Practice Short Answer Final Exam Questions
Chapter 26-33

1. Early economists' faith in the neutrality of money led them to believe that
   a. absolute prices were determined in the real part of the economy.
   b. the allocation of resources was determined by the quantity of money and not by the forces of supply and demand.
   c. relative prices have no role in the real allocation of resources.
   d. a change in the quantity of money would not affect money prices or relative prices.
   e. a change in the quantity of money would change the price level but would not change relative prices.

2. In order to be considered money, paper currency must be
   a. acceptable as a medium of exchange.
   b. convertible into a precious metal.
   c. impossible to counterfeit.
   d. issued by a chartered bank.
   e. issued by a government agency.

3. One of the major advantages of money as compared to barter is that
   a. in the barter system there is no way to express values of commodities.
   b. money is the only convenient way to store one's wealth.
   c. money is universally accepted.
   d. money stays where you put it, whereas a cow pretty well has to be fenced in.
   e. the use of money significantly reduces transaction costs.

4. When metal coins, such as gold and silver were used as money, all of the following techniques were used to reduce their value EXCEPT:
   a. Clipping.
   b. Re-minting coinage.
   c. The practice of milling.
   d. Debasement.

5. Gresham's law predicts that
   a. good money drives out bad money.
   b. debased money will circulate with undebased money.
   c. undebased money will be driven from circulation.
   d. debased money will be driven from circulation.
   e. money is neutral.

6. In the event of a sudden loss in confidence in the ability of the chartered banks to redeem deposits, the Bank of Canada would typically

a. take over the operation of any banks in severe difficulties.
b. lend reserves to the chartered banks.
c. offer to sell government bonds to the chartered banks.
d. suspend operation of the banking system until the panic subsided.
e. impose severe financial penalties on the chartered banks by charging them interest at higher than the bank rate.

7. A central bank can create money by
a. selling some of its foreign-currency reserves for domestic currency.
b. issuing its own Central Bank bonds.
c. increasing the rate of inflation.
d. selling government treasury bills to the chartered banks.
e. purchasing government securities on the open market.

8. The Canada Deposit Insurance Corporation (CDIC) has been criticized because
a. it creates an incentive for financial institutions to take on riskier loans.
b. depositors select banks based on higher interest rates rather than the associated risks.
c. the cost of insurance to the banks should reflect the associated risk of the bank.
d. all of the above.

9. Suppose that the excess reserves in Bank XYZ increase by \$700. Given a desired reserve ratio of 25 percent, the maximum change in demand deposits for the entire banking system would be
a. \$525.
b. \$700.
c. \$1750.
d. \$2800.
e. \$7000.

10. Suppose the Bank of Canada purchased \$5 million worth of government securities in the open market. The desired reserve ratio of the chartered banks is 25 percent and the public's desire to hold cash is 5 percent of their total deposits. The money supply would
a. increase by \$16.67 million.
b. increase by \$20 million.
c. decrease by \$20 million.
d. decrease by \$16.67 million.
e. decrease by \$ 8.33 million.

11. The money supply in Canada is measured using *M1*, *M2*, *M3* and *M2+*. The reason there are so many measurements of the money supply is because
a. the Bank of Canada wants to confuse the general public.

b. money has many uses, which are reflected in the different measurements.
c. the money supply is too large to have only one measurement.
d. only the newer and broader measurements are correct but the older measurements are still used so that historical comparisons are possible.
e. it is a convenient way for provincial and federal governments to hide their budgetary surpluses.

12. Bond prices
a. are unaffected by changes in the demand for money.
b. are unaffected by interest-rate changes.
c. vary directly with interest rates.
d. vary inversely with interest rates.
e. vary proportionally with interest rates.

13. Liquidity preference (*LP*) function defines the relationship between
a. interest rate and bond prices.
b. inflation and bond prices.
c. interest rate and financial assets.
d. demand for money and the price level.
e. demand for money and the rate of interest.

14. When there is an excess demand for money balances, equilibrium is established by a process that DOES NOT involve:
a. people trying to sell bonds.
b. the opportunity cost of holding money falling.
c. interest rates rising.
d. the price of bonds falling.
e. movement up the money demand function.

