Don’t forget to download a copy of the Homework Cover Sheet. Mark the location where you handed in your work.

Homework #4; Chapter 10. This homework has three parts (A, B, C). Each part will be separately graded.

Part A, HW #4, Ch #10.

Go to technical problems, page 266. Do the following problems. Show your work.

1. a 2. a 3. a
1. b 2. b 3. b
1. c 2. c 3. c
1. d 2. d

Part B, HW#4, Ch #10.

Go to empirical problems, page 267. Do the following problems. Show your work.

1. 
2. 

Part C, HW#4, CH#10.

MC Quiz, 25 questions, use red score sheet handed out in class or available outside Heady 281 or Heady 167.

We will use the following grading scale.

A = 20+
B = 19, 18, 17
C = 16, 15, 14
D = 13, 12, 11
F = < 11

1. Over the last two decades, in which years have interest rates on U.S. Treasury bills been at their lowest level?
   A) 1982
   B) 1991
   C) 1996
   D) 2000
   E) 2002
2. Looking at the behavior of interest rates over time, we realize that
   A) they tend to fall before a recession
   B) they tend to be high before a recession and fall during a recession
   C) they tend to rise in a recovery and fall in a recession
   D) they tend to be high in a recession
   E) both B) and C)

3. The two major determinants of the level of private investment spending are
   A) the interest rate and business expectations
   B) the levels of national income and saving
   C) levels of consumption and saving
   D) corporate income taxes and the level of saving
   E) interest rates and the level of private saving

4. If investment becomes more responsive to changes in the interest rate, then
   A) the size of the government spending multiplier will increase
   B) a given increase in the interest rate will lead to a larger increase in income
   C) the IS-curve will become flatter
   D) the IS-curve will become steeper
   E) both A) and C)

5. We can expect the IS-curve to get steeper, as
   A) money demand becomes less sensitive to changes in the interest rate
   B) the marginal propensity to save increases
   C) investment becomes more sensitive to changes in the interest rate
   D) the income tax rate decreases
   E) the expenditure multiplier increases

6. We can expect the IS-curve to become flatter as
   A) the supply of money decreases
   B) the marginal propensity to consume decreases
   C) the income tax rate increases
   D) investment becomes more sensitive to interest rate changes
   E) money demand becomes more sensitive to interest rate changes

7. Which of the following will NOT cause a shift of the IS-curve?
   A) a change in transfer payments
   B) a change in taxes
   C) a change in money demand
   D) a change in business and consumer confidence
   E) a change in autonomous saving

8. If there is an increase in the income tax rate, then the IS-curve will
   A) become flatter and shift to the right
   B) become steeper and shift to the left
   C) become steeper and shift to the right
   D) shift parallel to the left
   E) shift parallel to the right
9. Any point to the left and below the IS-curve means that
   A) there is excess demand for goods and services in the expenditure sector
   B) there is excess supply of goods and services in the expenditure sector
   C) the expenditure sector is in equilibrium but the money sector is not
   D) there is excess demand in the money sector
   E) there is excess supply of money in the money sector

10. If the quantity of money demanded exceeds the quantity supplied at the current interest rate, then
    A) bond prices and the interest rate will both rise
    B) bond prices and the interest rate will both fall
    C) bond prices will rise and the interest rate will fall
    D) bond prices will fall and the interest rate will rise
    E) the value of both stocks and bonds will increase

11. People will hold more money if they expect
    A) bond prices to rise
    B) yields on bonds to fall
    C) yields on bonds to rise
    D) the government budget surplus to increase
    E) to get paid more frequently

12. The LM-curve
    A) shows the relationship between the interest rate and the level of investment spending
    B) is negatively sloped because increases in the income level can only be achieved if the interest rate is lowered
    C) is negatively sloped since increases in money supply always lower interest rates
    D) is upward sloping because a higher income level is always associated with a higher supply of money
    E) shows combinations of the interest rate and the income level such that money supply and money demand are equal

13. The LM-curve becomes steeper if
    A) money demand becomes less sensitive to changes in the interest rate
    B) money demand becomes more sensitive to changes in the interest rate
    C) investment becomes more sensitive to changes in the interest rate
    D) investment becomes less sensitive to changes in the interest rate
    E) money demand becomes less sensitive to changes in income

14. Which of the following will result in a parallel shift of the LM-curve to the right?
    A) an increase in interest rates
    B) an increase in autonomous saving
    C) an increase in money supply
    D) an increase in money demand
    E) an increase in investment
15. An increase in the money supply sets in motion a sequence of changes that tend to
A) lower interest rates and therefore decrease the level of saving and investment
B) lower interest rates, stimulate investment spending, and increase national income
C) lower interest rates and bond prices and decrease money demand
D) stimulate investment spending, shifting both the LM- and IS-curves to the right
E) increase government spending since more funds become available

16. Which of the following is the equation for the LM-curve?
A) \( L = kY + hi \)
B) \( L = kY - hi \)
C) \( i = (k/h)Y + (1/h)(M/P) \)
D) \( i = (k/h)Y - (1/h)(M/P) \)
E) \( i = (1/b)\alpha_0 - (b/\alpha)Y \)

17. In an IS-LM model, a decrease in the level of government purchases will result in
A) a decrease in the level of consumption
B) an increase in the level of investment
C) an increase in real money balances
D) a decrease in money supply
E) both A) and B)

18. In an IS-LM model, an increase in money supply will
A) increase income, the interest rate and the price level
B) increase income and the price level but decrease the interest rate
C) increase income, decrease the interest rates, and leave the price level unchanged
D) increase income and the price level but leave the interest rate unchanged
E) increase the price level and the interest rate but leave income unchanged

19. Monetary policy becomes more effective as
A) the interest sensitivity of investment increases
B) money demand becomes less sensitive to changes in the interest rate
C) the marginal propensity to save decreases
D) the income tax rate decreases
E) all of the above

20. The monetary policy multiplier is large if
A) the LM-curve is steep and the IS-curve is flat
B) the LM-curve is flat and the IS-curve is steep
C) money demand is very interest sensitive
D) investment is very interest insensitive
E) both money supply and money demand are very interest sensitive

21. If the marginal propensity to save suddenly increases, then
A) the size of the fiscal policy multiplier will become larger
B) the size of the monetary policy multiplier will increase
C) the IS-curve will become steeper
D) the IS-curve will shift to the right and income will increase
E) income will increase but the interest rate will decrease
22. If investment becomes more sensitive to changes in the interest rate, then
   A) the size of the fiscal policy multiplier will decrease
   B) the size of the fiscal policy multiplier will increase
   C) the size of the monetary policy multiplier will decrease
   D) the size of the monetary policy multiplier will increase
   E) both A) and C)

23. If money demand becomes more sensitive to changes in income, then
   A) the LM-curve will become flatter
   B) the LM-curve will become steeper
   C) the AD-curve will become flatter
   D) fiscal policy will be more effective
   E) both B) and C)

24. A movement along the AD-curve from left to right is equivalent to a shift of
   A) the LM-curve to the right due to an increase in real money balances
   B) the IS-curve to the right due to a decrease in interest rates
   C) the LM-curve to the right due to an increase in nominal money supply
   D) the IS-curve to the right due to a lower price level
   E) both the IS- and LM-curves to the right due to more spending and higher money balances

25. The slope of the AD-curve will become flatter if
   A) money demand becomes more income inelastic
   B) money demand becomes more interest elastic
   C) investment becomes more interest elastic
   D) the marginal propensity to save increases
   E) both A) and C)