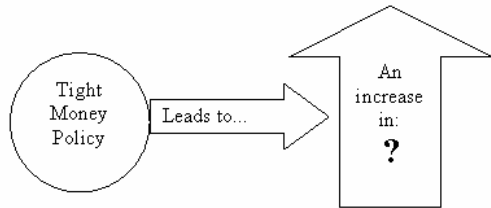


172. Which of the following results should be included where the question mark appears in the illustration?

- a. unemployment
- b. inflation
- c. the reserve requirement
- d. interest rates

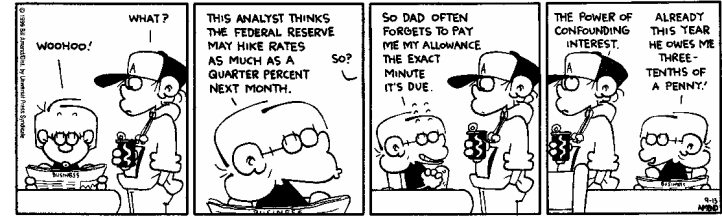
173.

Federal Reserve Tight Money Policy



Which of the following results should be included where the question mark appears in the illustration?

- a. unemployment
- b. inflation
- c. consumer spending
- d. production



174.



This cartoon illustrates that when the Federal Reserve raises interest rates, banks

- a. lend more money to their customers.
- b. increase interest rates to their borrowers.
- c. impose late payment penalties on their customers.
- d. compound interest on their savings accounts.

175.

Federal Reserve policymakers cut their short-term interest rate target an aggressive half-point to 2% Tuesday.... This cut was the Fed's 10th attempt this year to shore up the U.S. economy, which is still weakening after the Sept. 11 attacks. The moves represent some of the most furious rate-cutting in Fed history.... Fed officials have now pushed the rate banks charge each other for overnight loans to its lowest level since 1961....

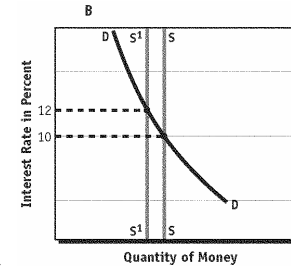
Major banks lowered the prime rate in [lockstep] with the Fed, bringing it down to 5% from 5.5%. That translates into lower rates for home-equity loans, business loans, and some credit cards.

Source: "Fed Slashes Interest Rates," *ISA Today*, November 7, 2001.



In taking the actions described in the passage, the Fed was trying to

- a. increase the amount banks keep on reserve.
- b. decrease the money supply.
- c. increase business activity.
- d. decrease business activity.



176.



Suppose supply curve SS on the graph represents the money supply. Which of the following Federal Reserve actions could cause curve SS to move to S'S'?

- a. lowering the reserve requirement

- b. buying bonds in open market operations
- c. increasing the discount rate
- d. printing more currency

177.

Not too many years ago, Federal Reserve officials conducted monetary policy as if they were members of the Politburo plotting behind the thick walls of the Kremlin.

Source: *Business Week*, January 11, 1999



- Based on this quotation, the author believed that the Federal Reserve had been too
- a. dictatorial.
 - b. powerful.
 - c. sinister.
 - d. secretive.



178.



- In the cartoon, the comments by Federal Reserve Board Chairman Alan Greenspan probably
- a. predicted an economic upturn ahead.
 - b. encouraged stock market investment.
 - c. predicted strong growth in pharmaceuticals.
 - d. dampened investor enthusiasm about the economic outlook.

- 179. A comprehensive measure of consumer discomfort during a period of rising inflation and high unemployment is the
 - a. misery index.
 - b. aggregate supply curve.
 - c. Laffer curve.
 - d. aggregate supply curve.
- 180. Aggregate demand will increase
 - a. if the dollar declines in value.
 - b. when productivity is low.
 - c. if consumers save more and spend less.
 - d. if consumers save less and spend more.
- 181. According to John Maynard Keynes's theory of the multiplier-accelerator effect, a decline in investment spending will
 - a. lead to an upward spiral of the economy.
 - b. lead to a downward spiral of the economy.
 - c. be offset by an increase in consumer demand.
 - d. lead to lower consumer prices.
- 182. Unlike demand-side economics, supply-side economics
 - a. advocates reduced government involvement in business.

17

- b. advocates increased government involvement in business.
- c. emphasizes increasing consumer purchasing power.
- d. urges higher taxes to increase spending on government programs.

183.

- The nation's monetary policy
- a. often comes under attack from politicians.
 - b. almost always complements presidential and Congressional aims.
 - c. is determined by the Council of Economic Advisers.
 - d. is tightly managed by Congress.

184.

- Some people believe that a weak economy will result in
- a. a higher crime rate.
 - b. increased production.
 - c. higher taxes.
 - d. expansion of municipal services.

185.

- Decreases in aggregate supply can be caused by
- a. decreases in fuel and transportation costs.
 - b. reduced government regulation.
 - c. lower taxes.
 - d. tightening of immigration laws.

186.

- John Maynard Keynes
- a. argued that foreign-sector spending should not be ignored.
 - b. argued that government should limit its involvement in business.
 - c. introduced his theories in the 1970s.
 - d. introduced his theories in 1936.

187.

- The Council of Economic Advisers
- a. is an independent agency with broad regulatory powers.
 - b. determines the Fed's monetary policy.
 - c. advises the president on economic developments and strategy.
 - d. advises Congress on economic developments and strategy.

188.

It will take a few years for the global economy to achieve a new equilibrium between manufacturing production and consumer demand. Many goods are now in oversupply, and consumer demand is impaired by falling currencies and growth-inhibiting governmental policies.... But these are cyclical imbalances of the sort that have occurred for decades and will keep recurring from time to time.

