

1

As the size of the MPC increases, the value of the balanced-budget multiplier

Marks: 1

Choose one answer.

- ☐ a. increases ✗
- ☐ b. decreases ✗
- ☒ c. remains constant ✓
- ☐ d. could either increase or decrease ✗

Correct

Marks for this submission: 1/1.

2

If the MPC is .9, and the tax rate is .1, then the tax multiplier is -

Marks: 1

Choose one answer.

- ☒ a. 4.74 ✓
- ☐ b. 4.5 ✗
- ☐ c. 4 ✗
- ☐ d. 10 ✗

Correct

Marks for this submission: 1/1.

3

When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy

Marks: 1

Choose one answer.

- ☒ a. increases. ✓
- ☐ b. decreases. ✗
- ☐ c. remains stable because investment is autonomous. ✗
- ☐ d. could rise or fall depending upon the exchange rate. ✗

Correct

Marks for this submission: 1/1.

4

If A. Jackson is paid an interest rate of 5% on his savings, but the inflation rate is 7%, the real interest rate A. Jackson earns is

Marks: 1

Choose one answer.

- ☐ a. 5%. ✗
- ☒ b. -2%. ✓
- ☐ c. -7%. ✗
- ☐ d. 35%. ✗

Correct

Marks for this submission: 1/1.

5

The average amount of goods and services produced from each hour of a worker's time is called

Marks: 1

Choose one answer.

- ☐ a. per capita GDP ✗
- ☐ b. per capita GNP ✗
- ☒ c. productivity ✓
- ☐ d. human capital ✗

Correct

Marks for this submission: 1/1.

6

GDP	\$110
Income Earned by Citizens Abroad	\$5
Income Foreigners Earn here	\$15

Marks: 1

6

Marks: 1

GDP	\$110
Income Earned by Citizens Abroad	\$5
Income Foreigners Earn here	\$15
Depreciation	\$4
Indirect Business Taxes	\$6
Business Subsidies	\$2
Statistical Discrepancy	\$0
Retained Earnings	\$5
Corporate Income Taxes	\$6
Social Insurance Contributions	\$10
Interest Paid to Households by Government	\$5
Transfer Payments to Households from Government	\$15
Personal Taxes	\$30
Non-tax payments to Government	\$5

NNP for this economy is

Choose one answer.

- ☐ a. \$100 ✗
- ☒ b. \$96 ✓
- ☐ c. \$90 ✗
- ☐ d. \$88 ✗

Correct

Marks for this submission: 1/1.

7

Marks: 1

The tax multiplier is the

Choose one answer.

- ☐ a. change in output divided by the change in saving times the MPC. ✗
- ☐ b. change in output divided by the change in consumption times the MPS. ✗
- ☐ c. rise in equilibrium GDP resulting from a one dollar rise in autonomous taxes. ✗
- ☒ d. change in output divided by the change in consumption times the MPC. ✓

Incorrect

Marks for this submission: 0/1.

8

Marks: 1

Refer to Figure 8.1. An increase in the amount of consumption this household makes when this household's income is zero

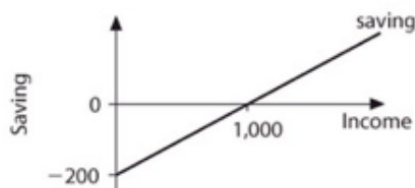


Figure 8.1

Choose one answer.

- ☐ a. makes the consumption function steeper. ✗
- ☐ b. makes the saving function flatter. ✗
- ☐ c. shifts the consumption function downward. ✗
- ☒ d. shifts the saving function downward. ✓

Correct

Marks for this submission: 1/1.

Marks for this submission: 1/1.

