Chapter 5 Introduction to Macroeconomics
Principles of Macroeconomics, Case/Fair, 8e

5.1 The Roots of Macroeconomics
Multiple Choice

Which of the following is NOT a topic studied in Macroeconomics?
A . Gross Domestic Product
B . The unemployment rate
C . The price of IBM computers
D . The inflation rate
Answer : C

Which of the following is a topic studied in Macroeconomics?
A . Gross Domestic Product
B . The wage of auto workers
C . The price of IBM computers
D . The amount of pizza produced
Answer : A

Which of the following is a topic studied in Macroeconomics?
A . Output growth
B . Unemployment
C . Inflation
D . All of the above
Answer : D

Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are
A . administered prices.
B . sticky prices.
C . regulatory prices.
D . market prices.
Answer : B

The demand for oil has increased in January without any change in supply. Six months later there still has been no change in oil prices. This is an example of a

A . price floor.
B . price control.
C . sticky price.
D . macroeconomic price.

Answer : C

The demand for nurses declined in the summer of 1993, but the starting wages paid to nurses was still the same at the end of 1993. This is an example of a

A . sticky price.
B . flexible price.
C . highly regulated market.
D . price control.

Answer : A

Which of the following is an assumption used by Classical economists?

A . Wages adjust downward but not upward.
B . Wages adjust upward but not downward.
C . Wages are inflexible.
D . Wages adjust both upward and downward.

Answer : D

According to the Classical model, unemployment

A . could not persist because wages would rise to eliminate the excess supply of labor.
B . could not persist because wages would fall to eliminate the excess supply of labor.
C . could be eliminated through fiscal and monetary policies.
D . could be eliminated only through government intervention.

Answer : B

According to Classical economists, if the quantity of labor demanded exceeds the quantity supplied, there is a

A . surplus of labor and wages will rise.
B . shortage of labor and wages will fall.
C . shortage of labor and wages will rise.
D . surplus of labor and wages will fall.

Answer : C

According to the Classical economists, the economy

A . requires fine-tuning to reach full employment.
B . has sticky prices in many industries.
C . is self-correcting.
D . will never be at full employment.

Answer : C

Macroeconomic policies became more influenced by Keynes' theories starting with,

A . the period of high unemployment and high inflation in the 1970s.
B . the Great Depression.
C . the period of high inflation in the early 1980s.
D . the OPEC recession.

Answer : B

According to Classical models, the level of employment is determined primarily by

A . the level of aggregate demand for goods and services.
B . prices and wages.
C . government taxation.
D . government spending.

Answer : B

According to Keynes, the level of employment is determined by

A . flexible wages and prices.
B . interest rates.
C . price and wages.
D . the level of aggregate demand for goods and services.

Answer : D

Suppose the government reduced corporate profit taxes to encourage investment. This policy is in line with

A . Keynesian economics.
B . Classical economics.
C . the macrofoundations of microeconomics.
D . supply-side or growth economics.

Answer : D

The concept of "market clearing" is adopted and defended by
A . Keynesian economists.
B . Classical economists.
C . fine-tuning economists.
D . demand-side economists.
Answer : B

An increase in the overall price level is known as
A . deflation.
B . recession.
C . inflation.
D . stagflation.
Answer : C

Suppose the economy suffers a high rate of unemployment. According to Keynesian economists, the government should increase employment by
A . decreasing money supply.
B . balancing the budget.
C . not doing anything.
D . increasing government spending.
Answer : D

Which of the following would be an example of fine tuning?
A . Firms increase wages to attract high-quality workers.
B . Firms increase employment benefits to increase workers' productivity.
C . The federal government enacts legislation to increase spending to try to stimulate the economy.
D . The federal government passes legislation that would require that the government's budget always be balanced.
Answer : C

Rapid increases in the price level during periods of recession or high unemployment are known as
A . stagflation.
B . stagnation.
C . depression.
D . inflation.
Answer : A

Stagflation occurs when the economy's inflation rate is high and
A . employment is high.
B . the unemployment rate is high.
C . the unemployment rate is low.
D . the rate of change in economic activities is positive.
Answer : B

Aggregate behavior is
A . the behavior of each household and firm.
B . the behavior of each individual.
C . the behavior of all households and firms together.
D . none of the above.
Answer : C