15. Assume there are only two assets available, money and bonds. Given a level of wealth of an individual we can expect the following:
a. Bond prices will decrease as the interest rate decreases.
b. An individual will hold more money when the current interest rate is very low.
c. An individual will not hold money as long as bonds pay a positive rate of interest.
d. An individual will hold lots of money even at very high interest rates.
e. An individual will hold less money when the current interest rate is very low.

16. Monetary equilibrium occurs when the
a. growth in the money supply is zero.
b. existing supply of money is willingly held by households and firms in the economy at the current rate of interest.
c. nominal rate of interest equals the real rate of interest.

d. growth of the money supply is proceeding at a constant rate.
e. supply and demand for all goods in the economy are equal at the current rate of interest.

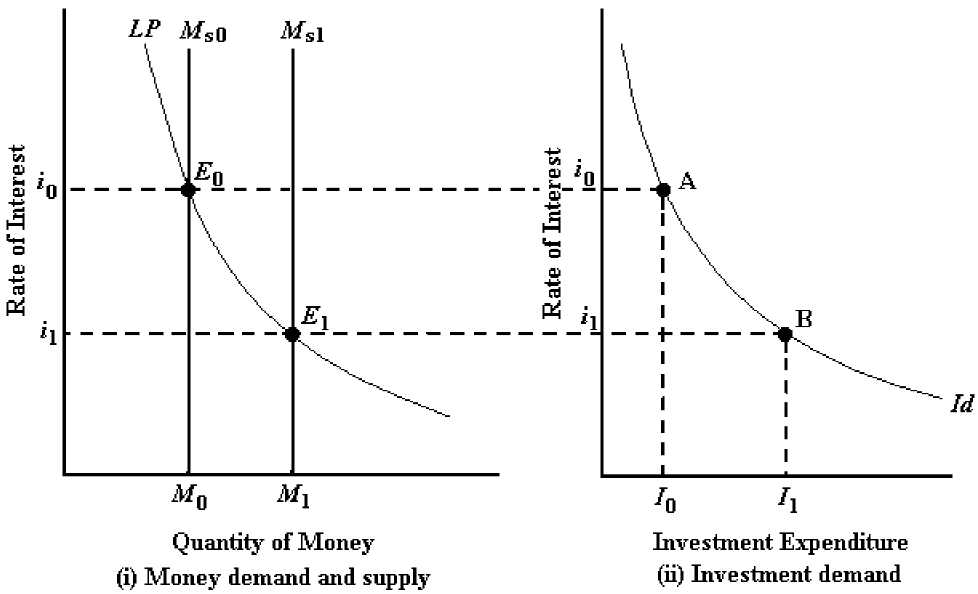

FIGURE 27-3

17. Refer to Figure 27-3. The fall in the interest rate from i_0 to i_1 is caused by
   a. an increase in the demand for money due to a higher price level.
   b. a decrease in the demand for money occasioned by a lower real GDP.
   c. a decrease in the money supply, leading to the sale of bonds by economic agents.
   d. an increase in the money supply, leading to the purchase of bonds by economic agents.
   e. none of the above.

18. Which one of the following statements correctly describes the transmission mechanism?
   a. An increase in personal consumption leads to an upward shift in the *AE* curve and thereby increases real GDP.
   b. An increase in government spending causes the *AE* curve to shift upwards, leading to a higher GDP.
   c. A decrease in the money supply leads to a lower interest rate, higher investment, an upward shift in the *AE* curve and a higher GDP.

d. An increase in the money supply leads to a lower interest rate, higher investment, an upward shift in the *AE* curve and a higher GDP.
e. none of the above.

19. An inflationary gap could NOT be eliminated by
a. a rise in the price level.
b. an upward shift in the short-run aggregate-supply curve.
c. an increase in the supply of money.
d. a leftward shift in aggregate demand.
e. a reduction in the money supply.

20. The transmission mechanism in an OPEN economy is more complicated than it is in a closed economy because the effects of domestic monetary contraction or expansion are
a. weakened because domestic interest rates are clearly linked to interest rates in the rest of the world.
b. strengthened because domestic interest rates are clearly linked to interest rates in the rest of the world.
c. weakened because changes in autonomous expenditure cause monetary effects that influence interest rates in the rest of the world.
d. strengthened because changes in autonomous expenditure cause monetary effects that influence interest rates in the rest of the world.

