

# Macroeconomics

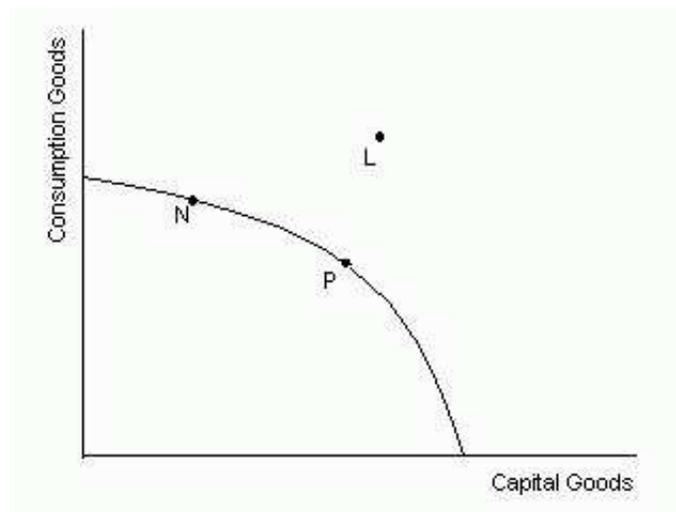
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1. The main concern of economics is
- a. how to organize and run a business
  - \* b. how individuals and societies organize their scarce resources
  - c. how to protect the consumer
  - d. government spending and taxing
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2. The most basic institution of a market system is:
- a. the existence of capital
  - \* b. private property
  - c. the use of money
  - d. production for the benefit of society, not individuals
  - e. democracy
- 

3. Which of the following is the primary incentive in determining WHAT to produce in a free market price system? Produce those products that
- a. enjoy maximum freedom from government controls
  - b. are needed by the masses of people
  - c. are easiest to produce
  - \* d. will provide maximum profits for the producer
- 

**Use the graph below to answer question number 4**



4. Other things being equal, society's current choice of point P on the curve will:
- \* a. allow it to achieve more rapid economic growth than would the choice of point N
  - b. entail a slower rate of economic growth than would the choice of point N
  - c. entail the same rate of growth as would the choice of point N
  - d. be unobtainable because it exceeds the productive capacity of the economy
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5. The production possibilities curve demonstrates the basic principle that
- \* a. given full employment of all of a nation's resources, producing more of one good necessarily entails producing less of another
  - b. in a mixed capitalistic system with free markets, the economy will automatically employ all of its resources
  - c. exchange is a necessary corollary of specialization
  - d. given full employment, to produce more of one good a nation will EVENTUALLY, but not immediately, be forced to forgo production of other goods
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6. The curvature in a production possibilities curve illustrates the law of
- a. comparative advantage
  - \* b. increasing costs
  - c. constant costs
  - d. decreasing costs
  - e. of large numbers
- 
7. If an increase in the price of product A results in an increase in the demand for product B, one may conclude that products A and B are
- \* a. substitute goods
  - b. complementary goods
  - c. unrelated goods
  - d. inferior goods
- 
8. Assume that Ford reduces the price of their subcompact and observes that their sales rise while sales of Chevrolet's subcompact falls. Which of the following statements is correct?
- a. Both Ford and Chevy experience an increase in the demand for their cars
  - \* b. Ford experiences an increase in quantity demanded while Chevy experiences a decrease in demand
  - c. Both Ford and Chevy experience changes in quantity demanded
  - d. Ford experiences an increase in demand while Chevy experiences a reduction in quantity demanded
- 
9. With an increase in profits in a particular industry, we might expect
- a. firms to leave the industry
  - b. firms to produce less
  - \* c. firms to enter the industry
  - d. people to buy less
  - e. profits don't have anything to do with what firms do
- 
10. Which of the following will NOT change the demand for a good? A change in
- a. the number of consumers in the market
  - b. the prices of related goods
  - \* c. the price of the good itself
  - d. expectations about future prices
- 
11. From an economic perspective, the complaint that there are not enough parking spaces in downtown areas indicates that
- a. cities should build more parking places

- b. everyone should ride mass transit into the city
  - c. the "market" for parking places is in equilibrium
  - \* d. the price of parking in downtown areas is below the market-clearing price
- 

12. If supply and demand both decrease, we can say that equilibrium quantity:
- a. and equilibrium price must both decline
  - \* b. must decline, but equilibrium price may either rise, fall, or remain unchanged
  - c. price must fall, but equilibrium quantity may either rise, fall, or remain unchanged
  - d. and equilibrium price must both increase
  - e. and equilibrium price must both decrease
- 

