

# MACROECONOMICS

seventh edition

MICHAEL PARKIN

## *Test Bank 1*

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*University of Florida*

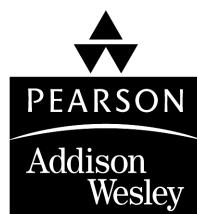
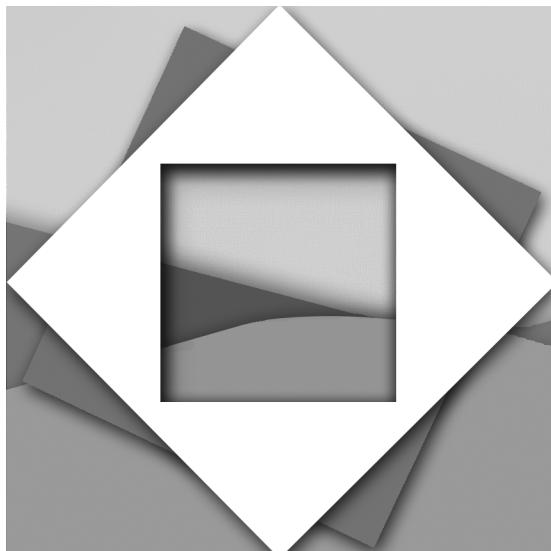
With new questions by

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## P r e f a c e

### ■ Introduction

This book is one of six test banks, each carefully crafted to be part of the most complete package of test banks ever offered to support a beginning economics textbook. Three of the test banks are designed to accompany Michael Parkin's *Microeconomics*, Seventh Edition and three accompany Michael Parkin's *Macroeconomics*, Seventh Edition. The complete set of six books comprises *Microeconomics Test Bank*, Volumes I, II, and III and *Macroeconomics Test Bank*, Volumes I, II, and III.

These books have undergone major revisions for this edition. Both the *Microeconomics Test Bank* Volumes I and II and the *Macroeconomics Test Bank* Volumes I and II now contain only multiple choice questions. The multiple choice questions that in previous editions were in Volume III of the test banks have now been melded into Volumes I and II. Volume III for both the *Microeconomics Test Bank* and *Macroeconomics Test Bank* now contains large numbers of essay questions, numerical questions, graphing questions, and extended problems. All of the different types of questions in Volume III have answers suitable for distribution to your students.

### ■ Test Bank Principles

Three principles guided the writing and revising of the questions:

- ◆ The questions should be "fail" insofar as the topic of the questions has been explained in the textbook.
- ◆ A question should not be a guessing game forcing the students to puzzle out what the question asks.
- ◆ An instructor must be absolutely secure in the knowledge that each question contains material covered in the textbook.

I endeavored to insure that all questions meet all the criteria so that they are, as Donald Dutkowsky put it, "bullet proof."

### ■ Seventh Edition Revisions

We have made substantial revisions in preparing the test banks for the Seventh Edition:

- ◆ All the questions have been reviewed, to ensure consistency with the text and clarity for the students. Questions dealing with material eliminated from the seventh edition of the textbook were deleted and a large number of new questions were added to cover both the new as well as the old topics in the seventh edition. The new questions are identified by an asterisk (\*) following the style of question.
- ◆ The artwork was reviewed and changed to remain consistent with the seventh edition of the textbook.
- ◆ To the greatest extent possible, the questions have been ordered so that they follow the order the material is presented in the corresponding textbook chapter. You generally will find all questions on the same topic clustered together so you can easily select the one you want. In addition, within each chapter the multiple choice questions are separated by each major section of the text chapter so that if you assign to the students only part of a chapter, it will be easy to select questions from that specific part.
- ◆ Many new essay, numeric, and graphing questions have been added, all with suggested answers. You can use these answers to show students the type of answer that you were expecting. Volume III is now specialized to include these types of questions.
- ◆ The test banks are available in both a user-friendly computerized test bank and in Word doc files. For some instructors, the ease of simply cutting and pasting from the Word files will exceed the utility of the powerful computerized test bank. With this edition, we accommodate both preferences.

## ■ Volumes I and II

Taken together, there are nearly 15,000 multiple choice questions in Volumes I and II of the test bank. These questions have been written by many contributors. I have edited the questions to ensure that each conformed with the writing style established in the book because this style has been carefully crafted for maximum student comprehension. I also arranged the questions so that they are in the same order that the topics are presented within the textbook. In addition, among questions dealing with a similar topic, the questions are ordered with non-numerical questions first, questions dealing with a numerical table second, and questions dealing with a figure third.