21. In an open economy like Canada, an increase in the money supply leads to
a. an increase in the external value of the dollar, thereby inhibiting net exports and raising aggregate demand.
b. a reduction in the external value of the dollar, thereby inhibiting net exports and raising aggregate demand.
c. a reduction in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
d. an increase in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
e. an increase in the external value of the dollar, thereby stimulating net exports and reducing aggregate demand.

22. Open-market operations are
a. government action aimed at creating competition within the banking industry.
b. loans made by the Bank of Canada to the chartered banks.
c. made to determine the reserve requirements of chartered banks.
d. no longer carried out in Canada.
e. the buying and selling of securities by the Bank of Canada.

23. Suppose that during the Christmas season people decide to hold more cash and less demand deposits to facilitate their shopping. This action will

a. decrease the money supply in the economy because all the cash will be spent.
b. decrease the money supply because banks lose reserves, thereby affecting their ability to create money.
c. increase the money supply in the economy because of reduced savings.
d. increase the supply of money in the economy because of the multiplier effect.
e. have no effect on the money supply since demand deposits are another form of cash.

24. The Bank of Canada would tend to increase the money supply by
a. raising the bank rate.
b. selling foreign currency reserves in the international market.
c. selling government bonds on the open market.
d. transferring government accounts from the Bank of Canada to the chartered banks.
e. all of the above.

25. To lower interest rates, the Bank of Canada could
a. buy securities.
b. decrease the chartered banks' reserves.
c. decrease the money supply.
d. raise the treasury bill rate.
e. raise the reserve requirement.

26. The difference in potential money creation when the Bank of Canada buys government securities from the chartered banks rather than from the public is due to the fact that
a. excess reserves are larger when the Bank of Canada buys government securities from the chartered banks.
b. excess reserves are smaller when the Bank of Canada buys government securities from the chartered banks.
c. excess reserves are larger when the Bank of Canada buys government securities from the public.
d. does not exist because there is no difference.

27. A problem with focussing on *M1* as an intermediate target for the conduct of monetary policy is that
a. changes in *M1* typically have no effect on interest rates.
b. changes in *M1* typically have no effect on national income.
c. changes in *M1* typically have no effect on the price level.
d. fiscal policy is ignored.
e. the central bank could easily miss shifts of funds between *M1* and other money supply measures.

28. If interest rates rise during an expansion of real GDP, then the Bank of Canada
a. cannot have changed the money supply.
b. may have changed the money supply in either direction.
c. must have been decreasing the money supply.

d. must have been increasing the money supply.
e. none of the above.

29. A 3 percent per year rate of growth of the money supply accompanied by a growth in the demand for money of 4 percent would be considered
a. an expansionary monetary policy.
b. a neutral monetary policy.
c. monetary rule.
d. a 'tight' monetary policy.
e. none of the above.

30. During a period of renewed inflation fears in 1988, the governor of the Bank of Canada, Mr. John Crow, announced that monetary policy would be more guided by
a. exchange rate targets since depreciation of the Canadian dollar tends to be inflationary.
b. real GDP growth.
c. the goal of long term price stability.
d. the level of real income growth and price stability.
e. unemployment levels and the level of prices.

31. Assume you deposit $1000 into a savings account at your local bank that pays you 12 percent interest. Over the next twelve months the inflation rate is 6 percent. Your real rate of return on your savings is
a. positive 6 percent.
b. positive 12 percent.
c. negative 6 percent.
d. negative 12 percent.
e. zero.

32. Which of the following is a TRUE statement concerning expectational inflation?
a. Expectation theories explain the original cause of inflation.
b. The appropriate policy for eliminating expectational inflation is to increase aggregate demand.
c. The *SRAS* curve can shift upward purely as a result of decision makers' expectations.
d. The expectational theory is an example of a monetary theory of inflation.
e. Expectations of inflation are formed based purely on calculations of trade unions.

