

Name__

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Refer to Scenario 2 below to answer the questions that follow.

SCENARIO 2: The components of personal income in 1999 in billions of dollars are:

Personal taxes	\$1,152
Disposable personal income	\$6,639
Personal consumption expenditures	\$6,255
Interest paid by consumers to business	\$202
Personal transfer payments to foreigners	\$24

- 1) Refer to Scenario 2. Personal income in 1999 was
- Personal taxes + disposable personal income
 $= 1152 + 6639 = 7791$
- A) \$6,639. B) \$6,413. C) \$7,791. D) \$6,865. E) \$6,255.

1) AC

- 2) The national income and product accounts are produced by

- A) the Treasury Department.
B) the Bureau of Labor Statistics.
C) the Federal Reserve.
D) the Council of Economic Advisors.
E) the Bureau of Economic Analysis.

2) BE

- 3) Which of the following represents capital?

- A) Roads
B) Buildings
C) Knowledge and skills of workers
D) Equipment
E) All of the above

3) E

- 4) In financial markets,

- A) the government pays dividends to stockholders. ✗
B) firms issue Treasury bonds, notes, and bills. ✗
C) financial institutions take deposits from one group and lend them to another group ✓
D) corporate bonds give to the holder a share in the firm's ownership and the right to share in the firm's profits. ✗
E) the government issues shares of stock in the form of promissory notes. ✗

4) DC

5) Which of the following represents a type of fiscal policy?

- A) An increase in the minimum wage
- B) An increase in the discount rate
- C) Wage and price controls
- D) An increase in government spending
- E) An increase in the money supply

5) D

6) Stagflation occurs when the overall price level _____ rapidly during periods of _____.

- A) falls; recession
- B) rises; recession (*rises in periods of unemployment*)
- C) falls; no economic growth
- D) falls; strong economic growth
- E) rises; strong economic growth

6) B

Refer to Scenario 3 below to answer the questions that follow.

SCENARIO 3: Assume $C = 150 + .9Y$ and $I = 50$.

7) Refer to Scenario 3. If I increases by 25 from 50 to 75, then the increase in the equilibrium Y will be

- A) 250.
- B) 375.
- C) 125.
- D) 500.
- E) 200.

7) ~~E~~ A

8) Which choice below is FALSE?

- A) The economy is in equilibrium at the point at which the aggregate demand and supply curves intersect.
- B) When we graph aggregate demand and supply curves, we put the overall price level on the vertical axis and aggregate output on the horizontal axis.
- C) Aggregate supply is the total supply of all goods and services.
- D) When we graph aggregate demand and supply curves, we put the unemployment rate on the horizontal axis.
- E) Aggregate demand is the total demand for all goods and services.

8) D

$$Y = C + I$$

$$Y = C + S \quad C + \cancel{S} = \cancel{S} + I$$

$$C = C + I \quad C = I$$

$$150 + .9Y = 50$$

$$.9Y = -100$$

$$Y = \frac{-100}{.9}$$

Refer to Scenario 2 below to answer the questions that follow.

SCENARIO 2: Figure 5.1 shows linear AD and AS curves

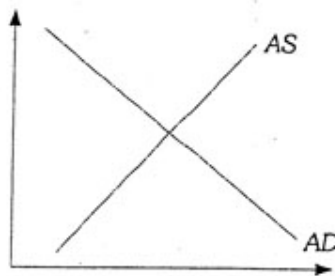
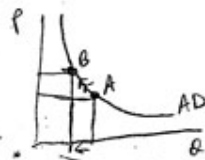


Figure 5.1

9) The AD curve slopes downward

- A) for a variety of complex reasons
- B) because of the law of supply in microeconomics.
- C) for simpler reasons than the law of demand in microeconomics.
- D) because of the law of demand in microeconomics.
- E) because of the law of demand in macroeconomics.



$\uparrow P \rightarrow \downarrow \left(\frac{M_s}{P}\right) = \text{real money supply}$

$\rightarrow \downarrow C, \downarrow I$

$\rightarrow \downarrow AD$

9) ~~D~~ A

10) Which of the following would not be included in GDP?

- A) The purchase of a used car x
- B) The sale of bonds x
- C) The sale of stocks x
- D) The sale of Firestone tires to Ford Motor company
- E) All of the above

10) E

11) Taxes and government expenditure decisions are called _____.

- A) supply-side policies
- B) fiscal policy
- C) monetary policy
- D) economic growth policies
- E) foreign trade policies

11) B

12) In comparing the recession of 1980-1982 with the early part of the Great Depression, 1929-1933, the

- A) recession of 1980-1982 came very close to the severity of the Great Depression.
- B) unemployment rate in 1980-1982 was actually higher than the unemployment rate during the Great Depression.
- C) cumulative percentage change in real GDP in 1980-1982 was more negative than the comparable cumulative percentage change in real GDP in 1929-1933.
- D) number of unemployed workers was greater in 1933 than in 1982.
- E) capacity utilization rate rose in the Great Depression but actually rose a greater amount in the recession of 1980-1982.