In addition to questions from the text, at the end of each chapter Volume I also contains multiple choice questions that are either the same as or else closely related to the questions in the *Study Guide* and on the *MyEconLab* student website for the book. Each of these questions is identified as to its source. So, if you have assigned these student supplements to your class, you have the means of “rewarding” students who are using them by asking questions drawing on what they have been studying.

The questions in each chapter of Volume I and Volume II are drawn from material covered only in that chapter. A new feature of Volume II are “Part Review” questions. These sections feature questions that are drawn from material covered in more than one chapter in each Part. These questions are all new. You can use these questions if you want more integrative questions that lead students to think about broader issues.

I have been teaching principles classes for over two decades, have written hundreds of exams, and won several teaching awards. Nonetheless, I was stunned by the quality of the questions in the test banks. I lost count of the number of times that I marveled at a question and wished that I had thought of it. While creating this test bank took significantly more effort than preparing an ordinary test bank, I am sure that the quality you will find made the task worthwhile.

## ■ Volume III

Volume III has been completely redone. It now consists of essay questions, numeric questions, graphing questions, true or false questions, and extended problems. Within each book, you will find each type of

question grouped together—that is, the essay questions for each chapter are first, followed by the numeric/graphing questions for each chapter, and so on. In this fashion, if you want to write a strictly essay question exam, it will be easy to do so. Of course, within each chapter, the questions are arranged in the same order that the topics appear in the textbook.

The extended problems need new to this edition of the test banks. For each chapter there are 3 to 5 extended problems. These questions, are, as the name implies, longer questions. Sometimes the questions for a chapter build upon each other; other times the questions are independent. These questions can be used on exam. However, they may also be given to the students and used as homework. I think the best way to view these questions is as a valuable supplement to the outstanding questions already in the textbook.

## ■ How to Assemble a Test

Because I have been teaching while working on these test banks, it has been natural to use them to create tests for my class. Having thousands of excellent questions immediately at hand made writing examinations an easy and (almost) pleasant task.

Because my class consists of between 1,500 and 2,100 students a semester, I use exclusively multiple choice questions. For each test, I decide *a priori* approximately how many questions I want from each chapter. Clearly my sense of the relative importance of the material plays a role here. I think this reflection is crucial because it ensures that my examinations cover the material that I deem most important for my students to know.

Because I write my tests using Word, I start the actual writing process by taking an old test and eliminating all but one question. Then, using the Word test bank files, I locate a question that I want to use, copy the question from the test bank file to my test, and immediately change the question number so that it is correct. As it happens, I prefer a slightly different paragraph style for my questions and answers than what is used in the test bank. Using the Word “Format Painter” (the paint brush symbol) I copy the format I prefer from the old question that I saved to the newly pasted question. Once I have a new question formatted with my preferred paragraph style, I delete the old question.

I change the style of the question and answers because I prefer a slightly different font and because I format the

question and the first three answers using the “keep with next” command from Word’s Format-Paragraph-Line and Page Breaks menu. The last answer for the question does not have this command. By using the “keep with next” command for the question and first three answers, I ensure that I do not have a question or answer break across a page.

As I copy and paste each question, I keep track of how many questions I have from each chapter. I do not slavishly adhere to my initial decision of how many questions I want from each chapter, but I also do not stray too far.

Finally, I print an initial copy of my examination and proofread it to be sure that I have not inadvertently given away the answer to one question with another question. I make any necessary corrections and am done. Given the quality of the test banks, I have found I can easily write a high-quality 35-40 question examination within a little more than an hour.

### ■ Final Comments

Just as Sir Isaac Newton stood on the shoulders of the giants who came before him, so, too do these test banks reflect the superb work of the authors who initially wrote and compiled them. So it is entirely fitting to thank them:

- ◆ Peter von Allmen of Moravian College
- ◆ Sue Bartlett of the University of South Florida
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- ◆ Peter A. Zaleski of Villanova University

Contributing questions for the Seventh edition micro-economic chapters is:

- ◆ Constantin Oglebin of Georgia Southern University

Constantin also created all the Extended Problems for the entire book!