33. The hypothesis that assumes that economic agents look at the past, in order to predict the future inflation is known as
a. adaptive expectations hypothesis
b. forward looking expectations hypothesis
c. rational expectations hypothesis
d. Pigou effect
e. Life-cycle theory

34. The author of the statement that inflation is everywhere and always a monetary phenomenon is
  a. Adam Smith.
  b. David Ricardo.
  c. J. M. Keynes.
  d. Milton Friedman.
  e. John Kenneth Galbraith.

35. When the monetary authorities respond to a single supply shock with monetary validation, we can expect an increase in
  a. the money supply but a decrease in costs and prices.
  b. costs but a decrease in real national income.
  c. the size of the output gap.
  d. costs, the price level, and the money supply.
  e. none of the above.

36. There can be strong pressure on Bank of Canada to validate an adverse supply shock. The motive behind this pressure is
  a. to reduce unemployment below the NAIRU.
  b. that Bank of Canada must be seen to be pursuing a restrictive monetary policy, in order to stop any expectational inflation.
  c. that wages often fall only very slowly, so the adjustment back to full employment can take a very long time.
  d. that there is the danger of initiating a wage-price spiral.
  e. to keep a "healthy" amount of inflation in the economy.

37. Assume the economy is in long-run equilibrium and real GDP is at its potential level. Suppose there is a one-time decrease in short-run aggregate supply causing the price level to rise in the short run. If, in the long run, the economy moves back to producing full-employment real GDP without any change in aggregate demand, the price level will be
  a. equal to what it was before the supply shock.
  b. higher than it was in short-run equilibrium.
  c. lower than it was before the supply shock.
  d. lower than it was in the short-run equilibrium but higher than it was originally.

38. The idea that the Phillips curve demonstrated a trade-off between inflation and unemployment was later thought to be deficient because
  a. it was later recognized that inflation and unemployment were unrelated.
  b. the influence on aggregate demand had not been incorporated.
  c. changes in unemployment had not been incorporated.
  d. the effects of fiscal policy on aggregate demand had not been incorporated.
  e. inflationary expectations had not been incorporated.

39. Involuntary unemployment occurs when a
   a. job is available but the worker has not yet found it.
   b. level of national income is at or above the economy's potential output.
   c. person is willing to accept a job at the going wage rate but cannot find one.
   d. worker enters the job market for the first time.
   e. worker is not willing to accept an available job at the going wage rate.

40. Lord Beveridge was known for
   a. developing unemployment insurance
   b. developing health and welfare insurance
   c. developing labour exchanges
   d. raising British social security taxes
   e. reducing the rate of unemployment through increased government spending

41. Full employment means that there exists
   a. an unemployment rate of less than 5 percent.
   b. no job vacancies at the time.
   c. only structural and/or frictional unemployment.
   d. only involuntary unemployment.
   e. zero unemployment.

42. New Classical theories of the labour market assume that labour markets
   a. are always clear.
   b. are inefficient.
   c. have asymmetrically rigid wages.
   d. should be regulated to produce an efficient wage rate.
   e. will always provide a subsistence wage.

43. New Keynesian theories of unemployment argue that
   a. all markets will clear, including labour markets, and unemployment will be eliminated.
   b. all unemployment is caused by government intervention in the economy.
   c. all unemployment arises from workers being unwilling to supply labour.
   d. competitive labour markets cannot be relied upon to eliminate involuntary unemployment.
   e. monetary policy is never effective at reducing unemployment.

44. New Keynesian theories explain involuntary unemployment by claiming that labour markets exhibit
   a. an elastic labour demand curve.
   b. perfectly flexible wages.
   c. rigid wages.
   d. unshifting labour demand.

e. unshifting labour supply.

45. An 'efficiency wage' is a wage that
    a. causes cyclical unemployment to go to zero.
    b. causes the NAIRU to be zero.
    c. is above the market wage that employers pay to increase labour productivity.
    d. is equal to the market wage.
    e. is just high enough to induce a worker to take a job.

46. Efficiency wages provide
    a. a way in which firms can pay workers less than the market-clearing wage.
    b. an explanation of the wages that unions are able to extract from firms.
    c. many firms with a good reason to dismiss workers.
    d. most workers with a good reason to quit.
    e. one explanation of why wages do not readily fall in response to excess supply in labour markets.

