ECO 120: Global Macroeconomics **Name:** ______________________

Another Practice Final Exam, Spring 2026
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Multiple choice: Choose the best response to each prompt.

1. When an economy is not producing efficiently,
   (a) it is producing at a point outside the production possibilities frontier.
   (b) it is producing at a point inside the production possibilities frontier.
   (c) the production possibilities frontier shifts inward.
   (d) the production possibilities frontier shifts outward.

2. If an economy is producing efficiently, which of the following can lead to economic growth?
   (a) Higher wages.
   (b) Additional or improved infrastructure.
   (c) Shifting the PPF inward.
   (d) Producing more efficiently.

3. A technological advance in the production of a good or service will cause
   (a) a decrease in demand for that good.
   (b) a decrease in supply of that good.
   (c) an increase in demand for that good.
   (d) an increase in supply of that good.

4. In response to a surplus existing in a market
   (a) suppliers will engage in price competition, the price will fall towards equilibrium, and the quantity supplied will increase.
   (b) suppliers will engage in price competition, the price will rise towards equilibrium, and the quantity supplied will increase.
   (c) suppliers will engage in price competition, the price will rise towards equilibrium, and the quantity supplied will decrease.
   (d) suppliers will engage in price competition, the price will fall towards equilibrium, and the quantity supplied will decrease.

5. What would most likely happen to the equilibrium price and quantity of peanut butter if the price of peanuts (an input for peanut butter) went up, the price of jelly (a complementary good) fell, fewer firms decided to produce peanut butter, and health officials announced that eating peanut butter was good for you?

   (a) Price will increase and the effect on quantity is ambiguous (uncertain).

   (b) Price will decrease and the effect on quantity is ambiguous (uncertain).

   (c) The effect on both price and quantity is ambiguous (uncertain).

   (d) Quantity will decrease and the effect on price is ambiguous (uncertain).

6. If the nominal exchange rate between the American dollar and the Canadian dollar is 0.95 Canadian dollars per American dollar, how many American dollars are required to buy a product that costs 5.50 in Canadian dollars?

   (a) $5.23

   (b) $6.45

   (c) $0.17

   (d) $5.79

7. Suppose there is a decrease in interest rates in Europe and Japan, but the decrease in interest rates is smaller in Japan. Which of the following would happen in the foreign exchange market between Euros and Japanese Yen as a result?

   (a) There will be no change in demand for either currency.

   (b) There will be an increase in demand for Japanese Yen and a decrease in demand for Euros

   (c) There will be an increase in supply of Japanese Yen and a decrease in supply of Euros.

   (d) There will be an increase in demand for both Japanese Yen and Euros.

8. How will an interest rate decrease in the United States affect equilibrium in the foreign exchange market?

   (a) The U.S. dollar will depreciate, and the equilibrium quantity of dollars traded cannot be determined.

   (b) The U.S. dollar will appreciate, and the equilibrium quantity of dollars traded will increase.

   (c) The U.S. dollar will appreciate, and the equilibrium quantity of dollars traded cannot be determined.

   (d) The equilibrium exchange rate cannot be determined, and the equilibrium quantity of dollars traded will increase.

9. A purchase of a new automobile by a financial services business for their employees to use to visit and serve clients is an example of what type of expenditure in the aggregate expenditure equation for GDP?

   (a) Consumption

   (b) Before-tax profits

   (c) Investment

   (d) Exports

10. Suppose a consumer uses part of their income to put it in a financial asset to earn interest. What macroeconomic variable does this represent?

    (a) Capital stock

    (b) Savings

    (c) Investment

    (d) Savings and investment, they are the same thing

11. What is the definition of a marginally attached worker?

    (a) Someone not currently looking for work, but would accept a job if offered one.

    (b) Someone who is currently working but is about to leave the labor force.

    (c) Someone who is working less than 5 hours per week.

    (d) Someone who has a part time job but wants a full time job

12. The United States experienced a permanent decline in birth rates in 2009. What would be the impact on the market for labor 18 years later (in 2027)?

    (a) Decrease in labor supply and a decrease in equilibrium wage

    (b) Decrease in labor supply and an increase in equilibrium wage

    (c) Decrease in labor demand and an increase in equilibrium wage

    (d) Increase in labor demand and an increase in equilibrium wage

13. Which of the following can lead to an increase in demand for labor?

    (a) A increase in the number of workers willing and able to work

    (b) Consumer decrease in demand for goods and services

    (c) A decrease in the number of workers willing and able to work

    (d) Consumer increase in demand for goods and services

14. Suppose there is an increase in labor demand, but no immediate change in the market wage. Which of the following may result?

    (a) An increase in unemployment

    (b) A decrease in worker shortage

    (c) An increase in worker shortage

    (d) A decrease in labor supply

15. Suppose there is an improvement in technology that makes the production of goods and services more efficient and workers more productive. Which of the following would happen in the markets for labor and loanable funds?
    (a) Labor demand would shift to the right, and investment demand would shift to the left.
    (b) Labor demand would shift to the right, and investment demand would shift to the right.
    (c) Labor demand would shift to the left, and investment demand would shift to the left.
    (d) Labor demand would shift to the left, and investment demand would shift to the right.

