

1. The President who believed in Supply Side economics was _____.
2. The guru of supply side economics was _____
3. According to supply side economics, the most important economic factor is:

 - a. competition
 - b. flexible wages and prices
 - c. worker productivity and incentives
 - d. protecting the poor
4. The Laffer Curve says that:

 - a. there is a tradeoff between inflation and unemployment
 - b. raising tax rates can cause tax collections to fall
 - c. real wages and prices are higher than nominal wages and prices
 - d. raising tax rates always causes tax collections to fall
5. According to supply side economics, the main economic evil is:

 - a. taxes, because they make people work less or not work hard
 - b. taxes, because they cause people to work harder to make up the lost income
 - c. competition, because it lowers real wages and prices
 - d. monopoly, because it lowers real wages and raises prices
6. The Reagan tax cut of 25%, proposed by Laffer, had the effect of:

 - a. increasing tax collections more than 10%
 - b. decreasing tax collections less than 10%
 - c. not changing tax collections
 - d. causing about a 25% decrease in tax collections
7. _____ One of the key pieces of supply side economics is removing government regulations on business.
8. Because of supply side economics, we think that _____ is an important economic variable when we didn't used to.
9. George H.W. Bush referred to supply side economics as _____ economics.
10. _____ A Post Keynesian believes that Keynes was saying something fundamentally new, while a New Keynesian believes the Keynes was really a Classical, who thought that prices and wages went down slowly, not quickly.
11. New Keynesians believe that _____ are responsible for recessions.

 - a. taxes
 - b. supply shocks
 - c. market failures

12. One reason that prices might be sticky is _____.
13. New Classical believe that _____ are responsible for recessions.
_____ a. taxes
b. supply shocks
c. market failures
d. rogue demon hunters
14. Wages might be sticky because of:
_____ a. effective demand failures
b. long term contracts
c. inaccuracy in the Consumer Price Index
d. b and c
15. Efficiency wage theory says that in recessions businesses:
_____ a. value all workers equally and cut wages to get some to leave
b. prefer to keep wages high and select which workers will leave
c. cut wages and employment to maintain profits at their original level
d. lower wages to stimulate employee work effort
16. The idea of recessions as “creative destruction” would belong to the:
_____ a. Post Keynesians
b. New Keynesians
c. New Classicals
d. Monetarists
17. _____ (True/False) The policy ineffectiveness proposition says that people are too smart, and that any time the government tries to change the economy they will fail because people will take advantage of the chance to make money off it.
18. Of the Old and New Classicals and Keynesians, who believes that the government can affect output in the short term?
_____ a. all of them
b. only the old Keynesians
c. only the old and New Keynesians
d. all except the New Classicals
19. Of the Old and New Classicals and Keynesians, who believes that the government can affect output in the long term?
_____ a. none of them
b. only the old Keynesians
c. only the old and New Keynesians
d. all except the New Classicals
20. The phrase “A rising tide raises all boats” is a quote that means that:

- _____ a. the best way to fight inflation is to control the money supply
b. the best way to fight poverty is to make the whole economy grow
c. competitive markets lead to higher wages
d. the best way to fight bad television is with reruns of Gilligan's Island
21. _____ (True/False) The Phillips Curve says that if we lower inflation, unemployment will increase.
22. _____ (True/False) Each Phillips Curve is drawn from many different aggregate demand curves along a single aggregate supply curve.
23. _____ (True/False) New Keynesians believe that markets work correctly in the short run, but not in the long run.
24. An asset that is easy to spend is said to be: _____
25. _____ (True/False) Tobacco and deer were used as money in the U.S. in the past
26. In the 1800s in the US, the US money supply was based on:
_____ a. gold only
b. silver only
c. silver and gold together
d. gold and fiat money together
27. _____ (True/False) Several countries in Central America and South America have eliminated their own money in favor of using the dollar. The US opposes this due to the increase it has caused in counterfeit money imported into the US.
28. A currency board issues money:
_____ a. backed partly by metals such as gold or silver
b. backed by the money of other countries such as the U.S. or Japan
c. backed by assets such as stocks from U.S. or Japanese stock markets
d. without backing of any kind
29. The changes made to U.S. currency have been made to:
_____ a. lengthen the time the money is used in circulation
b. prevent counterfeiting
c. lower the costs of printing
d. b and c
30. _____ and _____
are the two major components of M1.
31. Gresham's Law states that:
a. supply creates its own demand

- _____ b. bad money drives good money out of circulation
 c. good money drives bad money out of circulation
 d. gold and silver will drive all other currencies out of circulation
32. The velocity of money is:
 a. the total number of times dollars are used in a year
 _____ b. the average number of times each dollar is used in a year
 c. the average number of days it takes for each dollar to be used
 d. the average number of dollars that are used in a year
33. The quantity theory of money says that a 10% increase in the money supply should cause:
 a. a 10% increase in prices
 _____ b. a less than 10% increase in prices and an increase in output
 c. a 10% increase in output
 d. a 10% decrease in prices
34. In a fractional reserve banking system, banks must keep a percentage of their _____:
 a. actual reserves
 _____ b. deposits
 c. loans
 d. total liabilities
35. The required reserve ratio used most often today is _____ percent.

Ninth National Bank

Cash: \$5,000

Securities: \$4,000

Deposits: \$20,000

Required Reserve Ratio = 10%

36. The 9th National Bank as listed above has \$ _____ in loans.
37. The required reserves of the 9th National Bank are \$ _____
38. The actual reserves of the 9th National Bank are \$ _____
39. A deposit of \$2,000 in cash could create a maximum of \$ _____ in deposits (including the original \$2,000).
40. _____ (True/False) A credit default swap is a form of an insurance policy which allows people to insure themselves against other people's risk.
41. _____ (True/False) The use of CDS's allowed banks to issue mortgage backed securities

without taking any risk if the homeowners stopped paying.

42. _____ (true/False) In the end, every one of the theories of macroeconomics we've discussed are either variations of Classical economics or Keynesian economics. None of the "modern" theories is actually new.
43. _____ (true/false) Based on the intent of law, banks should never be leveraged more than about eight to 1, yet some were as high as 30 and 40 to 1 in 2008.
44. _____ (True/False) The condition that occurred in #43 happened because banks were able to change their charter to find an agency that would allow them to do what they wanted.
45. _____ (True/False) Part of the proposal to fix the financial crisis is to shift to one charter for all banks.
46. Pick a theory and describe how it explains recessions occurring.
47. Describe how a fractional reserve banking system can crash without any bank actually violating the law.