9 Refer to the Table 2-1. What is the level of Gross Domestic Product?

Marks: 1

Table 2-1

Item	Billions of Dollars
a. Personal Consumption	1970
b. Capital Consumption Allowance	360
c. Personal Interest Payments	60
d. Indirect Business Taxes	260
e. Corporate Dividends	80
f. Federal Purchases of Goods and Services	300
g. Inventory Change	40
h. Social Security Contributions	220
i. Nonresidential Fixed Investment	240
j. Exports	300
k. Personal Taxes	400
l. After-tax Corporate Profits	180
m. Government Transfer and Interest Payments	440
n. Corporate Income Taxes	90
o. Imports	280
p. State and Local Purchases of Goods and Services	340
q. Residential Fixed Investment	140

Choose one answer.

- ☐ a. 2690 ✗
- ☒ b. 3050 ✓
- ☐ c. 2430 ✗
- ☐ d. 3010 ✗

Incorrect

Marks for this submission: 0/1.

10 In the simple circular flow model containing just households and business firms, the entire product flows to _____ in exchange for _____.

Marks: 1

Choose one answer.

- ☐ a. business firms, labor services ✗
- ☐ b. business firms, wages ✗
- ☒ c. households, consumer expenditures ✓
- ☐ d. households, labor services ✗

Incorrect

Marks for this submission: 0/1.

11 A company produced 8 dishwasher machines in 2005. The company sold 6 in 2005 and added 2 to its inventories. The market value of the dishwasher machines in 2005 was \$200 per unit. What is the value of this company's output that will be included in the 2005 GDP?

Marks: 1

Choose one answer.

- ☒ a. \$1,600. ✓
- ☐ b. \$400. ✗
- ☐ c. \$2,000. ✗
- ☐ d. \$1,400. ✗

Correct

Marks for this submission: 1/1.

12 Retained earnings are the part of income that

Marks: 1

Choose one answer.

- ☐ a. households retain after paying taxes. ✗
- ☒ b. businesses retain after paying taxes. ✗

12 Retained earnings are the part of income that

Marks: 1

Choose one answer.

- ☐ a. households retain after paying taxes. ✗
- ☒ b. businesses retain after paying taxes. ✗
- ☐ c. corporations pay to their owners in the form of dividends. ✗
- ☐ d. corporations do not pay to their owners in the form of dividends. ✓

Incorrect

Marks for this submission: 0/1.

13 If the MPS is .2, $t = .5$, $m = .2$, the government tax multiplier is -

Marks: 1

Choose one answer.

- ☐ a. 4 ✗
- ☒ b. 1.11 ✗
- ☐ c. 2 ✗
- ☐ d. 1 ✓

Incorrect

Marks for this submission: 0/1.

14 A survey of 200,000 people finds 76,300 "employed," 6,640 "unemployed," and the remaining 117,060 "not in the labor force." What is the unemployment rate derived from these numbers?

Marks: 1

Choose one answer.

- ☐ a. 8.7 percent ✗
- ☐ b. 3.3 percent ✗
- ☒ c. 8.0 percent ✓
- ☐ d. 5.7 percent ✗

Correct

Marks for this submission: 1/1.

15 Refer to Figure 8.11. Suppose the economy's aggregate expenditure line is AE_1 . A \$10 million increase in planned investment causes aggregate equilibrium output to increase to

Marks: 1

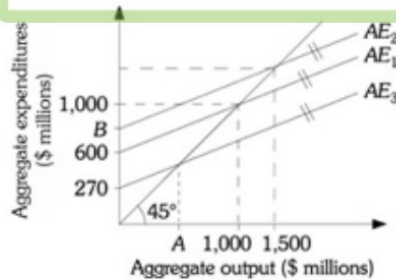


Figure 8.11

Choose one answer.

- ☒ a. \$1,016.7 million. ✓
- ☐ b. \$1,010 million. ✗
- ☐ c. \$1,025.0 million. ✗
- ☐ d. \$1,215.6 million. ✗

Correct

Marks for this submission: 1/1.

Correct

Marks for this submission: 1/1.

16

Marks: 1

year	price of pork	price of corn
2003	\$20	\$20
2004	\$20	\$30

Suppose that the basket of goods in the CPI consisted of 3 units of pork and 2 units of corn. What is the inflation rate for 2004?