7. The view of the business cycle found in 'real business cycle' (RBC) models is that short-run fluctuations in national income are caused by
    a. attempts at stabilization through fiscal policy.
    b. attempts at stabilization through monetary policy.
    c. fluctuations in the vertical *LRAS* curve.
    d. deviations in net exports that cause fluctuations in aggregate demand.
    e. monetary disequilibrium.

48. Who associated unemployment with a declining frontier?
    a. Karl Marx
    b. David Ricardo
    c. David Dodge
    d. J.M. Keynes
    e. none of the above

49. Technological changes over time have caused workers who produced such things as slide rules, eight-track music tapes, and manual typewriters to become _____ unemployed.
    a. frictionally
    b. cyclically
    c. seasonally
    d. structurally
    e. voluntarily

50. Many economists believe that generous employment insurance benefits would
    a. lower frictional unemployment.
    b. lower structural unemployment.
    c. raise structural unemployment.
    d. raise frictional unemployment.

e. have no effect on unemployment.

51. As a percentage of GDP, the Federal Government's deficit in 1984 was about
    a. 3 percent.
    b. 7 percent.
    c. 17 percent.
    d. 25 percent.
    e. zero, there was no deficit in 1984.

52. The difference between the government's debt and deficit is that
    a. the debt is the accumulation of past deficits minus surpluses whereas the deficit is the annual shortfall between revenues and disbursements.
    b. the deficit is the accumulation of past debts whereas the debt is the annual shortfall of revenues minus disbursements.
    c. the debt is the amount the government pays interest payments whereas the deficit has not yet incurred interest charges.
    d. the deficit is the annual shortfall of revenue minus disbursements whereas the debt is the amount payable to the Bank of Canada.

53. A simple equation describing the government's budget constraint is
    a. government expenditure = tax revenue - borrowing.
    b. government expenditure = tax revenue + borrowing.
    c. government expenditure = tax revenue + debt service payments.
    d. tax revenue = government expenditure + borrowing.
    e. tax revenue = borrowing - government expenditure.

54. The best measure of the stance of fiscal policy is changes in the
    a. actual budget deficit.
    b. cyclically adjusted deficit.
    c. discretionary spending portion of the government budget.
    d. inflation-adjusted national deficit.
    e. primary budget deficit.

55. The central proposition of "Ricardian Equivalence" is that
    a. consumers recognize that current government borrowing will have benefits for future generations and therefore it has no effect on current behaviour.
    b. consumers recognize government borrowing as a future tax liability and thus they view taxes as equivalent to government borrowing in terms of the effect on their own wealth.

c. consumers do not recognize any future tax liability and feel wealthier when the government borrows to finance current spending.
d. an increase in taxes, as opposed to an increase in government borrowing, will lead to a reduction in current consumption and an equivalent reduction in national income.

56. According to the authors, government's borrowing from foreigners rather than from Canadians will likely result in
a. a current transfer from Canadians to foreigners.
b. a net gain for the Canadian economy.
c. a reduction in Canadian domestic indebtedness.
d. a reduction in the future stream of income for Canadian residents.
e. no change in the future stream of income for Canadians, if the money borrowed was used to enhance Canada's productive capacity.

57. In an open economy, the government budget deficit tends to
a. attract foreign capital.
b. be less important than the current account deficit.
c. crowd out private investment.
d. crowd out imports.
e. depreciate the currency.

58. A cyclically balanced budget, consistent with fiscal policy being stabilizing, means that the budget will
a. be balanced every year.
b. be balanced every four years.
c. have deficits during inflationary periods.
d. have deficits during recessionary periods.
e. never have surpluses.

59. In Canada, specific legislation that requires the federal government to balance its budget annually (or run surpluses)
a. is contained in the Gramm-Rudman-Hollings Bill.
b. is included in The Charter of Rights and Freedoms.
c. is part of Bill C-101.
d. is the Fiscal Responsibility Act.
e. does not exist.

60. Tax revenues act as an automatic stabilizer because
a. they decrease during economic booms and decrease during economic recessions.
b. they increase during economic booms and decrease during economic recessions.
c. tax rates will automatically decrease to stimulate the economy during economic booms.
d. tax rates will automatically increase if the government is running deficits.

e. tax rates will automatically increase to stimulate the economy during economic recessions.