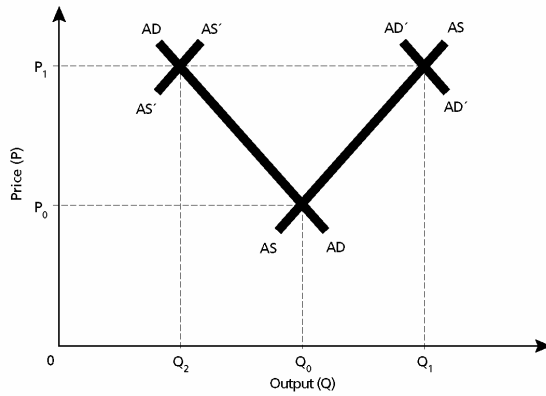
Source: *Kiplinger's Personal Finance Magazine*, November 1998.



- This passage is describing a
- a. shift in aggregate demand.
 - b. shift in aggregate supply.

- c. shortage.
- d. surplus.

18



AS = Aggregate supply curve
 AS = Aggregate supply curve resulting from an increase in oil prices

AD = Aggregate demand curve
 AD = Aggregate supply curve resulting from a world economic recovery

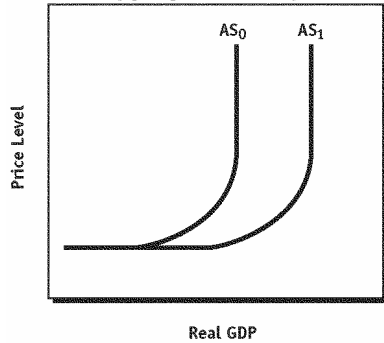
189.



Based on the graph, the increase in oil prices caused output to

- a. rise from Q_2 to Q_0
- b. fall from Q_0 to Q_2
- c. rise from Q_0 to Q_1
- d. fall from Q_1 to Q_0

The Aggregate Supply Curve



190.



Which of the following events could cause aggregate supply curve AS_1 to shift to AS_0 ?

- a. higher labor productivity
- b. higher interest rates
- c. lower prices for foreign oil
- d. lower taxes

191.

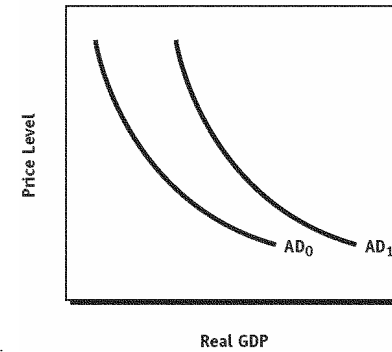


Which of the following events could cause aggregate supply curve AS_0 to shift to AS_1 ?

- a. a tax cut
- c. an increase in the price for foreign oil

- b. a rise in interest rates
- d. a decrease in the price level

The Aggregate Demand Curve



192.



Which of the following situations could cause aggregate demand curve AD_1 to shift to AD_0 ?

- a. higher transfer payments
- b. a forecast of better economic conditions ahead
- c. a decrease in the personal income tax rate
- d. an increase in consumer saving

193.

Have monetary policymakers got [inflation] licked?

Central bankers will tell you that they have not, and not just out of modesty. Although plenty of them have targets for inflation, none is sure precisely how, or how rapidly, changes in monetary policy affect the economy. So they cannot be certain that a sensible-looking interest-rate cut will not revive inflation—or that a cautious-looking rise will not tip the economy into a recession.

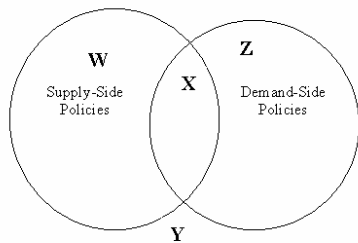
Hence the search for...a simple rule for choosing [a] monetary policy that keeps inflation down without hitting the economy too hard.

Source: *The Economist*, August 10, 1996.



In the passage, central bankers are wrestling with what tradeoff?

- a. monetary versus fiscal policy
- b. inflation versus economic growth
- c. interest-rate cut versus recession
- d. supply-side versus demand-side policies



194. Suppose policymakers target a goal of continuous, stable economic growth without inflation. Where on the diagram does this goal belong?
- a. W c. Y
b. X d. Z
195. Suppose policymakers decide to increase federal spending to put more money in people's hands. Where on the diagram does this policy action belong?
- a. W c. Y
b. X d. Z
196. Suppose policymakers decide to cut taxes. Where on the diagram does this policy action belong?
- a. W c. Y
b. X d. Z
197. Tariffs and quotas can have all of the following effects EXCEPT
- a. promoting third-world development.
b. increasing prices consumers pay for goods.
c. protecting domestic industry.
d. reducing trade deficits.
198. Revenue tariffs are levied to
- a. increase imports. c. raise money.
b. lower exports. d. protect domestic producers.
199. The Smoot-Hawley Tariff of 1930 resulted in
- a. the lowest tariff rates in U.S. history.
b. the highest tariff rates in U.S. history.
c. rapid growth of international trade.
d. significant growth of domestic industry.
200. The international agency that administers trade agreements and settles trade disputes is
- a. GATT. c. NAFTA.
b. WTO. d. the United Nations.
201. A persistent trade deficit causes
- a. unemployment to increase in import industries.
b. unemployment to increase in export industries.
c. the dollar to grow stronger.
d. lower prices on imported goods.
202. A protective tariff is used to
- a. give inefficient domestic industries an advantage.
b. expand trade.

