

**Unit 4 FUN Set 4.6 Name: \_\_\_\_\_**

1. Under which of the following conditions would consumer spending most likely increase?
  - a. Consumers have large unpaid balances on their credit cards
  - b. Consumers' wealth is increased by changes in the stock market
  - c. The government encourages consumers to increase their savings
  - d. Social security taxes are increased
  - e. Consumers believe they will not receive pay increases next year
  
2. Which of the following can be considered a leakage from the circular flow of economic activity?
  - a. Investment
  - b. Government expenditures
  - c. Consumption
  - d. Exports
  - e. Saving

## 2012 Audit Exam

### BANK A

<u>Assets</u>		<u>Liabilities</u>	
Actual reserves	\$1,000	Demand deposits	\$5,000
Loans	\$4,000		

### BANK B

<u>Assets</u>		<u>Liabilities</u>	
Actual reserves	\$ 100	Demand deposits	\$ 600
Loans	\$ 500		

### BANK C

<u>Assets</u>		<u>Liabilities</u>	
Actual reserves	\$ 10	Demand deposits	\$ 100
Loans	\$ 90		

19. Based on the balance sheets above for three different banks, which of the following is true, if the reserve requirement is 10 percent?
- (A) Bank A has no excess reserves.
  - (B) Bank B has no excess reserves.
  - (C) Bank B can increase its loans by \$500.
  - (D) Bank B can increase its loans by \$40.
  - (E) Bank C has excess reserves.

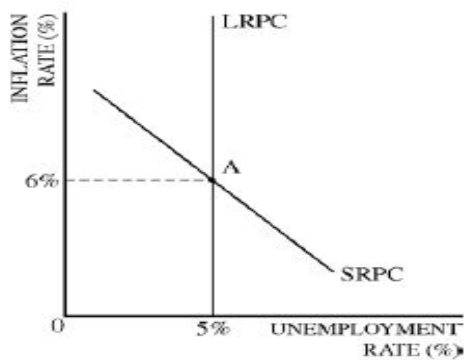
# 2009 Practice FRQ

1. Assume that the United States economy is in long-run equilibrium with an expected inflation rate of 6 percent and an unemployment rate of 5 percent. The nominal interest rate is 8 percent.
  - (a) Using a correctly labeled graph with both the short-run and long-run Phillips curves and the relevant numbers from above, show the current long-run equilibrium as point A.
  - (b) Calculate the real interest rate in the long-run equilibrium.
  - (c) Assume now that the Federal Reserve decides to target an inflation rate of 3 percent. What open-market operation should the Federal Reserve undertake?
  - (d) Using a correctly labeled graph of the money market, show how the Federal Reserve's action you identified in part (c) will affect the nominal interest rate.
  - (e) How will the interest rate change you identified in part (d) affect aggregate demand in the short run? Explain.
  - (f) Assume that the Federal Reserve action is successful. What will happen to each of the following as the economy approaches a new long-run equilibrium?
    - (i) The short-run Phillips curve. Explain.
    - (ii) The natural rate of unemployment

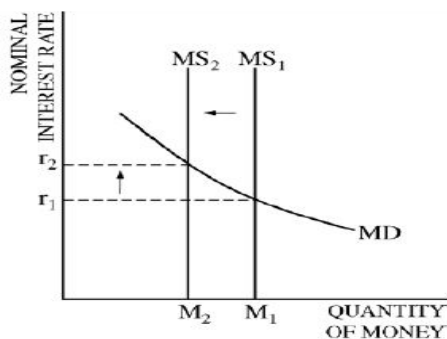
# 2009 Practice FRQ Rubric

## Question 1

**11 Points** (2 + 1 + 1 + 2 + 2 + 3)



- (a) 2 points:
- One point is earned for a correctly labeled graph of the short-run Phillips curve.
  - One point is earned for showing position "A" on the LRPC at the correct coordinates where the SRPC crosses the LRPC curve.
- (b) 1 point:
- One point is earned for the correct calculation of the real interest rate:  $8\% - 6\% = 2\%$ .
- (c) 1 point:
- One point is earned for stating that the Federal Reserve should sell bonds.



- (d) 2 points:
- One point is earned for a correctly labeled graph of the money market.
  - One point is earned for showing a leftward shift of the money supply curve resulting in a higher interest rate.
- (e) 2 points:
- One point is earned for stating that aggregate demand decreases.
  - One point is earned for explaining that the higher interest rate decreases investment and interest-sensitive consumption spending, and that both consumption and investment are components of aggregate demand.
- (f) 3 points:
- One point is earned for stating that the short-run Phillips curve will shift to the left.
  - One point is earned for explaining that Federal Reserve policy will lower inflationary expectations.
  - One point is earned for stating that the natural rate of unemployment will remain unchanged.