12) ~~A~~

13) Suppose in a three-good economy we have production for two years, year 1 and year 2, and prices for the three goods for the same two years. Then,

13) D

- A) nominal GDP in year 2 is the sum of the products of price times quantity for year 1. \times
- B) real GDP in year 1 in year 2 prices is the sum of the products of year 1 prices times year 2 output. $\left. \begin{array}{l} \text{Real GDP yr 1} \\ \text{weight: yr 2} \end{array} \right\} \sum P_1 Q_2 \checkmark$
- C) real GDP in year 2 in year 1 prices is the sum of the products of year 2 prices times year 1 output. $\left. \begin{array}{l} \text{Real GDP yr 2} \\ \text{Price: yr 1} \end{array} \right\} \sum P_2 Q_1 \times$
- D) nominal GDP in year 2 is the sum of the products of year 2 prices times year 2 output. \checkmark
- E) nominal GDP in year 1 is the sum of the products of price times quantity for year 2. \times

Refer to Scenario 2 below to answer the questions that follow.

SCENARIO 2: You are given the following data on the employed, unemployed, and the labor force for 1999:

Population 16 years old or over (millions)	207.8
Labor force (millions)	139.4
Employed (millions)	133.5
Unemployed (millions)	5.9

14) Refer to Scenario 2. The number of discouraged workers in millions in 1999 equals

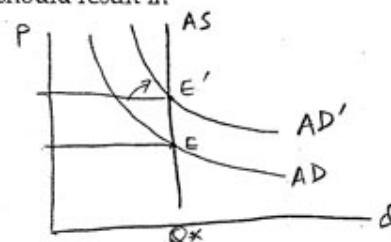
14) D

- A) 201.9.
- B) 5.9.
- C) 68.4.
- D) 74.3.
- E) More information is needed to answer this question.

15) According to classical models, an increase in aggregate demand should result in

15) C

- A) no sustained change in the level of employment.
- B) no prolonged reduction in the unemployment rate.
- C) an increase in the price level.
- D) an increase in the nominal wage.
- E) All of the above



16) _____ generally _____ during recessions and _____ during expansions for the U.S. economy since 1970.

16) E

- A) Unemployment; falls; rises \times
- B) The rate of inflation; falls; falls \times
- C) The rate of inflation; rises; rises \times
- D) National output; rises; falls \times
- E) Employment; falls; rises \checkmark

$$r_1 < r_2$$

- 17) Suppose nominal GDP in 1990 was less than real GDP in 1990. Given this information, we know with certainty that 17) C
- A) the price level in 1990 was greater than the price level in the base year.
 - B) 1990 was the base year.
 - C) the price level in 1990 was less than the price level in the base year. ✓
 - D) real GDP in 1990 was greater than real GDP in the base year.
 - E) real GDP in 1990 was less than real GDP in the base year.
- 18) Which of the following represents a type of growth policy? 18) C
- A) Wage and price controls
 - B) An increase in government spending
 - C) A change in the income tax system
 - D) An increase in the minimum wage
 - E) An increase in the money supply
- 19) GDP is 19) D
- A) made up of three components: consumption, investment, and government consumption and investment.
 - B) data collected and published by the government describing the various components of national income and the economy.
 - C) the total market value of all final goods and services produced within a given period by factors of production owned by a country's citizens, regardless of where the output is produced.
 - D) the total market value of all final goods and services produced within a given period of time by factors of production located within a country.
 - E) the value of output produced by factors of production located within and outside of a country.
- 20) The duration of unemployment (as determined by the BLS) would likely be the longest for those who are 20) B ~~A~~
- A) structurally unemployed. *(ex/ because unemployed have to learn to adapt to new technology, because of expansion in economy)*
 - B) frictionally unemployed.
 - C) cyclically unemployed.
 - D) retired.
 - E) None of the above

Refer to Scenario 1 below to answer the questions that follow.

SCENARIO 1: The average growth rate of output in the U.S. economy since 1900 has been about 3.4% per year. Some years are better than others, but on average the rate is 3.4% per year. What determines this rate is a key question in the area of economics called "growth theory."

21) Refer to Scenario 1. Which of the following statements is correct?

21) B

- A) Other things equal, the less capital and labor there is in a country the more output can be produced. ✗
- B) Machines and workers are needed to produce output. ?
- C) Machines do not differ in their efficiency. ✗
- D) Other things equal, the less skilled labor there is in a country, the more output can be produced per worker. ✗
- E) Other things equal, the less efficient capital is, the more output can be produced per unit of capital. ↑

22) Which of the following is NOT a transfer payment?

22) ~~D~~ E

- A) Unemployment benefits
- B) Social Security benefits
- C) Welfare payments
- D) Veterans' benefits
- E) Interest on corporate bonds

23) When planned investment _____ by a certain amount, the equilibrium level of output _____ by a _____ amount. (Multiplication effect)

23) ~~A~~ B

- A) decreases; decreases; lesser
- B) increases; increases; greater
- C) increases; increases; lesser
- D) decreases; increases; greater
- E) increases; decreases; lesser



Refer to Scenario 1 below to answer the questions that follow.

SCENARIO 1: A circular flow diagram shows the economic interactions among households, firms, the government, and the rest of the world. It shows each sector of the economy's income received and payments made.