Choose one answer.

- ☐ a. 33.3 percent ✗
- ☐ b. 25 percent ✗
- ☒ c. 20 percent ✓
- ☐ d. 15 percent ✗

Correct

Marks for this submission: 1/1.

17

Marks: 1

The condition in circular-flow models whereby firms purchase all the goods not purchased by households is that

Choose one answer.

- ☐ a. inventory investment is zero. ✗
- ☐ b. saving is zero. ✗
- ☐ c. fixed investment is zero. ✗
- ☐ d. consumption equals investment. ✗
- ☒ e. investment equals saving. ✓

Correct

Marks for this submission: 1/1.

18

Marks: 1

Refer to Figure 8.10. The equation for the aggregate expenditure function AE_0 is

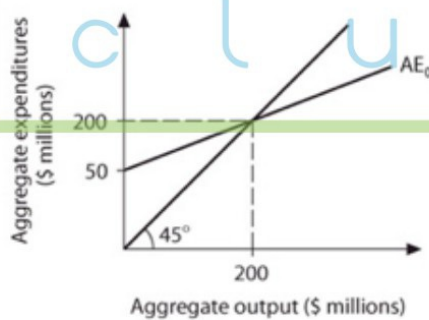


Figure 8.10

Choose one answer.

- ☐ a. $AE_0 = 50 + .6Y$. ✗
- ☐ b. $AE_0 = 80 + .6Y$. ✗
- ☒ c. $AE_0 = 50 + .75Y$. ✓
- ☐ d. $AE_0 = 50 + .4Y$. ✗

Correct

Marks for this submission: 1/1.

19

Marks: 1

If $C = 100 + .8Y$ and $I = 50$, then the equilibrium level of income is

Choose one answer.

- ☐ a. 600. ✗

- ☒ c. $AE0 = 50 + .75Y$. ✓
- ☐ d. $AE0 = 50 + .4Y$. ✗

Correct

Marks for this submission: 1/1.

19 If $C = 100 + .8Y$ and $I = 50$, then the equilibrium level of income is

Marks: 1

Choose one answer.

- ☐ a. 600. ✗
- ☐ b. 375. ✗
- ☐ c. 187.5. ✗
- ☒ d. 750. ✓

Correct

Marks for this submission: 1/1.

20 Which of the following is included in U.S. GDP?

Marks: 1

Choose one answer.

- ☒ a. U.S. exports of goods and services ✓
- ☐ b. Social Security payments ✗
- ☐ c. the sale of used goods ✗
- ☐ d. None of the answers are correct. ✗

Correct

Marks for this submission: 1/1.

21 A farmer sells raw milk for 50 cents to a dairy, who sells cheese made from it for \$1.50 to a grocery wholesaler, who sells it for \$1.90 to a supermarket, who sells it to the final consumer for \$2.19. These transactions increase the GDP by

Marks: 1

Choose one answer.

- ☒ a. $\$0.50 + \$1.00 + \$0.40 + \$0.29 = \$2.19$. ✓
- ☐ b. $\$0.50 + \$1.00 + \$1.90 + \$2.19 = \$5.59$. ✗
- ☐ c. $\$0.50 + \$1.00 = \$1.50$. ✗
- ☐ d. $\$2.19 - \$1.50 = \$0.69$. ✗
- ☐ e. $\$2.19 - \$0.50 = \$1.69$. ✗

Correct

Marks for this submission: 1/1.

22 Taxes are reduced by \$50 billion and income increases by \$200 billion. The value of the tax multiplier is

Marks: 1

Choose one answer.

- ☒ a. -4 ✓
- ☐ b. -20 ✗
- ☐ c. -10 ✗
- ☐ d. -5 ✗

Correct

Marks for this submission: 1/1.

23 Refer to the Table 2-1 What is the level of Disposable Personal Income?

Marks: 1

Table 2-1

Item	Billions of Dollars
a. Personal Consumption	1970
b. Capital Consumption Allowance	360
c. Personal Interest Payments	60

Correct

Marks for this submission: 1/1.

