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.


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 but 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
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.

---

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.

---

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.


---

112. 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.

---

113. 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.

---

114. 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.

---

115. The par value of a bond is

- a. the stated interest on the debt.
- b. the total amount borrowed.
- c. are usually tax-exempt.
- d. are exceptionally risky.

---

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

- b. over-the-counter market.
- 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.

---

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.


This passage suggests that the low savings rate is due to
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.


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

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.

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.  

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. GDP = C + I + G + F  

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.  

144. **Per Capita GDP**

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita (in US dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>$33,609</td>
</tr>
<tr>
<td>United States</td>
<td>$33,586</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$27,126</td>
</tr>
<tr>
<td>Japan</td>
<td>$23,311</td>
</tr>
<tr>
<td>Iceland</td>
<td>$23,230</td>
</tr>
</tbody>
</table>

145. 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.  

146. **Annual Growth Rates of Real GDP Per Capita (in percents)**

<table>
<thead>
<tr>
<th>Ending Year</th>
<th>1929</th>
<th>1933</th>
<th>1939</th>
<th>1946</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-8.2</td>
<td>-3.2</td>
<td>0.3</td>
<td>0.9</td>
</tr>
<tr>
<td>---------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>1945</td>
<td>3.3</td>
<td>10.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>2.4</td>
<td>4.1</td>
<td>-1.8</td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>2.4</td>
<td>3.6</td>
<td>0.4</td>
<td>2.7</td>
</tr>
<tr>
<td>1960</td>
<td>2.2</td>
<td>2.0</td>
<td>0.6</td>
<td>1.7</td>
</tr>
<tr>
<td>1965</td>
<td>2.6</td>
<td>3.0</td>
<td>1.3</td>
<td>2.3</td>
</tr>
<tr>
<td>1970</td>
<td>2.7</td>
<td>2.9</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>1975</td>
<td>2.3</td>
<td>2.1</td>
<td>1.5</td>
<td>2.2</td>
</tr>
<tr>
<td>1980</td>
<td>2.4</td>
<td>2.2</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>1985</td>
<td>2.3</td>
<td>2.6</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>1990</td>
<td>2.3</td>
<td>2.6</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>1995</td>
<td>2.3</td>
<td>2.5</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>2001</td>
<td>2.3</td>
<td>2.6</td>
<td>1.9</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: Economic Report of the President, various years.

44. This table keeps changes in real GDP from being overstated by adjusting for
a. population growth.  c. standard of living.
b. inflation.  d. productivity.

45. The business cycle since World War II has been characterized by
a. extended expansions alternating with brief recessions.
b. brief expansions alternating with lengthy recessions.
c. uninterrupted expansion.
d. uninterrupted recession.

46. Unemployment that is directly related to swings in the business cycle is
a. frictional unemployment.  c. cyclical unemployment.
b. structural unemployment.  d. seasonal unemployment.

47. According to the cost-push theory, inflation is caused by
a. workers.  c. consumers.
b. government.  d. producers.

48. The forty percent of the population with the lowest income controls
a. less than 2 percent of the nation’s wealth.
b. about 10 percent of the nation’s wealth.
c. nearly 20 percent of the nation’s wealth.
d. about 40 percent of the nation’s wealth.

49. This is a proposed market-based antipoverty program designed to encourage work and reduce administrative costs.
a. Aid to Families with Dependent Children  
b. earned income tax credit  
c. workfare programs  
d. negative income tax

50. This marked the beginning of the Great Depression in 1929:
a. end of World War I  
b. beginning of World War II  
c. declaration of a “bank holiday”  
d. stock market crash

51. Changes in technology and changes in consumer tastes can cause
a. frictional unemployment.  c. cyclical unemployment.
b. structural unemployment.  d. seasonal unemployment.

52. According to the demand-pull theory, inflation is caused by
a. workers.  c. producers.
b. government.  d. consumers.

53. The Lorenz curve is used to demonstrate
a. consumer demand and spending.  c. the severity of inflation.
b. the severity of a recession.  d. the degree of income inequality.

54. All of the following account for the growing income gap EXCEPT
a. a decline in unions.
b. a shift in employment from the manufacturing to the service industry.
c. lessening wage advantages for the well educated.
d. a shift from married-couple families to single-parent families.

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.

What type of unemployment does the cartoon depict?

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

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.


This passage is describing a(an)

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

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.


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.

The Federal Reserve

- a. 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 1933.

Liabilities are

- 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.

A balance sheet shows all of the following EXCEPT

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

In the short run, an increase in the money supply results in

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

Unlike many politicians, the Fed

- 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.

The Fed’s Federal Open Market Committee

- 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.