16. Suppose the government increases taxes and leaves government expenditures unchanged. What is the impact on the market for loanable funds?
    (a) Increase in investment demand and a decrease in equilibrium interest rates
    (b) Decrease in saving supply and an increase in equilibrium interest rates
    (c) Increase in saving supply and a decrease in equilibrium interest rates
    (d) Increase in investment demand and an increase in equilibrium interest rates

17. Which of the following is a source of aggregate productivity growth?
    (a) Growth in physical capital
    (b) Growth in inflation
    (c) Growth in GDP deflator
    (d) Growth in population size

18. Which of the following government policies can lead to long-run improvements in real GDP per person?
    (a) Investment in education
    (b) Restrictions on imports
    (c) Increase in inflation
    (d) Increase in government budget deficits

19. Which of the following would cause an upward shift of the productivity curve?
    (a) Increase in capital per worker
    (b) Improvement in technology
    (c) Decrease in physical capital per worker
    (d) Increase in inflation per worker

20. When the marginal propensity to import increases, what happens to the expenditure multiplier?

    (a) The expenditure multiplier decreases

    (b) The expenditure multiplier increases

    (c) The expenditure multiplier stays the same

    (d) The impact on the multiplier cannot be determined

21. Suppose when consumers get a $100 increase in income, their consumption spending increases by $80 and there is no change in imports. What is the expenditure multiplier?

    (a) 0.8

    (b) 5

    (c) 0.2

    (d) 80

22. Which of the following would cause aggregate demand to shift to the right?

    (a) An increase in taxes, leading to a decrease in government borrowing.

    (b) A decrease in demand for exports.

    (c) A decrease in the aggregate price level.

    (d) An improvement in the consumer confidence, leading to an increase in consumption demand.

23. Which of the following would cause the short-run aggregate supply to the left?

    (a) An improvement in technology.

    (b) A decrease in demand for exports.

    (c) An increase in the global price of energy.

    (d) A decrease in demand for consumption.

24. What is the Discount Rate?

    (a) The interest rate paid by commercial banks when borrowing directly from the Federal Reserve

    (b) The rate banks charge each other for overnight loans

    (c) The interest rate set by banks for consumer loans

    (d) The rate used to calculate inflation adjustments

25. A bank borrows directly from the Federal Reserve to address a short-term liquidity issue. Which interest rate applies?

    (a) Interest Rate on Reserve Balances

    (b) Federal Funds Rate

    (c) Banks' Interest Rates on Loans

    (d) Discount Rate

Short-answer and problem-solving questions: Provide written answers to each question in the space provided.

26. (5 points) Suppose an economy produces automobiles and planes according the following production possibilities table:

Production Choice	Automobiles	Planes
A	600	0
B	540	10
C	420	20
D	240	30
E	0	40

Compute the opportunity cost of producing a plane at each level in the table. Does plane production exhibit increasing, decreasing, or constant opportunity cost?

27. (5 points) Suppose internet video streaming services become cheaper and at te same time, technological innovations make it less costly for movie theaters to operate. Describe and illustrate the impact on the equilibrium price and quantity of movie theater showings.

28. (5 points) Japan and Indonesia are major trading partners. Suppose incomes decrease in Indonesia and there is no change in incomes in Japan. Describe and illustrate the impact on the Indonesian Rupiah (IDR) to Japanese Yen (JPY) exchange rate.

29. (5 points) Suppose an economy produces only apples and donuts and experiences the following quantities and prices:
Apples in 2019: Price = \$1.50, Qty = 25
Donuts in 2019: Price = \$1.00 Qty = 15
Apples in 2020: Price = \$1.75, Qty = 29
Donuts in 2020: Price = \$1.25 Qty = 18
Use 2019 as a base year and compute the inflation rate from 2019-2020.

30. (5 points) Suppose an economy has a working-age population with the following characteristics:
    - 20 retired
    - 120 employed
    - 25 people not working and looking for a job
    - 15 people not working, going to school full time instead of looking for work
    - 10 people recently laid off, but not looking for work because they think no jobs are available.

    What is the unemployment rate?

31. (5 points) Suppose there is there is an increase in global energy costs which makes it more expensive to run factories. Describe and illustrate the impact on equilibrium wages and employment in the manufacturing industry.

32. (5 points) Suppose a government increases its spending on infrastructure such as roads, electrical lines, and communications infrastructure, all of which make business more productive. Suppose the government does this while keeping tax revenues the same. Describe and illustrate the impact on equilibrium investment and interest rate.

33. (5 points) Suppose while not changing the government budget deficit, a government increases its support for people to get routine health care services which have been shown to improve long-run health outcomes for most adults. Describe and illustrate the impact this may have on long-run output per worker.

34. (5 points) Suppose past evidence revealed that when consumers received an \$800 tax rebate, they increased their spending by \$620, including \$100 on imported goods. The country is currently in a recession. Real GDP is \$15.3 trillion and potential GDP is estimated to be \$16.5 trillion. If the government decided to increase government spending to bring the economy out of its recessionary gap, how much should government spending be increased?

35. (5 points) Suppose the economy is initially in a short-run equilibrium where GDP is below potential GDP (i.e. a recessionary gap). Illustrate this situation in an aggregate demand/aggregate supply model and a labor market model. Suggest a monetary policy to fix the problem, describe the change in interest rates, and describe and illustrate the impact on real GDP, price level, wage, and employment.