61. Suppose the government's objective is to hold its debt-to-GDP ratio constant at its current level of 70 percent. If the real interest rate is 4 percent and the growth rate of real GDP is 2 percent, the government must
a. run a primary budget deficit of 1.4 percent of GDP.
b. run an overall budget deficit of 1.4 percent of GDP.
c. run an overall budget surplus of 1.4 percent of GDP.
d. run a primary budget surplus of 1.4 percent of GDP.
e. balance the overall budget.

62. Over a long period of time, the major effect on real GDP is exerted by
a. upward shifts of the *SRAS* curve.
b. upward shifts of the *AE* curve.
c. rightward shifts of the *AD* curve.
d. rightward shifts of the *LRAS* curve.
e. leftward shifts of the *AD* curve.

63. If real income grows at approximately 2 percent per year, the number of years it will take for real income to double is
a. 5.
b. 12.
c. 24.
d. 36.
e. 72.

64. For a given level of private saving, growth in the size of the government's budget deficit ________ economic growth.
a. will slow down
b. will accelerate
c. will not affect
d. may accelerate or may retard
e. is beneficial to

65. Which of the following statements concerning saving is true?
a. An increase in the rate of saving will lead to a short-run reduction in national income, but to long-run economic growth.
b. An increase in the rate of saving will lead to a reduction in consumption and therefore to both a short run and a long run decrease in national income.
c. An increase in the rate of saving will cause an immediate increase in national income, but may cause a drop in national income in the long run.
d. A country's saving rate is unrelated to its growth rate.

66. The traditional Neoclassical growth model assumes that, with a given state of technology, increases in the use of a single factor cause the

a. average product of the factor to increase.
b. marginal product of the factor to fall.
c. marginal product of the factor to increase at an increasing rate.
d. marginal product of the factor to increase but at a decreasing rate.

67. Embodied technical change occurs when
a. older capital equipment is replaced with different, more productive capital equipment.
b. the capital/labour ratio is increasing.
c. innovations in the organization of production take place which do not involve changes in the form of capital goods or raw materials used.
d. techniques of managerial control are improved.
e. none of the above.

68. 'Total Factor Productivity' (TFP) is used to measure the growth in real GDP
a. accounted for by changes in all factors of production but excluding technological changes.
b. accounted for by changes in all factors of production and including technological changes.
c. that cannot be accounted for by changes in the quantities of labour and capital.
d. that cannot be accounted for by changes in technology.
e. that cannot be accounted for by changes in labour only.

69. An aggregate production function exhibits increasing returns to scale when a one percent increase in labour input along with
a. no change in capital produces a one percent increase in output.
b. a one percent decrease in capital produces no change in output.
c. a one percent increase in capital produces no change in output.
d. a one percent increase in capital produces one percent more output.
e. a one percent increase in capital produces in excess of a one percent increase in output.

70. According to modern growth theory, if the results from research and development (R&D) are subsequently freely available to all,
a. the market will generate an inefficiently low level of R&D.
b. government intervention to promote R&D will only create further distortions.
c. the optimal policy is a tax on R&D.
d. the optimal policy is a tariff on imports of knowledge-intensive goods and services.

71. In modern growth theory it is understood that increasing returns to investment can result from all of the following EXCEPT:
   a. Investment costs for followers can be less than for pioneers.
   b. Knowledge provides the input that allows investment to produce increasing returns.
   c. Many investments require large fixed costs, the benefits of which are available to subsequent firms.
   d. The low risk associated with the process of innovation.
   e. Early investors create an infrastructure favorable to followers.

72. Given the enormous population growth of recent decades, the present needs and aspirations of the world's population CANNOT come close to being met without
   a. enormous increases in financial capital.
   b. increasing knowledge and technical change.
   c. reductions in the world's capital stock, as a means of controlling the exhaustion of natural resources.
   d. coordination of fiscal and monetary policies.

73. The poorer states are referred to, by the United Nations, as
   a. newly industrializing countries.
   b. newly emerging economies.
   c. developing countries.
   d. developed countries.
   e. none of the above.

