

Part I: Multiple Choice (10 points)

(Circle the letter of the correct answer of the following 5 questions, no need to show your work.)

- 1) If the required reserve ratio is 20 percent, and the Fed buys 10 billion in bonds from a bank, the resulting effect on the money supply will be
 - a) an increase of 10 billion dollars.
 - b) a decrease of 10 billion dollars.
 - c) an increase of 20 billion dollars
 - d) a decrease of 20 billion dollars
 - e) an increase of 50 billion dollars

- 2) If you go to the ATM machine and take 100 dollars from your checking account then
 - a) M1 increases by 100 dollars and M2 stays the same.
 - b) M1 increases by 100 dollars and M2 decreases by 100 dollars.
 - c) M1 decreases by 100 dollars and M2 increases by 100 dollars.
 - d) M1 stays the same and M2 decreases by 100 dollars.
 - e) M1 stays the same and M2 stays the same.

- 3) Taxing high skill workers and transferring the tax revenue to low skill workers will
 - a) create a social loss in the high skill market, a social gain in the low skill market, and an overall net social gain for society.
 - b) create a social loss in the high skill market, a social gain in the low skill market, and an overall net social loss for society.
 - c) create a social loss in the high skill market, a social gain in the low skill market, and no overall gain or loss for society.
 - d) create a social loss in the high skill market, a social loss in the low skill market, and an overall net social loss for society.
 - e) create a social gain in the high skill market, a social loss in the low skill market, and an overall net social loss for society.

- 4) Ricardian equivalence states that
 - a) income from tax cuts today that create deficits will be saved in anticipation of tax increases in the future.
 - b) income from tax cuts today that create deficits will be spent today without regard for the future.
 - c) income from tax cuts today that create deficits will cause inflation in the future through monetizing the deficit.
 - d) income from tax cuts today that create deficits will cause an increase in imports and create a trade deficit in the future.
 - e) income from tax cuts today that create deficits will create a recession and lead to more tax cuts in the future.

- 5) Professor Lindert's "golden rule" for debt to not be a burden on future generations is
 - a) to make the effect of the government budget on total consumption match the deficit.
 - b) to make the effect of the government budget on total investment match the deficit
 - c) to make the effect of the government budget on total exports match the deficit.
 - d) to make the effect of the government budget on total money supply match the deficit.
 - e) to make the effect of the government budget on social security match the deficit.