True/False

1) According to the Classical model, an excess supply of labor would drive up wages to a new equilibrium level and therefore unemployment would not persist.
Answer: True ✓ False
Diff: 2
Skill: A

2) According to Keynes, aggregate supply determines the level of economic activities in the economy.
Answer: True ✓ False
Diff: 1
Skill: F

3) According to Keynes, the government's role during periods when private demand is low is to stimulate aggregate demand and, by so doing, lift the economy out of recession.
Answer: ✓ True False
Diff: 1
Skill: A

4) In the Classical model, the level of employment is determined by the level of aggregate demand.
Answer: True ✓ False
Diff: 1
Skill: F

5) "Fine tuning" is any government attempt to regulate inflation or unemployment.
Answer: ✓ True False
Diff: 1
Skill: D

6) Classical economists believed that economic slowdowns are self-correcting.

Answer: True False

Diff: 1

Skill: F

5.2 Macroeconomic Concerns
Multiple Choice

Inflation is a(n)

A . decrease in the overall price level.
B . decrease in the overall level of economic activity.
C . increase in the overall price level.
D . increase in the overall level of economic activity.

Answer : C

A deflation is when

A . the average price level declines.
B . economic activity declines.
C . the economic growth rate declines.
D . the unemployment rate declines.

Answer : A

A period of very rapid increase in the overall price level is known as

A . stagnation.
B . hyperinflation.
C . stagflation.
D . depression.

Answer : B

The trend of the economy is

A . the long run growth path of the economy.
B . the long run inflation rate.
C . the long run unemployment rate.
D . All of the above

Answer : A

The term *business cycle* refers to the
A . short-term ups and downs in the price level.
B . long-term trends in the price level.
C . short-term ups and downs in the level of economic activity.
D . long-term trends in the level of economic activity.
Answer : C

A period during which aggregate output rises is known as a(n)
A . recession.
B . inflation.
C . hyperinflation.
D . expansion.
Answer : D

A period when the economy shrinks is known as
A . a recession.
B . a contraction.
C . a slump.
D . all of the above.
Answer : D

In a business cycle, a peak represents the end of ________ and a trough represents the end of ________.
A . an expansion; a recession
B . a depression; an expansion
C . a trough; a peak
D . a recession; an expansion
Answer : A

In a business cycle, a peak represents the end of
A . an expansion.
B . a depression.
C . trough.
D . a recession
Answer : A

In a business cycle, a trough represents the end of
A . an expansion.
B . an inflation.
C . a peak
D . a recession.
Answer : D

It has become conventional to classify an economic downturn as a recession when aggregate output declines for
A . three consecutive quarters.
B . two consecutive quarters.
C . a year.
D . six consecutive quarters.
Answer : B

If the labor force is 100 and employment is 95, then the unemployment rate is
A . 100%.
B . 95%.
C . 5%.
D . 0%.
Answer : C

A prolonged and deep recession is called
A . a business cycle.
B . a depression.
C . a stagflation.
D . hyperinflation.
Answer : B

Between a trough and a peak, the economy goes through a(n)
A . recession.
B . bust.
C . expansion.
D . hyperinflation.
Answer : C

Between a peak and a trough, the economy goes through a(n)
A . expansion.
B . inflation.
C . recession.
D . boom.
Answer : C

Unemployment means that
A . at the going wage rate, there are people who want to work but cannot find work.
B . people are not willing to work at the going wage rate.
C . there are some people who will not work at the going wage rate.
D . there is excess demand in the labor market.
Answer : A

Unemployment implies that in the labor market
A . there is an excess supply of labor.
B . there is an excess demand for labor.
C . there are too few workers for the jobs available.
D . quantity demanded of labor exceeds quantity supplied.
Answer : A

The unemployment rate equals
A . labor force/population.
B . unemployed/employed.
C . (employed - unemployed)/labor force.
D . (labor force - employed)/labor force.
Answer : D

The unemployment rate equals
A . labor force/population.
B . unemployed/employed.
C . (employed - unemployed)/labor force.
D . unemployed/labor force.
Answer : D

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If the labor force is 100 million and 90 million are employed then
the unemployment rate is:
  A . 5%.
  B . 9%.
  C . 10%.
  D . 90%.
Answer : C

If 10 million workers are unemployed and 90 million workers are
employed, then the unemployment rate is
  A . 10%.
  B . 11%.
  C . 89%.
  D . 90%.
Answer : A
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True/False

1) Fiscal policy generally takes the form of regulations specifying the maximum amount by which the money supply can be changed.