13. Dairy price supports (floor) which raise milk prices received by farmers, are likely to:
- a. lower the price of milk
  - b. result in shortages of milk
  - c. help consumers
  - \* d. cause increased production of milk
  - e. reduce inflation
- 

14. Intermediate goods are excluded from GDP because
- a. intermediate goods go into inventories, and hence are not sold
  - \* b. their inclusion would lead to double counting
  - c. they remain within the business sector
  - d. none of the above
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15. Let us consider that in 1950 the GDP was \$500 billion while in 1960 GDP reached \$700 billion, both in current (nominal) dollars. If the price index was 100 in 1950 125 in 1960, what was the change in real GDP from 1950 to 1960? \_\_\_\_\_ billion.
- a. zero
  - b. \$15
  - c. \$30
  - d. \$45
  - \* e. \$60
- 

16. Rent and interest are used to calculate
- a. indirect business taxes
  - b. undistributed corporate profits
  - \* c. GDP by the income approach
  - d. GDP by the expenditure approach
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17. The sales tax is held to be a regressive tax because the:
- a. sales tax is an indirect, rather than a direct, tax
  - b. tax tends to reduce the total volume of consumption expenditures
  - c. percentage of income paid as taxes is constant as income rises
  - d. administrative costs associated with the collection of the tax are relatively high
  - \* e. percentage of income paid as taxes falls as income rises
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18. A common characteristic of pure public goods is that
- a. people pay for them in proportion to the benefits received
  - b. the costs of producing them are less than if they were private goods
  - \* c. their benefits cannot be withheld from anyone, regardless of whether he pays for them or not
  - d. their benefits can be withheld from anyone who does pay for them
  - e. they are produced only by the public sector, not by the private sector
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19. The best estimate of about the current natural rate of unemployment is:
- a. 2 percent
  - b. 3 percent
  - \* c. 6 percent
  - d. 9 percent
  - e. 0 percent
- 

20. Inflation which is unexpected will most likely benefit:
- a. holders of cash
  - b. creditors who lend funds to others
  - c. those who have fixed incomes
  - \* d. people owing debts
  - e. holders of U.S. Treasury bonds
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21. Wendy Clark has stopped looking for a job, feeling that there are not any jobs available for professional women television sportscasters like herself. She is
- a. frictionally unemployed
  - b. cyclically unemployed
  - \*c. a discouraged worker
  - d. a member of the labor force
- 

Use the table below to answer question number 22

Disposable Income	Consumption
\$ 400	\$ 405
450	450
500	495
550	540
600	585

22. The MPS is:
- a. 0.05
  - b. 0.25
  - c. 0.2
  - d. 0.15
  - \* e. 0.1
-

23. The 45-degree line on a chart which relates consumption and income shows:
- the amounts households will plan to consume at each possible level of income
  - the amounts households will plan to save at each possible level of income
  - \* c. all the points at which consumption and income are equal
  - d. all points at which saving and income are equal
- 
24. Assume the current equilibrium level of income is \$200 billion as compared to the full employment income level of \$240 billion. If the MPC is  $\frac{5}{8}$ , what change in autonomous expenditures is needed to achieve full employment?
- \* a. an increase of \$15 billion
  - b. an increase of \$40 billion
  - c. an increase of \$10 billion
  - d. an increase of \$25 billion
  - e. a decrease of \$12 billion
- 
25. The inequality of intended (planned) saving and intended (planned) investment:
- is of no consequence because actual saving and investment will always be equal
  - is of no consequence because a compensating inequality of tax collections and government spending will always occur
  - \* c. may be of considerable significance because of the subsequent changes in income, employment, and the price level
  - d. is attributable to a low MPC
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26. If the MPC =  $\frac{2}{3}$  and if the government lowers taxes by \$10 and increases government expenditures by \$5, then income would
- decrease by \$5
  - increase by \$5
  - \* c. increase by \$35
  - d. decrease by \$35
  - e. increase by \$45
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27. Keynesian economics would attack demand pull inflation by:
- decreasing the tax rates and/or decreasing government spending
  - decreasing the tax rates and/or increasing government spending
  - increasing the tax rates and/or increasing government spending
  - \* d. increasing the tax rates and/or decreasing government spending
- 
28. Suppose the economy is operating far below its full employment level. Now the government increases its spending without an increase in taxes. Given time, this will most likely result in:
- \* a. output rising by a multiple of the increase in government spending and inflation may increase a little
  - b. a fall in output due to the initial position being one with idle resources
  - c. no change in output but an increase in inflation
  - d. a lowering of the rate of inflation
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29. Assume Company X deposits \$100,000 in cash in commercial bank A. If no excess reserves exist at the time this deposit is made and the reserve ratio is 20 percent, Bank A can safely increase the money supply by a

maximum of:

- a. \$100,000
  - b. \$500,000
  - \* c. \$80,000
  - d. \$180,000
  - e. \$50,000
- 

30. If the public finds ways of making the same amount of money perform a larger amount of transactions than before

- a. the demand for money must have risen
  - \* b. velocity must have risen
  - c. incomes and prices must have risen
  - d. the supply of money must have risen
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31. The "crowding-out effect" refers to possibility that

- \* a. borrowing by the federal government crowds out private borrowing
  - b. larger expenditures by the federal government simply crowd-out state and local spending
  - c. Congress has replaced the Federal Reserve System as the body mainly responsible for monetary policy
  - d. low income individuals are crowding middle income individuals out of the central city into the suburbs
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32. In the equation of exchange, if  $M = \$200$ ,  $P = \$2$ , and  $Q = 400$ , then

- \* a.  $V$  must be 4
  - b.  $V$  must be one-half
  - c.  $V$  must be 1
  - d.  $V$  cannot be calculated with the available information
  - e. the value of the goods and services produced in the economy must be \$400
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33. Which of the following best describes the Keynesian cause-effect chain of an easy money policy?

- \* a. an increase in the money supply will lower the interest rate, increase investment spending, and increase GDP
  - b. an increase in the money supply will raise the interest rate, decrease investment spending, and decrease GDP
  - c. a decrease in the money supply will raise the interest rate, decrease investment spending, and decrease GDP
  - d. a decrease in the money supply will lower the interest rate, increase investment spending, and increase GDP
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34. Open-market purchases of government securities by the Fed will have the tendency to

- a. increase interest rates, the money supply, and national income
  - b. increase interest rates and the money supply, but decrease national income
  - c. increase interest rates, but decrease the money supply and national income
  - \* d. decrease interest rates, but increase the money supply and national income
  - e. decrease interest rates, the money supply, and national income
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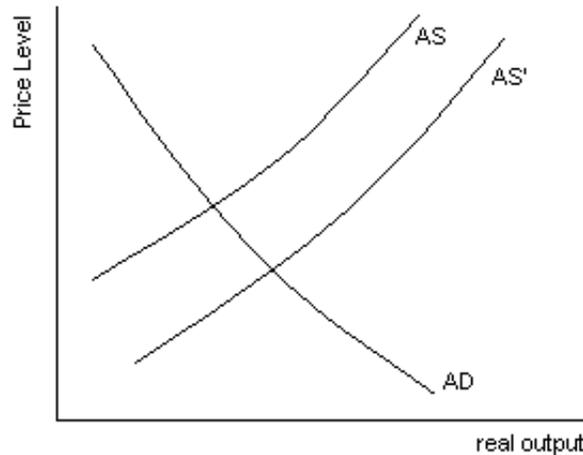
35. The Federal Funds market has reference to the market where:

- a. the federal government finances its debt

- \* b. banks borrow reserves from other banks
- c. newly printed currency gets into circulation
- d. banks deposit the majority of their legal reserves
- e. checks are cleared

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Use the graph below to answer question number 36



36. The shift in the Aggregate Supply curve from AS to AS' shown here, could be caused by all of the following except one. Which is the EXCEPTION?

- a. increased preference for work
- b. development of new technology
- c. educations in the availability of unemployment compensation, welfare, etc.
- d. immigration of foreign nationals into the U.S.
- \* e. increased bargaining power of unions

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37. Which of the following statements best describes the relationship between total output, total spending, and the general price level?

- a. prices are stable until full employment is reached; then any additional spending will be purely inflationary
- b. spending, output, and prices will always increase proportionately
- \* c. for a time increases in spending will cause large increases in output and little or no increase in prices; but as full employment is approached prices begin to rise more rapidly
- d. spending and output are directly related; but spending and prices are inversely related

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38. Which of the following is not essential for the classical model to be valid?

- a. wage-price flexibility
- b. interest rate flexibility
- c. long-run full employment
- \* d. fixed money supply

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39. To say that a country has a comparative advantage in the production of wine is to say that

- a. it can produce wine with fewer resources than any other country can
- b. its opportunity cost of producing wine is greater than any other country's
- \* c. its opportunity cost of producing wine is lower than any other country's

d. the relative price of wine is higher in that country than in any other

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40. When U.S. exports exceed U.S. imports this has the effect of acting:

a. to raise the U.S. unemployment rate

b. as a net leakage

\* c. in a manner similar to other injections as investment and government spending

d. to weaken the dollar exchange rate - i.e. - the dollar depreciates

e. to cause American producers to lose profits

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