23

Marks: 1

Refer to the Table 2-1 What is the level of Disposable Personal Income?

Table 2-1

Item	Billions of Dollars
a. Personal Consumption	1970
b. Capital Consumption Allowance	360
c. Personal Interest Payments	60
d. Indirect Business Taxes	260
e. Corporate Dividends	80
f. Federal Purchases of Goods and Services	300
g. Inventory Change	40
h. Social Security Contributions	220
i. Nonresidential Fixed Investment	240
j. Exports	300
k. Personal Taxes	400
l. After-tax Corporate Profits	180
m. Government Transfer and Interest Payments	440
n. Corporate Income Taxes	90
o. Imports	280
p. State and Local Purchases of Goods and Services	340
q. Residential Fixed Investment	140

Choose one answer.

- ☐ a. 2520 ✗
- ☐ b. 1900 ✗
- ☐ c. 2200 ✗
- ☒ d. 2120 ✓

Incorrect

Marks for this submission: 0/1.

24

Marks: 1

Refer to Figure 8.8. Leakages are greater than injections at an aggregate output level of

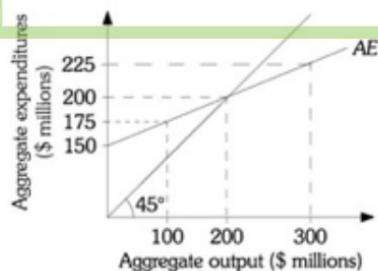


Figure 8.8

Choose one answer.

- ☐ a. Cannot be determined from the figure, we need the saving function. ✗
- ☒ b. \$100 million. ✗
- ☐ c. \$200 million. ✗
- ☐ d. \$300 million. ✓

Incorrect

Marks for this submission: 0/1.

25

Marks: 1

GDP

\$110

Income Earned by Citizens Abroad

+5

☐ d. \$300 million. ✓

Incorrect

Marks for this submission: 0/1.

25

Marks: 1

GDP	\$110
Income Earned by Citizens Abroad	\$5
Income Foreigners Earn here	\$15
Depreciation	\$4
Indirect Business Taxes	\$6
Business Subsidies	\$2
Statistical Discrepancy	\$0
Retained Earnings	\$5
Corporate Income Taxes	\$6
Social Insurance Contributions	\$10
Interest Paid to Households by Government	\$5
Transfer Payments to Households from Government	\$15
Personal Taxes	\$30
Non-tax payments to Government	\$5

Personal Income for this economy is

Choose one answer.

- ☒ a. \$91 ✓
- ☐ b. \$81 ✗
- ☐ c. \$80 ✗
- ☐ d. \$51 ✗

Correct

Marks for this submission: 1/1.

26

Marks: 1

Bill borrows \$100 from Jack. Jack wants to make a 5% real return on his money, so they both agree on a 5% interest rate paid next year. Both don't anticipate the 3% inflation next year. In this case,

Choose one answer.

- ☐ a. Jack is better off. ✗
- ☐ b. Bill will pay \$8 a year from now on. ✗
- ☒ c. Bill is better off. ✓
- ☐ d. Jack will receive more than 5% of real rate of return a year from now. ✗

Incorrect

Marks for this submission: 0/1.

27

Marks: 1

An increase in autonomous taxes

Choose one answer.

- ☐ a. increases autonomous planned spending by an equal amount. ✗
- ☒ b. decreases autonomous planned spending by an equal amount. ✗
- ☐ c. increases consumption by that amount times the marginal propensity to consume. ✗
- ☐ d. decreases saving by that amount times the marginal propensity to save. ✓

Incorrect

Marks for this submission: 0/1.