Answer: True ✓ False

Diff: 1

Skill: C

2) Macroeconomics is concerned with inflation or deflation, output growth and unemployment.

Answer: ✓ True False

Diff: 1

Skill: D

3) Macroeconomics is concerned with the market price and equilibrium quantity of each good or service.

Answer: True ✓ False

Diff: 1

Skill: D

4) The unemployment rate is the number of people unemployed divided by number of people in the labor force.

Answer: ✓ True False

Diff: 1

Skill: D

5) Hyperinflation is when there is a decline in the price level.

Answer: True ✓ False

Diff: 1

Skill: D

5.3 Government in the Macroeconomy
Multiple Choice

If the central bank decreases the money supply, it is conducting
A . monetary policy.
B . supply-side policy.
C . fiscal policy.
D . incomes policy.
Answer : A

If Congress increases government spending, it is using
A . monetary policy.
B . supply-side policy.
C . fiscal policy.
D . incomes policy.
Answer : C

Government policies regarding taxes and expenditures are called
A . fiscal policy.
B . income policies.
C . supply-side policy.
D . monetary policy.
Answer : A

If Congress decreases taxes on business, it is using
A . fiscal policy.
B . supply-side policy.
C . monetary policy.
D . incomes policy.
Answer : B

The government implements fiscal policy when it changes
A . spending and/or interest rate.
B . money supply and/or taxes.
C . taxes and/or spending.
D . taxes and/or interest rate.
Answer : C

The government wants to encourage consumer spending through cutting income taxes. This is an example of

A . an incomes policy.
B . a fiscal policy.
C . a supply-side policy.
D . a monetary policy.

Answer : B

To get the economy out of a slump, Keynes believed that the government should

A . cut both taxes and government spending.
B . increase both taxes and government spending.
C . increase taxes and/or decrease government spending.
D . decrease taxes and/or increase government spending.

Answer : D

To bring the economy out of an inflationary period, Keynes argued that the government should

A . cut both taxes and government spending.
B . increase both taxes and government spending.
C . increase taxes and/or decrease government spending.
D . decrease taxes and/or increase government spending.

Answer : C

The ________ can change the quantity of money in the economy.

A . Treasury Department
B . Federal Reserve
C . Congress
D . Banking Commission

Answer : B

The Federal Reserve affecting the supply of money is known as

A . fiscal policy.
B . monetary policy.
C . growth policy.
D . supply side policy.

Answer : B

Policies designed to affect the quantity of money are
A . fiscal policies.
B . supply side or growth policies.
C . government spending policies.
D . monetary policies.
Answer : D

Government policies that focus on increasing production rather than stimulating aggregate demand are known as
A . incomes policies.
B . fiscal policies.
C . monetary policies.
D . supply-side policies.
Answer : D

The economic policy that is designed to increase the productivity of workers is known as
A . fiscal policy.
B . demand-management policy.
C . supply-side policy.
D . monetary policy.
Answer : C

When President Reagan proposed tax rates cuts to promote investment and increase productivity, he was proposing a change in
A . monetary policy.
B . fiscal policy.
C . supply-side policy.
D . demand-management policy.
Answer : C

A cut in the tax rate designed to encourage investment is an example of
A . a supply-side policy.
B . an inflationary policy.
C . an income policy.
D . a monetary policy.
Answer : A

If government regulations imposed on businesses that reduce productivity are eliminated, the government is attempting to use

A . monetary policy.
B . fiscal policy.
C . supply-side policy.
D . incomes policy.

Answer : C

A surplus in the federal budget exists when

A . the total amount of money owed by the federal government is zero.
B . the difference between the level of federal tax revenues and federal expenditures in a year is positive.
C . the ratio of federal tax revenues to federal expenditures in a year equals to one.
D . the total amount of money owed by all levels of government exceeds total federal tax revenues.