- c. increase revenue.
d. gain a comparative advantage.
203. The Reciprocal Trade Agreements Act
- a. allowed the United States to increase tariffs.
b. allowed the United States to reduce tariffs up to 50 percent if other nations agreed to do the same.
c. stated that tariffs on imports could not be higher than tariffs on exports.
d. provided for a balance of payments.
204. The North American Free Trade Agreement proposed free trade between the United States and
- a. Central American countries. c. the European Union.
b. Brazil and Mexico. d. Canada and Mexico.
205. Under the fixed exchange rate, the value of a country's currency is determined by the
- a. amount of its gold reserves. c. forces of supply and demand.
b. Federal Reserve System. d. World Trade Organization.
206. The United States trade deficit causes
- a. the value of the dollar to strengthen in foreign exchange markets.
b. the value of the dollar to fall in foreign exchange markets.
c. increased employment opportunities for Americans in import industries.
d. worldwide recessions.
- 207.

If the price of buying a car starts rising in the United States, consumers may need to look no further than the dollar's recent slide against major foreign currencies.

On the other hand, economically depressed Midwestern farmers may find it easier to sell surplus grain overseas if a weak dollar makes it cheaper for foreigners to buy U.S. goods.

The dollar spent much of last week on the skids, flirting with its lowest level of the year against the Japanese yen.... It also has lost ground to the euro.

Source: *The Columbus Dispatch*, September 7, 1999.

208. According to the passage, why might the price of buying a car start rising in the United States?
- a. The dollar is becoming more expensive on the foreign exchange market.
b. The dollar is becoming less expensive on the foreign exchange market.
c. Foreign car manufacturers might raise their prices to make up for the weak dollar.
d. Foreign car manufacturers might raise their prices to take advantage of greater demand in the U.S.

The World Trade Organization yesterday authorized the US to impose trade sanctions on European Union goods in retaliation for the EU's ban on hormone-treated beef.

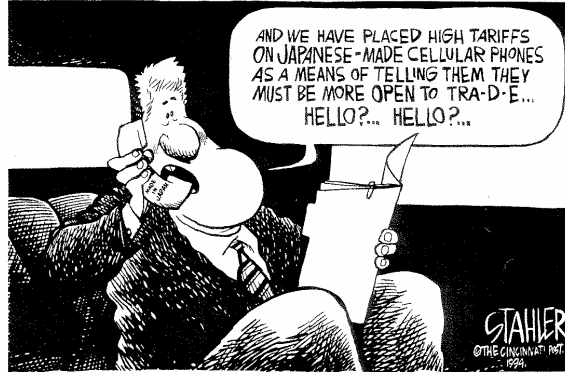
From July 29, the US will impose punitive 100 percent duties on imports from the EU, including delicacies such as foie gras, truffles, and Roquefort cheese as well as beef, pork, canned tomatoes and mustard.

US officials said last week the sanctions, worth a total of \$116.8 [million] would target goods from France, Germany, Italy and Denmark as these were the countries most influential in preserving the 10-year-old beef hormone ban.

Source: "US Gets Go-Ahead for European Sanctions," *The Financial Times*, July 27, 1999.



- According to this passage, the U.S. imposed import duties on the European Union to
- raise revenue.
 - protect the U.S. beef industry from foreign competition.
 - keep prices high for the U.S. beef industry.
 - punish the EU for its import ban on a U.S. product.



209. JEFF STAHLER reprinted by permission of NEA, Inc.



- The drawback of tariffs that this cartoon illustrates is that the target country might
- cut off relations with the U.S.
 - ban the import of American goods.
 - start providing inferior products.
 - retaliate.
- Advantages of socialism include
- a marketplace governed by supply and demand.
 - flexibility in day-to-day changes.
 - equitable distribution of benefits.
 - low taxes.
- Joseph Stalin demonstrated the main advantage of a command system by
- increasing industrial output.
 - eliminating shortages.
 - introducing the New Economic Policy.
 - increasing the standard of living.
- Countries trying to change from a command to a market economy face all of the following problems EXCEPT the
- need for people to adapt to new economic incentives.
 - forming of agricultural collectives.
 - privatization of industry.
 - instability and uncertainties of capitalism.
- The keiretsu of Japan are
- organized employee programs.
 - export and import quota systems.
 - industrial plants.
 - made up of competing firms.
- Before reunification with China in 1997, the economy of Hong Kong
- had the smallest per capita GNP of the Asian Tigers.
 - managed competition through tightly knit groups of firms.
 - was dominated by a small number of powerful business families.
 - was recognized as the freest market economy in the world.

- Socialism is characterized by
- limited benefits for non-productive members of society.
 - government ownership of most productive resources.
 - a marketplace governed by supply and demand.
 - low taxes.
- In 1917, the existing government of Russia was overthrown by
- Vladimir Ilyich Lenin.
 - Joseph Stalin.
 - Karl Marx.
 - Mikhail Gorbachev.
- The main reason for the economic failure of the Soviet Union was
- that industrial expansion was limited by labor shortages.
 - that perestroika alienated the workers.
 - that the economy was too complex to be managed by central planning.
 - overproduction of consumer goods.
- Japan's industries are capital-intensive, which means
- a great amount of capital is invested for every person employed.
 - many workers are needed to operate equipment.
 - technological advances are increasing.
 - technological advances are on the decline.
- Taiwan's economic growth was aided by
- the People's Republic of China.
 - low interest rates to targeted industries.
 - a hands-off approach from the government.
 - an emphasis on research and development.

220.

The distinguishing feature of communism is not the abolition of property generally, but the abolition of bourgeois property. But modern bourgeois private property is the final and most complete expression of the system of producing and appropriating products that is based on class antagonisms, on the exploitation of the many by the few.

