

The Mother of Economy Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What does the Laffer Curve imply about tax revenue?**
 - A. A curve showing the relationship between tax rate and tax revenue, suggesting an optimum rate.**
 - B. The relationship between inflation and unemployment in the short run.**
 - C. A tool used to set currency values in international markets.**
 - D. A supposed relationship between economic activity and the rate of taxation that maximizes tax revenue.**

- 2. The multiplier is defined as the ratio of the total change in real GDP to the size of the autonomous change in aggregate spending.**
 - A. True**
 - B. False**
 - C. It is equal to the marginal propensity to save.**
 - D. It only applies to government spending.**

- 3. Stabilization policy tools include which of the following?**
 - A. Tax policy and wage controls**
 - B. Monetary or fiscal policy**
 - C. Trade policy and regulation**
 - D. Automatic measures**

- 4. In a fixed exchange rate regime, revaluation refers to which description?**
 - A. An increase in the value of a currency that is set under a fixed exchange rate regime.**
 - B. A decrease in the value of a currency that is set under a fixed exchange rate regime.**
 - C. The movement of money for investment across borders.**
 - D. An increase in the value of a currency that is set under a fixed exchange rate regime.**

- 5. Which best defines human capital?**
 - A. The improvement in labor created by the education and knowledge embodied in the workforce.**
 - B. The physical tools and machinery used to produce other goods.**
 - C. The total value of a country's exports minus imports.**
 - D. Money held by individuals in cash form.**

- 6. What is the difference between nominal and real interest rates?**
- A. The difference between interest before taxes.**
 - B. The interest rate not adjusted for inflation versus the rate adjusted for inflation.**
 - C. The guaranteed rate on government bonds.**
 - D. The rate charged for checking accounts.**
- 7. In the money demand framework, when the interest rate falls, what happens to the quantity of money demanded?**
- A. It increases**
 - B. It decreases**
 - C. It remains unchanged**
 - D. It becomes volatile**
- 8. Near money includes assets that cannot be used as a medium of exchange but can be converted into cash or checkable deposits.**
- A. True**
 - B. False**
 - C. Only for forecasting**
 - D. Irrelevant to money supply**
- 9. Sticky wage refers to:**
- A. Nominal wages that are slow to fall even in the face of high unemployment and slow to rise even in the face of labor shortages.**
 - B. Nominal wages that adjust instantly to market conditions.**
 - C. Wages anchored by long-term contracts that adjust monthly.**
 - D. Wages that are completely flexible in the short run.**
- 10. The Capital Account records:**
- A. The balance of payments on goods and services only.**
 - B. The difference between(exports and imports) of goods.**
 - C. The current account excluding capital flows.**
 - D. The part of the balance of payments that records net changes in a country's international financial assets and liabilities.**

Answers

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1. D
2. A
3. B
4. D
5. A
6. B
7. A
8. A
9. A
10. D

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Explanations

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1. What does the Laffer Curve imply about tax revenue?
- A. A curve showing the relationship between tax rate and tax revenue, suggesting an optimum rate.
 - B. The relationship between inflation and unemployment in the short run.
 - C. A tool used to set currency values in international markets.
 - D. A supposed relationship between economic activity and the rate of taxation that maximizes tax revenue.**

The main idea here is that tax revenue depends on how people and the economy respond to tax rates. The Laffer Curve shows that raising tax rates can increase revenue up to a point, but beyond that point higher rates discourage work, saving, and investment, shrinking the tax base and causing revenue to fall. So there's an optimal rate that maximizes revenue, which is a result of the interaction between taxation and economic activity. That's why the best answer states a relationship between economic activity and the rate of taxation that yields the maximum revenue. The other options describe different concepts or less precise formulations and don't capture the incentive effect on the tax base as clearly.

2. The multiplier is defined as the ratio of the total change in real GDP to the size of the autonomous change in aggregate spending.

- A. True**
- B. False
- C. It is equal to the marginal propensity to save.
- D. It only applies to government spending.

The idea in play is the spending multiplier: an initial autonomous change in aggregate spending starts a chain reaction of income and spending rounds, so the total rise in real GDP is larger than the initial change. By definition, the multiplier is the ratio of the total change in real GDP to the size of the autonomous change in aggregate spending. So the statement is true. The multiplier can be written as $1/(1 - MPC)$ or equivalently $1/MPS$, since $MPS = 1 - MPC$. It's not simply the marginal propensity to save itself, but the whole multiplier that captures how extra spending circulates through the economy. And it isn't restricted to government spending—any autonomous spending change (like investment or exports) can generate the multiplier effect. For example, with an MPC of 0.8, the multiplier is 5, so a \$100 autonomous increase would raise real GDP by about \$500.

3. Stabilization policy tools include which of the following?

- A. Tax policy and wage controls
- B. Monetary or fiscal policy**
- C. Trade policy and regulation
- D. Automatic measures

Stabilization policy relies on tools that influence overall demand to smooth out ups and downs in the economy. The best answer is monetary policy and fiscal policy. Monetary policy uses central-bank actions like adjusting interest rates and conducting open-market operations to steer credit and spending. Fiscal policy uses government spending and taxation to shift demand directly. Automatic stabilizers do play a role by dampening fluctuations without new policy moves, but they aren't the discretionary tools policymakers typically cite as stabilization measures. Wage controls aren't standard stabilization tools in modern practice, and trade policy and regulation affect longer-run conditions more than short-term stabilization.