28

Marks: 1

GDP	\$110
Income Earned by Citizens Abroad	\$5
Income Foreigners Earn here	\$15
Depreciation	\$4
Indirect Business Taxes	\$6
Business Subsidies	\$2

28

Marks: 1

GDP	\$110
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Depreciation	\$4
Indirect Business Taxes	\$6
Business Subsidies	\$2
Statistical Discrepancy	\$0
Retained Earnings	\$5
Corporate Income Taxes	\$6
Social Insurance Contributions	\$10
Interest Paid to Households by Government	\$5
Transfer Payments to Households from Government	\$15
Personal Taxes	\$30
Non-tax payments to Government	\$5

National income for this economy is

Choose one answer.

- ☐ a. \$96 ✗
- ☒ b. \$92 ✓
- ☐ c. \$90 ✗
- ☐ d. \$88 ✗

Incorrect

Marks for this submission: 0/1.

29

Marks: 1

Assuming that there are NO income taxes, if both autonomous taxes, and government expenditures were to rise by \$100 million, we would expect equilibrium GDP to

Choose one answer.

- ☒ a. rise by \$100 million. ✓
- ☐ b. rise, but by a multiple of \$100 million. ✗
- ☐ c. rise by less than \$100 million. ✗
- ☐ d. remain unaffected because leakages have changed by the same amount. ✗

Correct

Marks for this submission: 1/1.

30

Marks: 1

If $S = -200 + 0.2Y$ and $I = 100$, then the equilibrium level of income is

Choose one answer.

- ☐ a. 3,000. ✗
- ☒ b. 1,500. ✓
- ☐ c. 4,000. ✗
- ☐ d. 1,200. ✗

Correct

Marks for this submission: 1/1.

31

Marks: 1

The APS is always _____ than the MPS.

Choose one answer.

- ☒ a. smaller ✓
- ☐ b. equal ✗
- ☐ c. bigger ✗
- ☐ d. All of the choices are possible ✗

Correct

Marks for this submission: 1/1.

31 The APS is always _____ than the MPS.

Marks: 1

Choose one answer.

- ☒ a. smaller ✓
- ☐ b. equal ✗
- ☐ c. bigger ✗
- ☐ d. All of the choices are possible ✗

Correct

Marks for this submission: 1/1.

32 If government spending is increased by \$400, taxes are reduced by \$400, and the MPS is .5, equilibrium output will change by

Marks: 1

Choose one answer.

- ☐ a. \$400 ✗
- ☐ b. \$800 ✗
- ☒ c. \$1,200 ✓
- ☐ d. -\$400 ✗

Correct

Marks for this submission: 1/1.

33 Assume that the level of autonomous consumption in an economy equals 400, the level of planned investment = 200, $G = 0$, $T = 0$, $NX = 0$, and the marginal propensity to consume is 0.6. Refer to the information above. If the level of production in the economy equals 3000, the amount of saving equals _____ and the level of unintended inventory investment equals _____.

Marks: 1

Choose one answer.

- ☒ a. 800, 600 ✓
- ☐ b. 400, 400 ✗
- ☐ c. 800, 800 ✗
- ☐ d. 800, 2400 ✗
- ☐ e. 1200, 1000 ✗

Incorrect

Marks for this submission: 0/1.

34 Frictional unemployment arises because

Marks: 1

Choose one answer.

- ☐ a. there is no job for those who seek employment. ✗
- ☒ b. there is a job for those who seek employment, but they haven't found it yet. ✓
- ☐ c. those who seek employment are not qualified to perform the jobs they are looking for. ✗
- ☐ d. the economy is in a recession. ✗

Correct

Marks for this submission: 1/1.

35 Assume that the economy is initially at its equilibrium level of GDP. What will happen to the equilibrium level of GDP if planned investment decreases by 20, government spending increases by 30, and taxes increase by 10?

Marks: 1

Choose one answer.

- ☐ a. GDP will decrease by 60 ✗
- ☐ b. GDP will decrease by 10 ✗
- ☐ c. there will be no change in GDP ✗
- ☒ d. GDP will increase by 10 ✓

Correct

Marks for this submission: 1/1.

36

Structural unemployment is the

Marks: 1

Choose one answer.