In this sense, the theory of the Communists may be summed up in the single sentence:
Abolition of private property.

...It has been objected that upon the abolition of private property, all work will cease, and universal laziness will overtake us. According to this, bourgeois society ought long ago to have gone to the dogs through sheer idleness; for those of its members who work, acquire nothing, and those who acquire anything, do not work.

Source: Karl Marx, *The Communist Manifesto*, 1848.



- According to Karl Marx in the passage, who were the "bourgeois"?
- the working class
 - government officials
 - property owners
 - communists

221.

In general, the Russian economy is a mess: Industrial production is half what it was in 1991, the transition to a market economy has gone badly, the ruble has collapsed, and many giant enterprises are in desperate straits, unemployment and poverty are [common].

And yet, some Russian businesses are actually making money, some are thriving....

Although criminals and corrupt government officials frustrate entrepreneurs all over the country, some manage to evade or ignore them. The experiences of the few who are succeeding provide some powerful lessons in why that hope remains so remote.



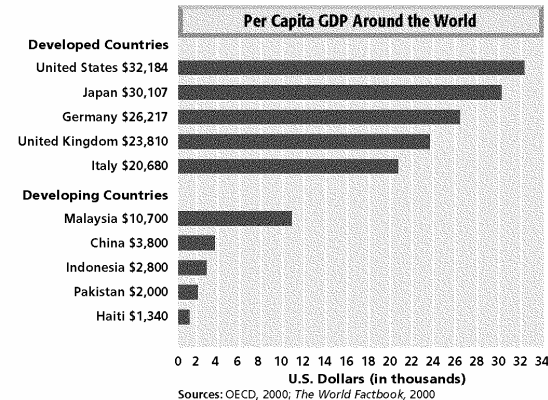
- Based on the passage, a sign of hope in the Russian economy is that
- some entrepreneurs have been able to evade corrupt government officials.
 - the ruble is getting stronger.
 - some businesses are thriving.
 - industrial production is increasing.
222. Of the 1.2 billion people with the lowest per capita income, most live in
- Africa and Asia.
 - South America and Asia.
 - South America and Africa.
 - Eastern Europe and Southeastern Asia.
223. Developing nations tend to have larger families because their economies are primarily agricultural and
- food is abundant.
 - children provide large tax deductions.
 - children are needed for industrial expansion.
 - children can begin work at an early age.
224. During the second stage of economic development, a country
- experiences an income that grows faster than population and per capita income increases.
 - breaks with primitive equilibrium and moves toward economic changes.
 - overcomes the barriers of primitive equilibrium.
 - is still tied to traditional culture with no formal economic organization.
225. An example of expropriation is
- refusing to pay back loans.
 - China's policy of forcing people from the city to work on farms.
 - accepting loans without expecting to pay them back.
 - Iran's takeover of American oil facilities in that country.
226. Despite the enormous wealth generated by oil, OPEC nations have failed to reach substantial growth rates because of all the following reasons EXCEPT that
- they failed to invest in industry.
 - they principally bought products for consumption.
 - they did not create incentives for people to work.
 - their oil reserves were used up.
227. Developing nations are important to the United States as
- trading partners.
 - sources of technology.
 - sources of skilled labor.
 - Cold War allies.
228. The third stage of economic development is a period of
- transition.
 - primitive equilibrium.
 - semidevelopment.
 - takeoff.
229. More than 50 percent of indirect military aid supplied by the United States has gone to
- the Dominican Republic, Uganda, and Israel.
 - Mexico, Argentina, and India.
 - Algeria, Sudan, and Japan.
 - Israel, Pakistan, and Egypt.
230. The European Union grew out of
- a multicountry cartel.
 - a free-trade area.
 - a customs union.
 - the OPEC nations.
231. South Korea is an example of a nation that
- rebuilt a war-torn economy.
 - was able to develop without foreign assistance.
 - could maintain its wealth through years of war.
 - never recovered from war damages.

232.

Two Developing Nations		
	Madagascar	Mexico
Percent employed in agriculture	90%	28%
Average per capita GDP	\$780	\$8,500
Telephones per 100 population	0.46	11.62
Life expectancy at birth	54.9 years	71.5 years



- The table enables you to compare the two countries in terms of
- form of government.
 - type of economic system.
 - level of development.
 - level of economic potential.



233.



- This graph compares countries in terms of
- inflation.
 - economic stability.
 - total income.
 - productivity.

There are two radically different ways for...a society to satisfy all their needs: by producing a lot, as in Western societies, or by not wanting a lot, as in those...anthropologist Marshall Sahlins has called "Zen" societies. The "Zen" way chosen by hunter-gatherer societies is to stop producing food as soon as...the quantity in hand has reached a level sufficient for their needs.

...[Hunter-gatherers] do not live in utter privation, nor are they constantly in search of permanently inadequate food. On the contrary, they may be said to have created "the first affluent society," spending only a few hours a day on meeting their material needs and keeping the rest of their time free for recreational and social activities.

Source: Marie Roué, "An Economy of Sharing," *UNESCO Courier*, January 1998.



234. Based on the passage, if you were to adopt a "Zen" lifestyle here in the United States, you would
- grow your own food.

- b. gather as much food as you could and store some for lean times.
- c. work only as long as required to meet your survival needs.
- d. not work at all.

235.

Population and Gross National Product of Selected Countries, 1999		
Country	Population (in millions)	Gross National Product (in billions)
Australia	19	\$380.6
Botswana	2	\$5.6
Canada	31	\$612.2
China	1,239	\$928.9
Honduras	6	\$4.5
Nepal	23	\$4.8
United States	270	\$7,921.3

Source: *World Development Report 1999/2000*, The World Bank.