4. In a fixed exchange rate regime, revaluation refers to which description?

- A. An increase in the value of a currency that is set under a fixed exchange rate regime.
- B. A decrease in the value of a currency that is set under a fixed exchange rate regime.
- C. The movement of money for investment across borders.
- D. An increase in the value of a currency that is set under a fixed exchange rate regime.**

In a fixed exchange rate system, revaluation means the authorities officially raise the pegged value of the domestic currency. It's an explicit appreciation—the currency is worth more relative to foreign currencies after the revaluation. This is why the central bank often uses foreign reserves to buy domestic currency, reducing its supply and pushing the rate higher. The result is a stronger currency, which tends to make imports cheaper and exports more expensive. This is different from devaluation, which would lower the fixed value. The other options describe unrelated ideas, not an official change in the currency's fixed value.

5. Which best defines human capital?

- A. The improvement in labor created by the education and knowledge embodied in the workforce.**
- B. The physical tools and machinery used to produce other goods.
- C. The total value of a country's exports minus imports.
- D. Money held by individuals in cash form.

Human capital is the knowledge, skills, and health that workers bring to production, which increases their productivity. The best choice emphasizes how education and knowledge embodied in the workforce directly improve labor performance and output. It captures why investing in people—through schooling, training, and health—raises how much and how efficiently work gets done. The other ideas describe different things: physical capital refers to tools and machinery used to produce goods; the trade balance is a measure of exports minus imports; and money in cash form is currency, not the capabilities of workers.

6. What is the difference between nominal and real interest rates?

A. The difference between interest before taxes.

B. The interest rate not adjusted for inflation versus the rate adjusted for inflation.

C. The guaranteed rate on government bonds.

D. The rate charged for checking accounts.

Understanding nominal versus real interest rates means seeing how inflation changes money's buying power. The nominal rate is the rate you're quoted or earn in dollars, not adjusted for inflation. The real rate removes inflation to show the true growth in purchasing power. A practical way to think about it: if the nominal rate is 5% and inflation is 2%, the real rate is about 3%—your money's actual buying power grows by roughly 3% each year. If inflation were 6% while the nominal rate stays at 5%, the real rate would be negative, meaning your purchasing power actually falls. This distinction is not about taxes, a guaranteed government bond return, or checking-account fees or rates. It centers on whether inflation is accounted for when measuring the return, which is exactly what the difference between the rate not adjusted for inflation and the rate adjusted for inflation captures.

7. In the money demand framework, when the interest rate falls, what happens to the quantity of money demanded?

A. It increases

B. It decreases

C. It remains unchanged

D. It becomes volatile

When the interest rate falls, the opportunity cost of holding money falls too. In the money demand framework, people balance two motives for holding money: transactions (driven by income and prices) and asset demand (driven by the return on alternative assets). The asset demand for money moves inversely with the interest rate: lower interest means holding money becomes relatively more attractive than buying bonds or other interest-bearing assets. As a result, for the same income and price level, the quantity of money people want to hold increases. So the money-demand response is to rise when the interest rate decreases.

8. Near money includes assets that cannot be used as a medium of exchange but can be converted into cash or checkable deposits.

- A. True**
- B. False**
- C. Only for forecasting**
- D. Irrelevant to money supply**

Near money refers to financial assets that aren't themselves a medium of exchange but can be quickly turned into cash or checks with little loss of value. These assets are highly liquid and low-risk, so households and firms hold them to preserve liquidity, knowing they can convert them into cash or demand deposits when needed. Examples include savings deposits, certain time deposits, money market mutual funds, and short-term government securities. Because of their ready convertibility to cash or checkable deposits, they function as near money and are included in broader money measures like M2. So, the statement is true: near money consists of assets not used directly for payments but easily convertible into cash or checkable deposits. The other options misstate the concept, since near money is indeed relevant to money supply and not limited to forecasting.

9. Sticky wage refers to:

- A. Nominal wages that are slow to fall even in the face of high unemployment and slow to rise even in the face of labor shortages.**
- B. Nominal wages that adjust instantly to market conditions.**
- C. Wages anchored by long-term contracts that adjust monthly.**
- D. Wages that are completely flexible in the short run.**

Sticky wages means pay doesn't move quickly in response to changing conditions in the labor market. The most important aspect is that nominal wages are slow to fall when unemployment is high and slow to rise when there is a shortage of workers. This inertia helps explain why recessions can persist and why wages don't fully match market conditions right away. Factors like long-term contracts, norms against cutting pay, and efficiency/firm incentives all contribute to this reluctance to adjust. If wages adjusted instantly to market conditions, or were completely flexible in the short run, the pay would not be described as sticky. Descriptions that imply some monthly adjustment or any instant flexibility don't capture the characteristic inertia of sticky wages.

10. The Capital Account records:

- A. The balance of payments on goods and services only.
- B. The difference between(exports and imports) of goods.
- C. The current account excluding capital flows.
- D. The part of the balance of payments that records net changes in a country's international financial assets and liabilities.**

Think of the Capital Account as tracking net changes in a country's financial claims and obligations with the rest of the world. It records how much money flows in and out through ownership of financial assets and liabilities—borrowing from abroad, lending abroad, buying and selling foreign assets, and changes in reserve assets. That description—the net changes in a country's international financial assets and liabilities—matches what the Capital Account is about, which is why it's the best choice here. The other statements describe the trade in goods and services or current transactions, which belong to the current account rather than the capital account.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://motherofecon.examzify.com>

We wish you the very best on your exam journey. You've got this!

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