Answer : B

A deficit in the federal budget exists when

A . the total amount of money owed by the federal government is zero.
B . the difference between the level of federal tax revenues and federal expenditures in a year is negative.
C . the total amount of money the government owed by the federal government shrinks.
D . the difference between the level of federal tax revenues and federal expenditures in a year is positive.

Answer : B

Proponents of supply-side policies argue that the best way to increase the supply of goods and services is

A . for the government to directly control prices and wages.
B . to increase the supply of money in the economy.
C . to increase government production so that public-sector employment increases.
D . to stimulate the supply of labor and capital and increase investment.

Answer : D

True/False

1) Macroeconomic behavior is the sum of all the microeconomic decisions made by individual households and firms.

Answer: ✔ True False

Diff: 1

Skill: C

2) Contractionary fiscal policy includes reducing taxes.

Answer: True ✔ False

Diff: 1

Skill: D

3) Keynes believed that expansionary fiscal policy could help get an economy out of recession.

Answer: ✔ True False

Diff: 1

Skill: D

4) Monetary policy includes changing the level of government spending.

Answer: True ✔ False

Diff: 2

Skill: C

5) Supply-side policies are those intended to increase economic growth.

Answer: ✔ True False

Diff: 1

Skill: D

5.4 The Components of the Macroeconomy
Multiple Choice

The diagram that shows the income received and payments made by each sector of the economy is the

A . aggregate demand-aggregate supply diagram.
B . circular flow diagram.
C . income flow diagram.
D . income-production diagram.

Answer : B

In the circular flow diagram, the different payments made by firms to households are

A . wages and profits.
B . interest and dividend payments.
C . profits and rent.
D . All of the above

Answer : D

An example of a transfer payment is

A . an interest payment on a General Motors' bond.
B . the added value of stock from the time it was bought to the time it was sold.
C . a Social Security retirement benefit.
D . the salary paid to a member of the armed forces.

Answer : C

A transfer payment is

A . a bonus to get a worker to accept a transfer.
B . a cash payment made by the government to people who do not supply goods, services or labor in exchange for the payment.
C . a cash payment for transferring a good from one person to another.
D . an in kind payment for working "off the books."

Answer : B

A household that spends less than it receives in income during a given period is

A . saving.
B . dissaving.
C . running a deficit.
D . receiving transfer payments.

Answer : A

The major lesson of the circular flow diagram is that

A . saving must always be less than investment.
B . taxes must always be greater than government expenditures.
C . total income in the economy must always equal total spending.
D . All of the above

Answer : C

In which of the following markets are funds demanded and supplied?

A . The labor market
B . The goods and services market
C . The money market
D . All of the above

Answer : C

In the goods-and-services market, households

A . only supply.
B . only demand.
C . both supply to and demand.
D . neither supply to nor demand.

Answer : B

The demanders in the goods-and-services market are
A . households and business firms.
B . households, the government, and the rest of the world.
C . the government and business firms.
D . households, the government, business firms, and the rest of the world.
Answer : D

In the circular flow diagram, firms ________ labor and households ________ goods and services.
A . demand; supply.
B . demand; demand.
C . supply; demand.
D . supply; supply.
Answer : B

In the circular flow diagram, households demand ________ and supply ________.
A . labor; labor.
B . goods; services.
C . goods and services; labor.
D . labor; goods and services.
Answer : C

Promissory notes issued by the federal government when it borrows money are known as
A) Treasury shares.
B) Treasury stocks.
C) Treasury bonds.
D) None of the above
Answer: C
Diff: 2
Skill: D

A promissory note issued by a corporation when it borrows money is a
A . share.
B . corporate bond.
C . corporate dividend.
D . stock.
Answer : B

Which of the following assets earns a fixed payment every year?
A . Stocks and shares.
B . Saving accounts.
C . Bond mutual funds.
D . Corporate bonds.
Answer : D

Dividends are
A . Government profits distributed among bondholders.
B . Corporate profits distributed among shareholders.
C . Capital gains realized by stockholders.
D . Promissory notes issued by corporations.
Answer : B

Which of the following is a CORRECT statement?
A . Companies issue shares but don't issue bonds.
B . The government issues both bonds and shares.
C . Bondholders earn dividends but shareholders don't.
D . Shareholders earn dividends but bondholders don't.
Answer : D