Which of the following countries shown on the table has the largest economy?

- a. Honduras
- b. Botswana
- c. Canada
- d. China

236. If the world population continues to grow at its present pace, by 2050 the world's population will reach

- a. 20 billion.
- b. 12 billion.
- c. eight billion.
- d. six billion.

237. Nearly two-thirds of the world's known coal reserves are in the United States,

- a. Japan, and China.
- b. Russia, and Poland.
- c. Russia, and China.
- d. Poland, and Canada.

238. Cost-benefit analysis would be useful in all of the following situations EXCEPT for

- a. firms about to purchase capital goods.
- b. government employees evaluating welfare programs.
- c. local fire departments responding to a three-alarm blaze.
- d. individuals about to purchase a new vehicle.

239. Under a system of pollution permits, the amount of pollution can be reduced by

- a. issuing fewer permits as time goes on.
- b. issuing more permits as time goes on.
- c. taxing the pollution permits.
- d. giving tax breaks for the pollution permits.

240. Today the dominant economic force in the world is

- a. socialism.
- b. capitalism.
- c. communism.
- d. military strength.

241. Malthus's predictions were not entirely accurate for

- a. industrialized nations.
- b. capitalist nations.
- c. developing nations.
- d. much of the African continent.

242. The largest category of nonrenewable energy in use in the United States is

- a. coal.
- b. natural gas.
- c. petroleum.
- d. hydroelectric power.

243. The Ogallala Aquifer

- a. may be pumped dry within the next 40 years.
- b. underlies much of Southern California.
- c. is no longer useable due to pollution.
- d. is the largest oil reserve in North America.

244. Pollution permits

- a. are in the theoretical stage and have not been used.
- b. are just a way to let companies legally pollute at no cost to the companies.
- c. can be made scarce, forcing companies to reduce pollution.
- d. take the place of pollution-control equipment.

245. All of the following are advantages of the market economy EXCEPT

- a. buyers have all of their wants satisfied.
- b. prices efficiently allocate resources.
- c. supply and demand interact to establish prices.
- d. incremental adjustments lead to gradual changes.

246.

...the [9/11] terrorist attacks forced the shutdown of the financial markets [and] the temporary closure of U.S. businesses.... With the U.S. already near zero growth, these impacts themselves are almost certain to tip the country into negative growth.

A U.S. downturn will have repercussions [consequences] all around the world. With Japan imploding economically, Asia in trouble, and Europe struggling, a recession in the U.S. would remove the last remaining source of demand from the global economy.

...Further terrorist attacks and military retaliation could start a cycle of turmoil, forcing dramatically tightened security and new barriers to travel and trade. Those restrictions would strike the heart of the global economy, which depends on open borders and open markets.

Source: "Worldwide, Hope for Recovery Dims," reprinted from September 24, 2001 issue of *Business Week* by special permission, copyright © 2001 by The McGraw-Hill Companies, Inc.



According to the passage, the 9/11 terrorist attacks might affect the global economy by

- a. increasing military spending.
- b. forcing multinational companies out of business.
- c. reducing travel and trade.
- d. sparking a world war.



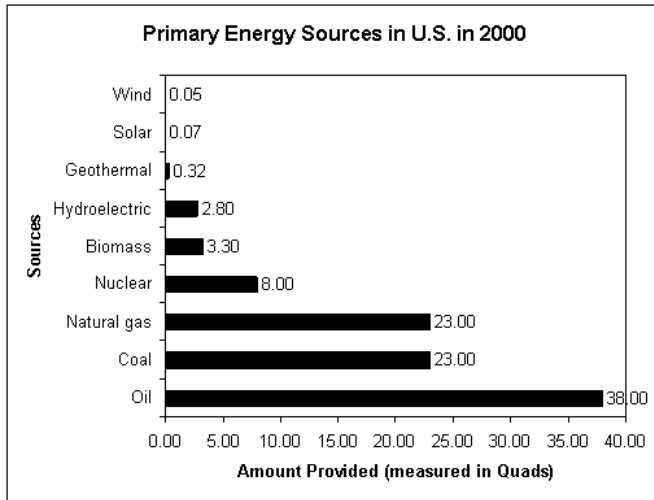
247.



What does each person in the cartoon represent?

- a. a government
- b. a multinational corporation
- c. a political leader
- d. an economy

248.



Source: Samuel F. Baldwin, "Renewable Energy: Progress and Prospects," *Physics Today*, April, 2002.



Which source of renewable energy supplied the greatest amount of energy in the U.S. in 2000?

- a. oil
- b. nuclear
- c. biomass
- d. hydroelectric

249.

	Consumer Price Forecast 2003	Consumer Price Forecast 2004	GDP Forecast 2003	GDP Forecast 2004
Australia	2.70%	2.30%	2.80%	3.60%
Belgium	1.50%	1.40%	1.00%	1.90%
Canada	2.70%	1.60%	1.70%	3.10%
France	2.10%	1.70%	0.20%	1.90%
Italy	2.80%	2.30%	0.50%	1.70%
Japan	-0.20%	-0.20%	2.40%	2.10%
Spain	2.90%	2.60%	2.40%	3.00%
United States	2.30%	1.50%	3.10%	4.50%

Source: "Economic and Financial Indicators," *Economist*, January, 2004.



Which country is forecasted to have the smallest growth in gross domestic product (GDP) in 2004?

- a. Italy
- b. Japan
- c. France
- d. Belgium

250.

