

2007 NATIONAL ECONOMICS CHALLENGE
NCEE/Goldman Sachs Foundation

National Round II: Macroeconomics
David Ricardo Division

1. How do you calculate the real rate of return on an investment?
 - A. Subtract the rate of inflation from the nominal rate of return.
 - B. Subtract the nominal rate of return from the rate of inflation.
 - C. Subtract the nominal rate of return from the annual rate of return.
 - D. Subtract the annual rate of return from the nominal rate of return.
 - E. Multiply the nominal rate of return by the rate of inflation.

2. Which of the following is included in U.S. GDP?
 - (I) The value of radios made in Taiwan and sold in the U.S.
 - (II) The value of smoked almonds produced in the U.S. and sold in Ireland.
 - (III) The value of diamonds mined in South Africa by U.S. citizens.
 - (IV) The value of a home built in the U.S. by French citizens.
 - A. I and III only
 - B. II and IV only
 - C. II only
 - D. I, III, and IV only
 - E. I, II, III, and IV

3. All of the items below have been used at various times in monetary exchange, however, only one is considered fiat money. Which of the following is an example of fiat money?
 - A. Cattle
 - B. Gold
 - C. Wampum
 - D. Large Stones
 - E. Dollar Bills

4. According to modern treatments of the Phillips Curve,
 - A. there is both a short-run and long-run tradeoff between inflation and unemployment rates.
 - B. there is a tradeoff between inflation and unemployment rates in the long run only, but not in the short run.
 - C. there is a tradeoff between inflation and unemployment rates in the short run, but not in the long run.
 - D. there is never a tradeoff between inflation and unemployment rates.
 - E. none of the above, since the Phillips Curve is not about inflation and unemployment rates.

5. If an adverse supply shock is accompanied by a reduction in investment expenditures that result from reduced business optimism, which of the following will necessarily happen?
 - A. output will fall
 - B. unemployment rates will decline
 - C. output will rise
 - D. the price level will rise
 - E. the price level will fall

6. On a bank's balance sheet, which of the following is considered an asset?
 - A. Savings account deposits
 - B. Discount loans
 - C. CDs
 - D. Reserves
 - E. Equity Capital

7. A person specializing in VCR repair may have difficulty finding employment because of a lack of marketable skills. What type of unemployment would result from this situation?
 - A. structural unemployment
 - B. cyclical unemployment
 - C. seasonal unemployment
 - D. frictional unemployment
 - E. managed unemployment

8. Say's Law implies that
- A. in the long run, the inflation rate will equal the rate of money growth.
 - B. there cannot be a general overproduction of goods and services.
 - C. in the absence of technology-driven productivity growth, long-run increases in population will overwhelm societies' ability to provide goods and services to satisfy economic wants.
 - D. economies will advance in the long run from a process of creative destruction.
 - E. deflation will inevitably result when a gold standard is used by central banks.
9. What term describes when debt-financed government purchases result in an increase in interest rates and an accompanying reduction in private spending?
- A. Ricardian Equivalence
 - B. Monetization
 - C. Crowding Out
 - D. Stagflation
 - E. The Wealth Effect
10. A decrease in which of the following would most likely lead to a decrease in long-term economic growth?
- A. Interest rates
 - B. Inflation
 - C. Consumer Spending
 - D. Productivity
 - E. Taxes
11. If nominal GDP is 6000, the price level is 2 and the money supply is 1000, then what is the velocity of money?
- A. $1/6$
 - B. $1/3$
 - C. 3
 - D. 6
 - E. 12

12. The M2 definition of money includes which of the following:
- (I) Currency
 - (II) Checkable Deposits
 - (III) Savings Deposits
 - (IV) Treasury Bills
 - (V) Retail Money Funds
- A. (I) and (II) only
- B. (III) only
- C. (III) and (V) only
- D. (I), (II), (III), and (V) only
- E. (I), (II), (III), (IV), and (V)
13. Which of the following would best portray long-term economic growth?
- A. a leftward shift of the aggregate demand curve
 - B. a rightward shift of the aggregate demand curve
 - C. a leftward shift of the production possibilities curve
 - D. a leftward shift of the long-run aggregate supply curve
 - E. a rightward shift of the long-run aggregate supply curve
14. As measured in the U.S., which of the following people would be considered unemployed?
- A. A person who quits work to care for an aging parent
 - B. A person who stayed home to raise his children and now starts looking for a job
 - C. A person who quits a job to return to school full time
 - D. A person who is qualified to teach but is driving a bus until a teaching job is available
 - E. A person who works two part-time jobs that is looking for a full-time job.

15. In U.S. gross domestic product, which is the largest dollar amount?
- A. personal consumption expenditures
 - B. corporate profits
 - C. government purchases of goods and services
 - D. net exports
 - E. gross private domestic investment