A capital gain is
A . a financial instrument that gives the holder a share in the ownership of a firm and therefore the right to share in the profits of the firm.
B . the portion of a corporation's profits that the firm pays out each period to its shareholders.
C . an increase in the value of an asset over the price initially paid for it.
D . the difference between an individual's economic income andmoney income.
Answer : C

An increase in the value of an asset over the price initially paid for it is a
A . dividend.
B . share of stock.
C . promissory note.
D . capital gain.
Answer : D

If Aaron purchases a share of stock for $100 and two years later sells it for $110, he will realize a

A . dividend of $10.
B . capital gain of $10.
C . dividend of $190.
D . a capital loss of $10

Answer : B

If Aaron purchases a share of stock for $50 and two years later sells it for $125, he will realize a

A . dividend of $100.
B . capital gain of $75.
C . dividend of $25.
D . capital gain of $50.

Answer : B

Bill purchased 100 autographed Alex Rodriguez baseball cards when he was 15 years old for a total cost of $200 and then sold those football cards 10 years later for $1000. Due to these transactions:

A . Bill earned a capital gain of $800.
B . Bill earned a capital gain of $1,000.
C . Bill earned a dividend of $800.
D . Bill earned a dividend of $1,000.

Answer : A

John purchased a 1965 Ford Mustang in 2004 for $20,000 and a year later he sold it for $23,000. Due to these transactions

A . John earned a capital loss of $3,000.
B . John earned a dividend of $3,000.
C . John earned a dividend of $300.
D . John earned a capital gain of $3,000.

Answer : D

You purchase 100 shares of stock for $40,000. A year later the stock is valued at $42,000. Instead of selling the stock, you hold onto it for another year. Which of the following is TRUE?

A . The $2,000 increase in the value of the stock represents an unrealized capital gain.
B . The $2,000 increase in the value of the stock represents a dividend.
C . To determine the capital gain, it is first necessary to know the normal rate of return on capital.
D . None of the above

Answer : A

A dividend is

A . a promissory note issued by corporations when they borrow money.
B . an increase in the value of an asset over the purchase price initially paid for it.
C . the difference between the interest rate a bank pays on deposits and the interest rate it charges for loans.
D . the portion of a corporation's profits that the firm pays out each period to its shareholders.

Answer : D

The portion of a corporation's profits that a firm pays out each period to its shareholders is a

A . dividend.
B . promissory note.
C . capital gain.
D . corporate bond.

Answer : A

True/False

1) A bond is a promise to repay.

Answer: ✓ True False

Diff: 1

Skill: D

2) In the circular flow diagram everyone's expenditure is someone else's receipt.

Answer: ✓ True False

Diff: 1

Skill: C

3) A dividend is a government payment to a person or firm.

Answer: True ✓ False

Diff: 1

Skill: C

4) A transfer payment is the tax one pays when transferring real estate.
Answer: True ✓ False
Diff: 1
Skill: D

5) A capital gain is the increase in value of an asset above its initial cost.
Answer: ✓ True False
Diff: 1
Skill: D

5.5 The Methodology of Macroeconomics
Multiple Choice

The total demand for goods and services in an economy is known as
A . gross national product.
B . aggregate demand.
C . total demand.
D . gross domestic product.
Answer : B

The total supply of goods and services in an economy is known as
A . supply side economics
B . aggregate supply.
C . total demand.
D . aggregate demand.
Answer : B

Refer to the information provided in Figure 5.1 below to answer the questions that follow. Note P stands for the overall price level and Y stands for aggregate output:

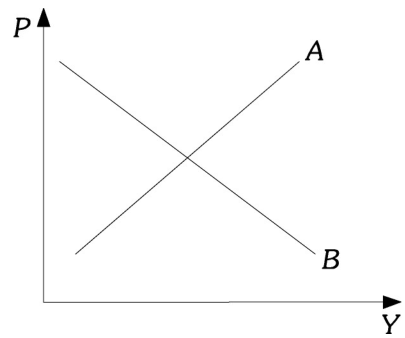

Figure 5.1

Refer to Figure 5.1. The line labeled *B* is
A . aggregate demand.
B . the overall price level.
C . aggregate output.
D . aggregate supply.
Answer : A