Assets are

- a. properties, possessions, and claims on others.
- b. debts and obligations.
- c. the same as net worth.
- d. legal reserves.

For a bank to be profitable, how much of a spread must it maintain between the rate it charges on loans and the rate it pays for borrowed funds?

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

To monetize the debt incurred by deficit spending during the Vietnam War, the money supply was

- 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.

When the Fed refers to M1, it is referring to such elements of the money supply as

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

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.

[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.


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

Easy Money Policy

Leads to:

An increase in:

Federal Reserve Tight Money Policy

Tight Money Policy

Leads to:

An increase in:

__ 171.

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.

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

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

__ 173.

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.

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.  


b. dictatorial.  

c. sinister.  

b. powerful.  

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.  

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.  

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.  

c. higher taxes.  

b. increased production.  

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.  


b. shift in aggregate demand.  

c. shortage.  

b. shift in aggregate supply.  

d. surplus.
Based on the graph, the increase in oil prices caused output to
a. rise from Q2 to Q0.
b. fall from Q0 to Q2.
c. rise from Q0 to Q1.
d. fall from Q1 to Q0.

Which of the following events could cause aggregate supply curve AS1 to shift to AS0?

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

Which of the following events could cause aggregate supply curve AS0 to shift to AS1?

a. a tax cut
b. an increase in the price for foreign oil
c. a decrease in the price level

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
Suppose policymakers target a goal of continuous, stable economic growth without inflation. Where on the diagram does this goal belong?

- **194.**
  - a. W
  - b. X
  - c. Y
  - d. Z

Suppose policymakers decide to increase federal spending to put more money in people’s hands. Where on the diagram does this policy action belong?

- **195.**
  - a. W
  - b. X
  - c. Y
  - d. Z

Suppose policymakers decide to cut taxes. Where on the diagram does this policy action belong?

- **196.**
  - a. W
  - b. X
  - c. Y
  - d. Z

Tariffs and quotas can have all of the following effects EXCEPT

- **197.**
  - a. promoting third-world development.
  - b. increasing prices consumers pay for goods.
  - c. protecting domestic industry.
  - d. reducing trade deficits.

Revenue tariffs are levied to

- **198.**
  - a. increase imports.
  - b. lower exports.
  - c. raise money.
  - d. protect domestic producers.

The Smoot-Hawley Tariff of 1930 resulted in

- **199.**
  - 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.

The international agency that administers trade agreements and settles trade disputes is

- **200.**
  - a. GATT.
  - b. WTO.
  - c. NAFTA.
  - d. the United Nations.

A persistent trade deficit causes

- **201.**
  - 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.

A protective tariff is used to

- **202.**
  - a. give inefficient domestic industries an advantage.
  - b. expand trade.
  - c. increase revenue.
  - d. gain a comparative advantage.

The Reciprocal Trade Agreements Act

- **203.**
  - 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.

The North American Free Trade Agreement proposed free trade between the United States and

- **204.**
  - a. Central American countries.
  - b. the European Union.
  - c. Brazil and Mexico.
  - d. Canada and Mexico.

Under the fixed exchange rate, the value of a country's currency is determined by the

- **205.**
  - a. amount of its gold reserves.
  - b. forces of supply and demand.
  - c. increase employment opportunities for Americans in import industries.
  - d. worldwide recessions.

The United States trade deficit causes

- **206.**
  - 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.

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.

According to the passage, why might the price of buying a car start rising in the United States?

- **207.**
  - 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 take advantage of greater demand in the U.S.
  - d. Foreign car manufacturers might raise their prices to make up for the weak dollar.

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.

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

The drawback of tariffs that this cartoon illustrates is that the target country might
a. cut off relations with the U.S.
b. ban the import of American goods.
c. start providing inferior products.
d. retaliate.

Advantages of socialism include
a. a marketplace governed by supply and demand.
b. flexibility in day-to-day changes.
c. equitable distribution of benefits.
d. low taxes.

Joseph Stalin demonstrated the main advantage of a command system by
a. increasing industrial output.
b. eliminating shortages.
c. introducing the New Economic Policy.
d. increasing the standard of living.

Countries trying to change from a command to a market economy face all of the following problems
a. the need for people to adapt to new economic incentives.
b. privatization of industry.
c. formation of agricultural collective.
d. instability and uncertainties of capitalism.

The keiretsu of Japan are
a. organized employee programs.
b. export and import quota systems.
c. industrial plants.
d. made up of competing firms.

Before reunification with China in 1997, the economy of Hong Kong
a. had the smallest per capita GNP of the Asian Tigers.
b. was recognized as the freest market economy in the world.
c. managed competition through tightly knit groups of firms.
d. was dominated by a small number of powerful business families.