- ☒ a. portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries. ✓
- ☐ b. unemployment that occurs during recessions and depressions. ✗
- ☐ c. portion of unemployment that is due to the normal working of the labor market. ✗
- ☐ d. unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work. ✗

Correct

Marks for this submission: 1/1.

37

Which of the following does the level of real GDP measure?

Marks: 1

Choose one answer.

- ☒ a. total real income ✓
- ☐ b. productivity ✗
- ☐ c. the standard of living ✗
- ☐ d. All of the answers are correct. ✗

Correct

Marks for this submission: 1/1.

38

The price index in 2001 is 120, and in 2002 the price index is 127.2. What is the inflation rate?

Marks: 1

Choose one answer.

- ☐ a. 5 percent ✗
- ☒ b. 6 percent ✓
- ☐ c. 8 percent ✗
- ☐ d. The inflation rate is impossible to determine without knowing the base year. ✗

Correct

Marks for this submission: 1/1.

39

In calculating GDP, "transfer payments" are

Marks: 1

Choose one answer.

- ☐ a. included because they are re-valuations of existing wealth. ✗
- ☒ b. excluded because no goods or services were produced in exchange for them. ✓
- ☐ c. included because they are payments for labor services. ✗
- ☐ d. excluded because used goods already counted the year they were produced. ✗

Correct

Marks for this submission: 1/1.

40

A man is fired from his job because he was late for work too many times. While he is searching for another job he would be classified as

Marks: 1

Choose one answer.

- ☐ a. not in the labor force because his employer had a legitimate reason for firing him. ✗
- ☐ b. structurally unemployed. ✗
- ☐ c. cyclically unemployed. ✗
- ☒ d. frictionally unemployed. ✓

Correct

Marks for this submission: 1/1.

41

If the GDP deflator is greater than 100, then

Marks: 1

Choose one

- ☒ a. nominal GDP is greater than real GDP. ✓

Correct

Marks for this submission: 1/1.

41

If the GDP deflator is greater than 100, then

Marks: 1

Choose one answer.

- ☒ a. nominal GDP is greater than real GDP. ✓
- ☐ b. nominal GDP is lower than real GDP. ✗
- ☐ c. nominal GDP equals real GDP. ✗
- ☐ d. prices decreased by more than double between the current and the base years. ✗

Correct

Marks for this submission: 1/1.

42

An American company owns a fast food restaurant in Romania. The value of goods and services it produces is included

Marks: 1

Choose one answer.

- ☐ a. in both Romanian and U.S. GDP. ✗
- ☐ b. partly in Romanian GDP and partly in U.S. GDP. ✗
- ☒ c. in Romanian GDP, but not U.S. GDP. ✓
- ☐ d. in U.S. GDP, but not Romanian GDP. ✗

Correct

Marks for this submission: 1/1.

43

Which of the following would increase productivity?

Marks: 1

Choose one answer.

- ☐ a. an increase in the physical capital stock per worker ✗
- ☒ b. an increase in human capital per worker ✗
- ☐ c. an increase in natural resources per worker ✗
- ☐ d. All of the answers are correct. ✓

Incorrect

Marks for this submission: 0/1.

44

A 45 degree line on a graph with expenditures, E, on the vertical axis and production, Y, on the horizontal axis, represents

Marks: 1

Choose one answer.

- ☐ a. the line of disequilibrium levels of income. ✗
- ☒ b. all possible equilibrium levels of production and expenditures. ✓
- ☐ c. some of the equilibrium levels of production and expenditures. ✗
- ☐ d. None of the choices. ✗

Correct

Marks for this submission: 1/1.

45

Using the saving/investment approach to equilibrium, the equilibrium condition can be written as

Marks: 1

Choose one answer.

- ☒ a. $I + (X - M) = S + (T - G)$ ✓
- ☐ b. $I - (X - M) = S + (T - G)$ ✗
- ☐ c. $I + (X - M) = S - (T - G)$ ✗
- ☐ d. $S = I + (G - T) - (X - M)$ ✗

Correct

Marks for this submission: 1/1.