Refer to Figure 5.1. The line labeled *A* is
A . aggregate demand.
B . the overall price level.
C . aggregate output.
D . aggregate supply.
Answer : D

Aggregate demand in the economy is the total demand by
A . consumers only.
B . firms only.
C . the government and firms only.
D . consumers, firms, the government, and the rest of the world.
Answer : D

The aggregate demand curve shows the total quantity demanded by all sectors in the economy at different
A . interest rates.
B . general price levels.
C . exchange rates.
D . wage rates.
Answer : B

The aggregate demand curve
A . slopes downward to the right.
B . is horizontal.
C . is vertical.
D . slopes upward to the right.
Answer : A

The aggregate supply curve
A . slopes downward to the right.
B . is horizontal.
C . is vertical.
D . slopes upward to the right.
Answer : D

Which of the following statements is FALSE?
A . The aggregate supply curve is based on the assumption of fixed prices.
B . When analyzing the behavior of aggregate demand, the availability of substitutes is irrelevant.
C . The downward slope of the aggregate demand curve is related to what goes on in the money (financial) market.
D . The aggregate demand curve slopes downward and to the right.
Answer : A

Macroeconomics is concerned with
A . only long-run trends in economic activity.
B . only short-run fluctuations in the business cycle.
C . both long-run trends and short-term fluctuations in economic activity.
D . only with changes in the overall price level.
Answer : C

The period in the business cycle from a trough to peak is called a(n)
A . recession.
B . expansion.
C . slump.
D . depression.
Answer : B

If output is rising and unemployment is falling, the economy MUST be in a(n)
A . contraction.
B . expansion.
C . depression.
D . hyperinflationary period.
Answer : B

The period in the business cycle from a peak to a trough is a(n)
A . recession.
B . boom.
C . expansion.
D . inflation.
Answer : A

True/False

1) The aggregate supply has a downward slope to the left while the aggregate demand curve slops downward to the right.
Answer: True ✓ False
Diff: 1
Skill: D

2) Like the firm's supply curve, the aggregate supply curve assumes input prices do not change with output.
Answer: True ✓ False
Diff: 2
Skill: C

3) The aggregate supply curve shows the relationship between the overall price level and the amount of aggregate output supplied.
Answer: ✓ True False
Diff: 2
Skill: C

4) The aggregate demand curve is negatively sloped for the same reasons a market demand curve is negatively sloped.
Answer: True ✓ False
Diff: 2
Skill: C

5) The aggregate demand curve shows the relationship between the overall price level and the amount of aggregate out put demanded.
Answer: ✓ True False
Diff: 2
Skill: C

5.6 The U.S. Economy Since 1900: Trends and Cycles
Multiple Choice

Refer to the information provided in Figure 5.2 below to answer the questions that follow.

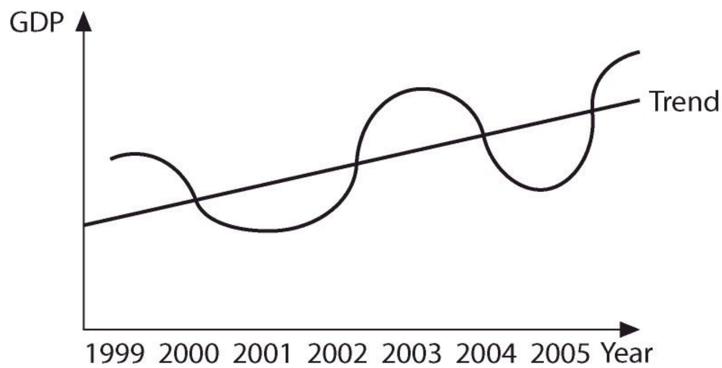

Figure 5.2

Refer to Figure 5.2. This hypothetical economy reached a peak in
A . 2000 and 2002.
B . 1999 and 2003.
C . 2001 and 2005.
D . 2002 and 2003.
Answer : B

Refer to Figure 5.2. The years 2001 through 2003 are, most likely, associated with
A . high unemployment rates.
B . high inflation rates.
C . a recession.
D . declines in aggregate demand.
Answer : B