74. The NICs are nations that have recently begun to
   a. reduce import demands.
   b. export raw materials.
   c. industrialize.
   d. reduce export shipments.
   e. convert to Christianity.

75. In recent years, the development gap, especially for the poorest countries, has
   a. not changed.
   b. been widening.
   c. been closing.
   d. almost been eliminated.

76. The very poorest countries in the world have
   a. low rates of economic growth and low rates of population growth.
   b. low rates of economic growth and high rates of population growth.
   c. high rates of economic growth and high rates of population growth.

d. high rates of economic growth and low rates of population growth.

77. Allocative efficiency occurs when
a. economy's resources are used to produce the "wrong" combination of products.
b. factors of production are used to make "right" combination of products.
c. factors of production are maximized in their use.
d. factors of production are allowed to idle.
e. none of the above.

78. The vicious circle of poverty refers to the
a. exploitation of the developing countries by the developed countries.
b. exploitation of the poor within a developing country by other citizens who are wealthy and powerful.
c. fact that the exports of the developing countries have been subject to significant price decreases in the last decade.
d. fact that most developing countries are too poor to generate the saving needed for sustained economic growth.
e. need to increase the role of government to stimulate growth in the economy in the face of bureaucratic inefficiency.

79. *Debt rescheduling* is the term for
a. computing different debt-service payments based on an entire schedule of different interest rates.
b. debt servicing.
c. defaulting on a debt.
d. putting off payments due today until the future.
e. the recycling of deposits.

80. A central role in arranging the rescheduling of the debt of developing countries was played by the
a. Congress of the United States.
b. President of the United States.
c. International Monetary Fund.
d. Organization of African States.
e. North American Free Trade Association.

81. The characteristics of the dominant development strategy between 1945 and the early 1980s can be best described as:
a. low tariffs, small subsidies to industry, pegged exchange rates.
b. high tariffs, small subsidies to industry, flexible exchange rates.
c. high tariffs, large subsidies to industry, pegged exchange rates.
d. low tariffs, large subsidies to industry, flexible exchange rates.

e. low tariffs, small subsidies to industry, flexible exchange rates.

82. Central planning is NOT likely to be effective in
a. channeling growth into particular industries.
b. developing infrastructure.
c. increasing industrial output.
d. raising national saving rates.
e. sustaining growth over long periods.

83. For developing countries, import-substitution will
a. allow for rapid growth in the long run.
b. confer benefits from their comparative advantage.
c. lead away from appropriate specialization.
d. reduce the chances of government corruption.
e. tend to increase the growth of global trade.

84. The new view of modern economic growth holds that the mainspring of economic growth is
a. domestic saving and investment.
b. endogenous technological innovation.
c. labour force productivity.
d. natural resource endowments.
e. well-designed fiscal policy.

85. An important element of the "Washington consensus" is that the governments of developing countries should
a. adopt sound fiscal policies that avoid persistent structural budget deficits.
b. increase their defense capabilities.
c. reduce exports so as to improve the living conditions of the people.
d. spend more money on developing nuclear power.
e. none of the above.

86. The "Washington consensus"does NOT include as an element
a. adoption of sound monetary policies by developing countries.
b. broadening the tax base and reducing the marginal tax rate.
c. market oriented development with trade liberalization.
d. increasing government expenditure on social welfare.

Answer Key: But you should be careful and not too trusting!

1. e
2. a
3. e
4. c
5. c
6. b
7. e
8. d
9. d
10. a
11. b
12. d
13. e
14. b
15. b
16. b
17. d
18. d
19. c
20. a
21. c
22. e
23. b
24. d
25. a
26. a
27. e
28. b
29. d
30. c
31. a
32. c
33. a
34. d
35. d
36. c
37. a
38. e
39. c
40. c
41. c
42. a
43. d
44. c
45. c
46. e
47. c
48. e
49. d

50. d
51. b
52. a
53. b
54. b
55. b
56. e
57. a
58. d
59. e
60. b
61. d
62. d
63. d
64. a
65. a
66. b
67. a
68. c
69. e
70. a
71. d
72. b
73. c
74. c
75. b
76. b
77. b
78. d
79. d
80. c
81. c
82. e
83. c
84. b
85. a
86. d