...Already, capitalism is flourishing in regions as diverse as communist Asia and the former dictatorships of Latin America. Affluence is lifting millions out of poverty, giving many the chance to purchase their first Fiats and Toyotas as well as their first Apple computers and Panasonic VCRs. And inflation is brought to heel in even the most wayward economies.

The implications are huge for rich and poor alike. Hundreds of millions of peasants are leaving ancient ways of life for the factory. Cities such as Guangzhou and Bangalore teem with new inhabitants. Many are living poorly, of course, but just as many are thriving.

Source: *Business Week*, December 14, 1998.



Which of the following best describes the effect of new capitalistic economies on cities?

- a. Cities are decreasing in size as people use computers to telecommute to work.
- b. Cities are growing richer as the newly rich build new houses and the poor move to the countryside to find work.
- c. Cities are increasing in size as new factories create jobs for people who once lived in the countryside.
- d. Cities in Asia are increasing in size, while cities in Latin America are decreasing in size.

**Final Review
Answer Section**

TRUE/FALSE

1. ANS: F	DIF: Easy	REF: Page 288
2. ANS: T	DIF: Average	REF: Page 289
3. ANS: F	DIF: Average	REF: Page 286
4. ANS: T	DIF: Average	REF: Page 289
5. ANS: T	DIF: Challenging	REF: Page 287
6. ANS: T	DIF: Average	REF: Page 301
7. ANS: F	DIF: Average	REF: Page 294
8. ANS: T	DIF: Average	REF: Page 304
9. ANS: T	DIF: Easy	REF: Page 321
10. ANS: T	DIF: Average	REF: Page 325
11. ANS: F	DIF: Challenging	REF: Page 325
12. ANS: T	DIF: Easy	REF: Page 315
13. ANS: F	DIF: Average	REF: Page 316
14. ANS: F	DIF: Challenging	REF: Page 323
15. ANS: T	DIF: Average	REF: Page 320
16. ANS: F	DIF: Average	REF: Page 322
17. ANS: T	DIF: Average	REF: Page 324
18. ANS: F	DIF: Average	REF: Page 330
19. ANS: T	DIF: Average	REF: Page 332
20. ANS: T	DIF: Easy	REF: Page 333
21. ANS: F	DIF: Average	REF: Page 359
22. ANS: T	DIF: Easy	REF: Page 358
23. ANS: F	DIF: Challenging	REF: Page 360
24. ANS: F	DIF: Challenging	REF: Page 367
25. ANS: T	DIF: Easy	REF: Page 366
26. ANS: F	DIF: Average	REF: Page 363
27. ANS: T	DIF: Average	REF: Page 368
28. ANS: F	DIF: Average	REF: Page 341
29. ANS: T	DIF: Average	REF: Page 344
30. ANS: T	DIF: Average	REF: Page 346
31. ANS: F	DIF: Easy	REF: Page 351
32. ANS: F	DIF: Challenging	REF: Page 353
33. ANS: T	DIF: Average	REF: Page 357
34. ANS: T	DIF: Easy	REF: Page 357
35. ANS: F	DIF: Average	REF: Page 375
36. ANS: T	DIF: Challenging	REF: Page 378
37. ANS: F	DIF: Average	REF: Page 375
38. ANS: F	DIF: Average	REF: Page 376
39. ANS: T	DIF: Easy	REF: Page 379
40. ANS: T	DIF: Easy	REF: Page 384
41. ANS: F	DIF: Average	REF: Page 387
42. ANS: T	DIF: Average	REF: Page 411
43. ANS: T	DIF: Average	REF: Page 416
44. ANS: F	DIF: Average	REF: Page 416
45. ANS: T	DIF: Average	REF: Page 419

46. ANS: F	DIF: Challenging	REF: Page 426
47. ANS: T	DIF: Average	REF: Page 427
48. ANS: T	DIF: Challenging	REF: Page 428
49. ANS: T	DIF: Easy	REF: Page 439
50. ANS: T	DIF: Average	REF: Page 438
51. ANS: F	DIF: Average	REF: Page 440
52. ANS: T	DIF: Average	REF: Page 439
53. ANS: F	DIF: Challenging	REF: Page 437
54. ANS: T	DIF: Average	REF: Page 450
55. ANS: F	DIF: Easy	REF: Page 448
56. ANS: F	DIF: Average	REF: Page 449
57. ANS: T	DIF: Challenging	REF: Page 474
58. ANS: F	DIF: Average	REF: Page 474
59. ANS: T	DIF: Average	REF: Page 475
60. ANS: T	DIF: Average	REF: Page 477
61. ANS: F	DIF: Easy	REF: Page 468
62. ANS: T	DIF: Average	REF: Page 470
63. ANS: T	DIF: Easy	REF: Page 474
64. ANS: F	DIF: Challenging	REF: Pages 476-477
65. ANS: T	DIF: Average	REF: Page 482
66. ANS: T	DIF: Average	REF: Page 483
67. ANS: F	DIF: Average	REF: Page 482
68. ANS: T	DIF: Challenging	REF: Page 483
69. ANS: T	DIF: Challenging	REF: Page 496
70. ANS: F	DIF: Average	REF: Page 497
71. ANS: T	DIF: Easy	REF: Page 497
72. ANS: F	DIF: Average	REF: Page 499
73. ANS: F	DIF: Average	REF: Page 509
74. ANS: T	DIF: Average	REF: Page 510
75. ANS: F	DIF: Average	REF: Page 513
76. ANS: F	DIF: Challenging	REF: Page 513
77. ANS: F	DIF: Average	REF: Page 529
78. ANS: T	DIF: Average	REF: Page 530
79. ANS: F	DIF: Challenging	REF: Page 531
80. ANS: T	DIF: Average	REF: Page 530
81. ANS: T	DIF: Easy	REF: Page 537
82. ANS: F	DIF: Average	REF: Page 535
83. ANS: T	DIF: Average	REF: Page 535
84. ANS: F	DIF: Easy	REF: Page 522
85. ANS: T	DIF: Easy	REF: Page 522
86. ANS: T	DIF: Challenging	REF: Page 528
87. ANS: T	DIF: Average	REF: Page 530
88. ANS: F	DIF: Challenging	REF: Page 530
89. ANS: T	DIF: Average	REF: Page 533
90. ANS: F	DIF: Average	REF: Page 534
91. ANS: T	DIF: Easy	REF: Page 536
92. ANS: T	DIF: Average	REF: Page 554
93. ANS: T	DIF: Average	REF: Page 554
94. ANS: F	DIF: Challenging	REF: Page 556
95. ANS: T	DIF: Average	REF: Page 554
96. ANS: T	DIF: Easy	REF: Page 559