Refer to Figure 5.2. In this economy, the unemployment rate most probably
A . increased after 1999 until 2001 and then it declined.
B . increased after 2001 until 2003 and then it declined.
C . decreased after 2003 until 2005 and then it increased.
D . decreased after 1999 until 2002 and then it increased.
Answer : A

Refer to Figure 5.2. The years 2003 through 2004 are, most likely, associated with
A . high unemployment rates.
B . high inflation rates.
C . a recession.
D . declines in aggregate demand.
Answer : A

Refer to Figure 5.2. The years 1999 through 2001 are years associated with
A . a slump.
B . an economic contraction.
C . a recession.
D . all of the above.
Answer : D

Whether an economy is expanding or contracting is judged by measuring

A . the unemployment rate.
B . the rate of change in economic activity.
C . the rate of change in the overall price level.
D . the rate of change in economic activity relative to the overall price level.

Answer : B

If the economy is in the expansionary phase of the business cycle, then

A . the rate of change in economic activity is negative.
B . there is no change in the level of economic activity.
C . the level of economic activity is negative.
D . the rate of change in economic activity is positive.

Answer : D

To measure where the economy is in the business cycle, it is necessary to know

A . the unemployment rate.
B . the rate of change in economic activity.
C . only the level of economic activity.
D . the rate of change in the price level.

Answer : B

Which of the following statements is FALSE?

A . The rate of change in economic activity is used to assess whether an economy is expanding or contracting.

B . Short-term ups and downs in the economy are known as business cycles.

C . During a recession, output and employment are falling.

D . Business cycles are always symmetric□the length of an expansion is the same as the length of a contraction.

Answer : D

Suppose it took an economy 13 months to go from a trough to a peak and 10 months to go from that peak to another trough. The length of that business cycle was

A . 13 months.

B . 10 months.

C . 23 months.

D . 3 months.

Answer : C

Refer to the information provided in Table 5.1 below to answer the questions that follow.

Table 5.1

	2003				2004				2005			
Quarter	I	II	III	IV	I	II	III	IV	I	II	III	IV
Output	96	98	100	93	90	88	87	86	90	95	100	103

Refer to Table 5.1. In this economy, a trough existed around the

A . fourth quarter of the year 2004

B . fourth quarter of the year 2003.

C . second quarter of the year 2004.

D . third quarter of the year 2005.

Answer : A

Refer to Table 5.1. In this economy, a peak existed around the

A . third quarter of the year 2005.

B . third quarter of the year 2003.

C . fourth quarter of the year 2004.

D . fourth quarter of the year 2003.

Answer : B

Refer to Table 5.1. The period from after the third quarter of 2003 until before the first quarter of 2005 can be categorized as a period of

A . high inflation.
B . low unemployment.
C . high production.
D . high unemployment.

Answer : D

Refer to Table 5.1. Which of the following quarters can be associated with inflation?

A . The second quarter of the year 2003.
B . The second quarter of the year 2005.
C . The third quarter of the year 2005.
D . All of the above

Answer : D

Unemployment generally ________ during recessions and ________ during expansions.

A . falls; rises.
B . falls; falls.
C . rises; falls.
D . rises; rises.

Answer : C

Macroeconomics is concerned with:

A . price level stability.
B . economic growth.
C . unemployment.
D . All of the above

Answer : D

In which basic market would DVDs be traded?

A . The goods and services market.
B . The money market.
C . The labor market.
D . All of the above

Answer : A

```
The GDP deflator is
   A . a measurement of the rate of change in an economy's output.
   B . an economy wide output index.
   C . a measurement of the total amount of output produced in an
     economy in a year.
   D . an economy wide price index.
Answer : D
```

True/False

1) All business cycles are symmetric□the length of an expansion is the same as the length of a recession.

Answer: True ✓ False

Diff: 1

Skill: C

2) The following is a correct order in a business cycle: recession, trough, peak, expansion.

Answer: True ✓ False

Diff: 1

Skill: F

3) A recession is usually associated with high unemployment.

Answer: ✓ True False

Diff: 1

Skill: F

4) An expansion is usually associated with rising inflation.

Answer: ✓ True False

Diff: 1

Skill: F

5) A recession is associated with a negative rate of growth of the economy.

Answer: ✓ True False

Diff: 1

Skill: F