Contributing questions for the Seventh edition macro-economic chapters is:

- ◆ William Mosher of Clark University

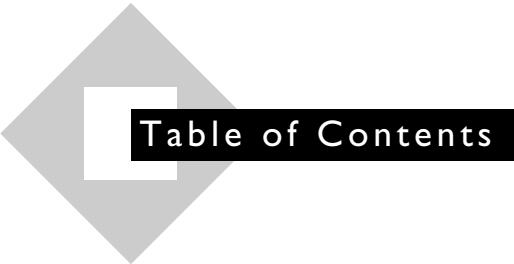
I have tried to make these *Test Banks* as helpful and useful as possible. Undoubtedly I have made some mistakes; mistakes that you may see. I have a standing offer in the *Study Guide* asking students who find any errors to notify me and promising that I will acknowledge them in all future editions of the *Study Guide*. I will make the same offer here: If you find any errors or have any comments or questions, *please* let me know and, if you want, I will note your help in all future editions of the test banks. And so keeping this promise:

- ◆ Dr. B. N. Ghosh of Eastern Mediterranean University in North Cyprus. Dr. Ghosh found several errors and I greatly appreciate his efforts!

My address is below, or you can reach me via E-mail at MARK.RUSH@CBA.UFL.EDU.

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**■ Definition of Economics****Topic: Incentives****Skill: Recognition**

- 1) An incentive
  - A) could be a reward but could not be a penalty.
  - B) could be a penalty but could not be a reward.
  - C) could be either a reward or a penalty.
  - D) is the opposite of a tradeoff.

**Answer: C****Topic: Definition of Economics****Skill: Recognition**

- 2) The most fundamental economic problem is
  - A) security.
  - B) scarcity.
  - C) health.
  - D) the fact the United States buys more goods from foreigners than we sell to foreigners.

**Answer: B****Topic: Definition of Economics****Skill: Conceptual**

- 3) Economics is best defined as the study of how people, businesses, governments, and societies
  - A) choose abundance over scarcity.
  - B) make choices to cope with scarcity.
  - C) use their infinite resources.
  - D) attain wealth.

**Answer: B****Topic: Definition of Economics****Skill: Conceptual**

- 4) Economists point out that scarcity confronts
  - A) neither the poor nor the rich.
  - B) the poor but not the rich.
  - C) the rich but not the poor.
  - D) both the poor and the rich.

**Answer: D****Topic: Definition of Economics****Skill: Conceptual**

- 5) Scarcity requires that people must
  - A) cooperate.
  - B) compete.
  - C) trade.
  - D) make choices.

**Answer: D****Topic: Definition of Economics****Skill: Conceptual**

- 6) As an economic concept, scarcity applies to
  - A) both money and time.
  - B) money but not time.
  - C) time but not money.
  - D) neither time nor money.

**Answer: A****Topic: Definition of Economics****Skill: Conceptual**

- 7) Which is the most accurate definition of the study of economics? Economics is the study of
  - A) the distribution of surplus goods to those in need.
  - B) affluence in a morally bankrupt world.
  - C) the choices we make because of scarcity.
  - D) ways to reduce wants to eliminate the problem of scarcity.

**Answer: C****Topic: Microeconomics and Macroeconomics****Skill: Recognition**

- 8) Which of the following is a macroeconomic topic?
  - A) The reasons for a rise in the price of orange juice.
  - B) The reasons for the rise in average prices.
  - C) Why plumbers earn more than janitors.
  - D) Whether the army should buy more tanks or more rockets.

**Answer: B**

**Topic: Microeconomics and Macroeconomics****Skill: Recognition**

- 9) Which of the following is a microeconomic topic?
- The reasons why Kathy buys less orange juice.
  - The reasons for a decline in average prices.
  - The cause of why total employment may decrease.
  - The effect of the government budget deficit on inflation.

**Answer: A****Topic: Microeconomics and Macroeconomics****Skill: Recognition**

- 10) Microeconomics focuses on all of the following EXCEPT
- the purchasing decisions that an individual consumer makes.
  - the effect of increasing the money supply on inflation.
  - the hiring decisions that a business makes.
  - the effect of an increase in the tax on cigarettes on cigarette sales.