Socialism is characterized by
a. limited benefits for non-productive members of society.
b. government ownership of most productive resources.
c. a marketplace governed by supply and demand.
d. low taxes.

In 1917, the existing government of Russia was overthrown by
a. Vladimir Ilyich Lenin.
b. Joseph Stalin.
c. Mikhail Gorbachev.
d. Karl Marx.

The main reason for the economic failure of the Soviet Union was
a. that industrial expansion was limited by labor shortages.
b. that perestroika alienated the workers.
c. that the economy was too complex to be managed by central planning.
d. overproduction of consumer goods.

Japan’s industries are capital-intensive, which means
a. a great amount of capital is invested for every person employed.
b. many workers are needed to operate equipment.
c. technological advances are increasing.
d. technological advances are on the decline.

Taiwan’s economic growth was aided by
a. the People’s Republic of China.
b. low interest rates to targeted industries.
c. a hands-off approach from the government.
d. an emphasis on research and development.

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.
Based on the passage, a sign of hope in the Russian economy is that
a. some entrepreneurs have been able to evade corrupt government officials.
b. the ruble is getting stronger.
c. some businesses are thriving.
d. industrial production is increasing.

222. Of the 1.2 billion people with the lowest per capita income, most live in
a. Africa and Asia.
b. South America and Asia.
c. South America and Africa.
d. Eastern Europe and Southeastern Asia.

223. Developing nations tend to have larger families because their economies are primarily agricultural and
a. food is abundant.
b. children provide large tax deductions.
c. children are needed for industrial expansion.
d. children can begin work at an early age.

224. During the second stage of economic development, a country
a. experiences an income that grows faster than population and per capita income increases.
b. breaks with primitive equilibrium and moves toward economic changes.
c. overcomes the barriers of primitive equilibrium.
d. is still tied to traditional culture with no formal economic organization.

225. An example of expropriation is
a. refusing to pay back loans.
b. China's policy of forcing people from the city to work on farms.
c. accepting loans without expecting to pay them back.
d. 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
a. they failed to invest in industry.
b. they principally bought products for consumption.
c. they did not create incentives for people to work.
d. their oil reserves were used up.

227. Developing nations are important to the United States as
a. trading partners.
b. sources of technology.
c. sources of skilled labor.
d. Cold War allies.

228. The third stage of economic development is a period of
a. transition.
b. primitive equilibrium.
c. semidevelopment.
d. takeoff.

229. More than 50 percent of indirect military aid supplied by the United States has gone to
a. the Dominican Republic, Uganda, and Israel.
b. Mexico, Argentina, and India.
c. Algeria, Sudan, and Japan.
d. Israel, Pakistan, and Egypt.

230. The European Union grew out of
a. a multicountry cartel.
b. a free-trade area.
c. a customs union.
d. the OPEC nations.

231. South Korea is an example of a nation that
a. rebuilt a war-torn economy.
b. was able to develop without foreign assistance.
c. could maintain its wealth through years of war.
d. never recovered from war damages.

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

<table>
<thead>
<tr>
<th>Two Developing Nations</th>
<th>Madagascar</th>
<th>Mexico</th>
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</thead>
<tbody>
<tr>
<td>Percent employed in agriculture</td>
<td>90%</td>
<td>28%</td>
</tr>
<tr>
<td>Average per capita GDP</td>
<td>$780</td>
<td>$8,500</td>
</tr>
<tr>
<td>Telephones per 100 population</td>
<td>0.46</td>
<td>11.62</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>54.9 years</td>
<td>71.5 years</td>
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</tbody>
</table>

This graph compares countries in terms of
a. inflation.
b. total income.
c. economic stability.
d. 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.

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. Which of the following countries shown on the table has the largest economy?
a. Honduras c. Canada
b. Botswana d. China

If the world population continues to grow at its present pace, by 2050 the world's population will reach
a. 20 billion. c. eight billion.
b. 12 billion. d. six billion.

Nearly two-thirds of the world's known coal reserves are in the United States,
b. Russia, and Poland. d. Poland, and Canada.

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.

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.

Today the dominant economic force in the world is
a. socialism. c. communism.
b. capitalism. d. military strength.

Malthus's predictions were not entirely accurate for
a. industrialized nations. c. developing nations.
b. capitalist nations. d. much of the African continent.

The largest category of nonrenewable energy in use in the United States is
a. coal. c. petroleum.
b. natural gas. d. hydroelectric power.

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.

Pollution permits

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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.

Pollution permits

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.

...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 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.

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

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

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

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

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