97. ANS: T DIF: Average REF: Page 560
 98. ANS: F DIF: Average REF: Page 560
 99. ANS: F DIF: Challenging REF: Page 561
 100. ANS: T DIF: Average REF: Page 561

MULTIPLE CHOICE

101. ANS: A DIF: Average REF: Page 287
 102. ANS: D DIF: Average REF: Page 290
 103. ANS: C DIF: Average REF: Page 305
 104. ANS: A DIF: Easy REF: Page 301
 105. ANS: D DIF: Challenging REF: Page 304
 106. ANS: A DIF: Average REF: Page 288
 107. ANS: B DIF: Average REF: Page 290
 108. ANS: A DIF: Average REF: Page 293
 109. ANS: D DIF: Average REF: Page 301
 110. ANS: B DIF: Average REF: Page 305
 111. ANS: A DIF: Average REF: Page 287 MSC: Document Based Question
 112. ANS: A DIF: Easy REF: Page 286 MSC: Document Based Question
 113. ANS: C DIF: Challenging REF: Pages 292-293
 MSC: Document Based Question
 114. ANS: D DIF: Easy REF: Page 316
 115. ANS: B DIF: Challenging REF: Page 321
 116. ANS: D DIF: Easy REF: Page 323
 117. ANS: A DIF: Average REF: Page 329
 118. ANS: D DIF: Challenging REF: Page 333
 119. ANS: A DIF: Average REF: Page 314
 120. ANS: A DIF: Average REF: Page 320
 121. ANS: D DIF: Average REF: Page 323
 122. ANS: B DIF: Average REF: Page 331
 123. ANS: B DIF: Average REF: Page 332
 124. ANS: B DIF: Easy REF: Page 314 MSC: Document Based Question
 125. ANS: C DIF: Easy REF: Page 331 MSC: Document Based Question
 126. ANS: B DIF: Easy REF: Page 331 MSC: Document Based Question
 127. ANS: C DIF: Easy REF: Page 313 MSC: Document Based Question
 128. ANS: A DIF: Average REF: Page 321 MSC: Document Based Question
 129. ANS: B DIF: Challenging REF: Page 321 MSC: Document Based Question
 130. ANS: D DIF: Average REF: Page 324 MSC: Document Based Question
 131. ANS: C DIF: Challenging REF: Page 344
 132. ANS: D DIF: Easy REF: Pages 356-357
 133. ANS: B DIF: Average REF: Page 360
 134. ANS: A DIF: Average REF: Page 366
 135. ANS: D DIF: Easy REF: Page 346
 136. ANS: A DIF: Challenging REF: Page 353
 137. ANS: C DIF: Average REF: Page 357
 138. ANS: D DIF: Average REF: Page 357
 139. ANS: D DIF: Average REF: Page 366
 140. ANS: A DIF: Average REF: Page 365 MSC: Document Based Question
 141. ANS: D DIF: Average REF: Page 364 MSC: Document Based Question
 142. ANS: B DIF: Easy REF: Page 352 MSC: Document Based Question