24) Households spend in all of the following ways EXCEPT

24) B

- A) buying foreign-made goods and services. ✓
- B) paying dividends to firms. "
- C) paying taxes to the government. ✓
- D) buying goods from firms. ✓
- E) buying services from firms. ✓

25) The government

- A) does not participate in the factor market. ✗
- B) does not participate in the goods and services market. ✗
- C) receives transfer payments from firms. ✗
- D) sells goods and services to the household sector. ✗
- E) None of the above

25) ~~D E~~

26) In a closed economy with no government, we know that

- A) saving minus income equals consumption. ✗
- B) consumption equals income plus savings. ✗
- C) $Y = C + S$. ✓
- D) Income equals savings plus taxes. ✗
- E) $S = Y + C$. ✗

$Y = C + S$
C

(C)

26) C

27) National income is equal to

- A) GDP minus depreciation. ✗
- B) GNP minus depreciation. ✗
- C) GDP plus depreciation. ✗
- D) GNP plus depreciation. ✗
- E) None of the above

(E)

27) ~~B E~~

28) Which choice below is FALSE?

- A) If a leakage of investment is matched by an injection of saving, then there is equilibrium. ✗
- B) Aggregate income equals consumption plus saving. ✓ $Y = C + S$
- C) Consumption plus planned investment equals planned aggregate expenditure. ✓
- D) Saving is a leakage out of the spending stream. ✓
- E) If planned investment is exactly equal to saving, then planned aggregate expenditure is exactly equal to aggregate output. ✗

28) ~~C A~~

29) The multiplier is

- A) $1/(1 - MPC)$.
- B) $\Delta S / \Delta Y$.
- C) $\Delta Y / \Delta S$. ✓
- D) $(1 + MPS)$.
- E) $\Delta C / Y$.

(C)

29) A

30) Which of the following would not occur in an ideal economy?

- A) Rapid growth of output per worker
- B) Deflation
- C) Low unemployment
- D) Low inflation
- E) None of the above

(B)

30) ~~E B~~

- 31) The labor-force participation rate is the ratio of the 31) ED
 A) number employed to total population.
 B) number employed to the total population 16 years old or older.
 C) number of people employed to the total number of people in the labor force.
 D) labor force to the total population 16 years old or older. ✓
 E) labor force to total population.
- 32) _____ generally conclude that markets work well whereas _____ observe that important 32) A
 prices in the economy often seem "sticky."
 A) Microeconomists; macroeconomists
 B) Macroeconomists; microeconomists
 C) Liberal economists; conservative economists
 D) Keynesian economists; classical economists
 E) Monetarist economists; supply-side economists
- 33) Three of the major concerns of macroeconomics are _____, _____, and _____. 33) B
 A) the balance of trade; the budget surplus; inflation
 B) inflation; output growth; unemployment
 C) stock market prices; output growth; the national debt
 D) the budget surplus; interest rates; unemployment
 E) the money supply; interest rates; stock prices
- 34) In the goods-and-services market, 34) CE
 A) firms demand labor. (*labor market*)
 B) households purchase stocks and bonds from firms. (*financial market*)
 C) households supply labor. (*labor market*)
 D) firms borrow to build new facilities in the hope of earning more in the future. (*financial market*)
 E) None of the above
- 35) Assume that the consumption function is $C = 100 + .8Y$, income (Y) is \$1,000 billion, and planned 35) C
 investment I is \$50 billion, then the unplanned inventory change will be \$_____ billion.
 A) -100 B) -50 C) 50 D) 100 E) 0
- 36) During the hyperinflation in Bolivia in 1984 and 1985, 36) B
 A) there were rarely periods of rapid increases in the overall price level.
 B) the problem of handling money became a burden.
 C) firms found it easy to secure credit.
 D) banks counted deposits down to the last peso.
 E) the economy grew at a rapid rate.

37) Gross Domestic Product (GDP)

- A) includes all goods and services sold in a given period.
- B) includes sales of intermediate goods.
- C) excludes used home sales because no new production takes place.
- D) includes old output, as it was not counted at the time it was produced.
- E) includes sales of raw materials.

37) ~~C~~ D

Inputs for other production's (Intermediate goods)

38) According to Keynes, which of the following determines the level of employment?

- A) Aggregate demand
- B) Prices
- C) Stock prices
- D) Wages
- E) Budget deficits

38) ~~B~~ A



39) A consumption function for an individual household

- A) intersects the c axis below zero.
- B) illustrates the relationship between consumption and income.
- C) shows the level of income at each level of consumption.
- D) intersects at the origin.
- E) shows negative consumption when income is zero.

39) ~~D~~ B

Refer to Scenario 1 below to answer the questions that follow.

$$S = Y - C = 200 - [200 + 0.8(200)]$$

SCENARIO 1: Assume that a consumption function is $C = 200 + .8Y$.

$$Y = C + S = 200 - 200 - 0.8(200)$$

40) Refer to Scenario 1. When Y equals \$200 billion, then $S = \$$ _____ billion.

40) D

- A) 140
- B) 200
- C) -100
- D) -160
- E) 0