143. ANS: D DIF: Challenging REF: Page 364 MSC: Document Based Question
 144. ANS: A DIF: Average REF: Page 365 MSC: Document Based Question
 145. ANS: A DIF: Average REF: Page 378
 146. ANS: C DIF: Easy REF: Page 386
 147. ANS: A DIF: Average REF: Page 391
 148. ANS: A DIF: Average REF: Page 395
 149. ANS: D DIF: Average REF: Page 400
 150. ANS: D DIF: Easy REF: Page 376
 151. ANS: B DIF: Average REF: Page 385
 152. ANS: D DIF: Average REF: Page 391
 153. ANS: D DIF: Challenging REF: Page 394
 154. ANS: C DIF: Challenging REF: Page 396
 155. ANS: D DIF: Average REF: Page 379 MSC: Document Based Question
 156. ANS: C DIF: Easy REF: Page 376 MSC: Document Based Question
 157. ANS: B DIF: Average REF: Page 386 MSC: Document Based Question
 158. ANS: C DIF: Average REF: Page 384 MSC: Document Based Question
 159. ANS: B DIF: Easy REF: Page 391 MSC: Document Based Question
 160. ANS: A DIF: Average REF: Page 409
 161. ANS: B DIF: Easy REF: Page 416
 162. ANS: A DIF: Challenging REF: Page 416
 163. ANS: A DIF: Average REF: Page 426
 164. ANS: D DIF: Average REF: Page 430
 165. ANS: D DIF: Average REF: Page 409
 166. ANS: A DIF: Easy REF: Page 416
 167. ANS: B DIF: Average REF: Page 415
 168. ANS: A DIF: Average REF: Page 427
 169. ANS: C DIF: Average REF: Page 429
 170. ANS: B DIF: Average REF: Page 416 MSC: Document Based Question
 171. ANS: C DIF: Average REF: Page 409 MSC: Document Based Question
 172. ANS: B DIF: Average REF: Page 419 MSC: Document Based Question
 173. ANS: A DIF: Average REF: Page 419 MSC: Document Based Question
 174. ANS: B DIF: Average REF: Page 419 MSC: Document Based Question
 175. ANS: C DIF: Easy REF: Page 426 MSC: Document Based Question
 176. ANS: C DIF: Challenging REF: Page 427 MSC: Document Based Question
 177. ANS: D DIF: Average REF: Page 415 MSC: Document Based Question
 178. ANS: D DIF: Average REF: Page 430 MSC: Document Based Question
 179. ANS: A DIF: Easy REF: Page 438
 180. ANS: D DIF: Average REF: Page 450
 181. ANS: B DIF: Challenging REF: Page 448
 182. ANS: A DIF: Average REF: Page 451
 183. ANS: A DIF: Average REF: Page 458
 184. ANS: A DIF: Easy REF: Page 440
 185. ANS: D DIF: Challenging REF: Page 443
 186. ANS: D DIF: Average REF: Page 448
 187. ANS: C DIF: Average REF: Page 460
 188. ANS: D DIF: Challenging REF: Page 453 MSC: Document Based Question
 189. ANS: B DIF: Challenging REF: Page 442 MSC: Document Based Question
 190. ANS: B DIF: Average REF: Page 443 MSC: Document Based Question
 191. ANS: A DIF: Average REF: Page 443 MSC: Document Based Question
 192. ANS: D DIF: Average REF: Page 444 MSC: Document Based Question
 193. ANS: B DIF: Average REF: Page 453 MSC: Document Based Question

194. ANS: B DIF: Average REF: Page 447 MSC: Document Based Question
 195. ANS: D DIF: Average REF: Page 447 MSC: Document Based Question
 196. ANS: B DIF: Average REF: Page 447 MSC: Document Based Question
 197. ANS: A DIF: Average REF: Page 472
 198. ANS: C DIF: Easy REF: Page 473
 199. ANS: B DIF: Average REF: Page 477
 200. ANS: B DIF: Average REF: Page 477
 201. ANS: A DIF: Challenging REF: Page 484
 202. ANS: A DIF: Easy REF: Page 472
 203. ANS: B DIF: Average REF: Page 477
 204. ANS: D DIF: Average REF: Page 479
 205. ANS: A DIF: Challenging REF: Page 482
 206. ANS: B DIF: Average REF: Page 484
 207. ANS: B DIF: Average REF: Page 481 MSC: Document Based Question
 208. ANS: D DIF: Easy REF: Page 473 MSC: Document Based Question
 209. ANS: D DIF: Average REF: Page 482 MSC: Document Based Question
 210. ANS: C DIF: Average REF: Page 492
 211. ANS: A DIF: Challenging REF: Page 497
 212. ANS: B DIF: Challenging REF: Page 502
 213. ANS: D DIF: Average REF: Page 510
 214. ANS: D DIF: Average REF: Page 512
 215. ANS: B DIF: Easy REF: Page 492
 216. ANS: A DIF: Average REF: Page 496
 217. ANS: C DIF: Average REF: Page 497
 218. ANS: A DIF: Average REF: Page 510
 219. ANS: B DIF: Easy REF: Page 513
 220. ANS: C DIF: Easy REF: Page 500 MSC: Document Based Question
 221. ANS: C DIF: Easy REF: Page 501 MSC: Document Based Question
 222. ANS: A DIF: Average REF: Pages 522-523
 223. ANS: D DIF: Easy REF: Page 524
 224. ANS: B DIF: Challenging REF: Page 529
 225. ANS: D DIF: Easy REF: Page 534
 226. ANS: D DIF: Average REF: Page 536
 227. ANS: A DIF: Average REF: Page 535
 228. ANS: D DIF: Challenging REF: Page 529
 229. ANS: D DIF: Average REF: Page 530
 230. ANS: C DIF: Average REF: Page 535
 231. ANS: A DIF: Average REF: Page 536
 232. ANS: C DIF: Average REF: Pages 522-523
 MSC: Document Based Question
 233. ANS: D DIF: Average REF: Page 522 MSC: Document Based Question
 234. ANS: C DIF: Average REF: Page 529 MSC: Document Based Question
 235. ANS: D DIF: Easy REF: Page 522 MSC: Document Based Question
 236. ANS: B DIF: Average REF: Page 546
 237. ANS: C DIF: Average REF: Page 547
 238. ANS: C DIF: Challenging REF: Page 560
 239. ANS: A DIF: Average REF: Page 556
 240. ANS: B DIF: Easy REF: Page 560
 241. ANS: A DIF: Average REF: Page 543
 242. ANS: C DIF: Easy REF: Page 543
 243. ANS: A DIF: Average REF: Page 550

244. ANS: C DIF: Average REF: Page 556
 245. ANS: A DIF: Challenging REF: Page 560
 246. ANS: C DIF: Easy REF: Page 560 MSC: Document Based Question
 247. ANS: D DIF: Average REF: Page 561 MSC: Document Based Question
 248. ANS: C DIF: Average REF: Page 546 MSC: Document Based Question
 249. ANS: A DIF: Easy REF: Page 546 MSC: Document Based Question
 250. ANS: C DIF: Easy REF: Page 546 MSC: Document Based Question