**Answer: B****Topic: Microeconomics and Macroeconomics****Skill: Recognition**

- 11) In broad terms the difference between microeconomics and macroeconomics is that
- they use different sets of tools and ideas.
  - microeconomics studies decisions of individual people and firms and macroeconomics studies the entire national economy.
  - macroeconomics studies the effects of government regulation and taxes on the price of individual goods and services whereas microeconomics does not.
  - microeconomics studies the effects of government taxes on the national unemployment rate.

**Answer: B****Topic: Microeconomics and Macroeconomics****Skill: Recognition**

- 12) Studying the determination of prices in individual markets is primarily a concern of
- positive economics.
  - negative economics.
  - macroeconomics.
  - microeconomics.

**Answer: D****Topic: Microeconomics and Macroeconomics****Skill: Recognition**

- 13) The analysis of the behavior of individual decision-making units is the definition of
- microeconomics.
  - positive economics.
  - macroeconomics.
  - normative economics.

**Answer: A****Topic: Microeconomics and Macroeconomics****Skill: Conceptual**

- 14) Which of the following topics would be studied in a microeconomics course?
- How a trade agreement between the United States and Mexico affects both nations' unemployment rates.
  - Comparing inflation rates across countries.
  - How rent ceilings impact the supply of apartments.
  - How a tax rate increase will impact total production.

**Answer: C****Topic: Microeconomics and Macroeconomics****Skill: Conceptual**

- 15) Which of the following is a macroeconomic issue?
- How a rise in the price of sugar affects the market for sodas.
  - How federal government budget deficits affect interest rates.
  - What determines the amount a firm will produce.
  - The cause of a decline in the price of peanut butter.

**Answer: B****Topic: Microeconomics and Macroeconomics****Skill: Conceptual**

- 16) Which of the following is an issue in macroeconomics?
- the purchasing decisions that an individual consumer makes
  - the effect of increasing the money supply on inflation
  - the hiring decisions that a business makes
  - the effect of an increase in the tax on cigarettes on cigarette sales

**Answer: B**

**Topic: Microeconomics and Macroeconomics****Skill: Conceptual**

- 17) Macroeconomic topics include
- total, nationwide employment.
  - studying what factors influence the price and quantity of automobiles.
  - studying the determination of wages and production costs in the software industry.
  - the impact of government regulation of markets.

**Answer: A****Topic: Microeconomics and Macroeconomics****Skill: Recognition**

- 18) Macroeconomics is the branch of economics that studies
- prices of individual goods.
  - the way individual markets work.
  - the economy as a whole.
  - important, as opposed to trivial, issues.

**Answer: C****■ Two Big Economic Questions****Topic: What Goods and Services Are Produced?****Skill: Conceptual**

- 19) When an economy produces more houses and fewer typewriters, it is answering the \_\_\_\_ question.
- "what"
  - "how"
  - "where"
  - "for whom"

**Answer: A****Topic: What Goods and Services Are Produced?****Skill: Conceptual**

- 20) When firms in an economy start producing more computers and fewer televisions, they are answering the \_\_\_\_ question.
- "when"
  - "for whom"
  - "what"
  - "where"

**Answer: C****Topic: What Goods and Services Are Produced?****Skill: Conceptual**

- 21) U.S. producers decide to produce more compact cars and fewer SUVs as the price of gasoline rises. Producers are answering the \_\_\_\_ question.
- "what"
  - "how"
  - "when"
  - "how many"

**Answer: A****Topic: What Goods and Services Are Produced?****Skill: Conceptual**

- 22) The question "Should movies or compact discs be produced?" is an example of the
- "what" question.
  - "how" question.
  - "where" question.
  - "for whom" question.

**Answer: A****Topic: Trends in Production****Skill: Recognition**

- 23) Which of the following statements is correct?
- The United States produces more goods than services.
  - The United States produces more services than goods.
  - The percentage of people producing goods in the United States has steadily increased over the last 60 years.
  - The United States produces an equal amount of goods and services.

**Answer: B****Topic: Trends in Production****Skill: Recognition**

- 24) Which of the following is correct concerning production in the United States?
- The percentage of people employed in farming has decreased over the last 60 years.
  - The percentage of people employed in manufacturing has increased over the last 60 years.
  - The percentage of people employed in construction has increased over the last 60 years.
  - The percentage of people employed in services has decreased over the last 60 years.

**Answer: A**

**Topic: How Are Goods and Services Produced?****Skill: Conceptual**

- 25) When China builds a dam using few machines and a great deal of labor, it is answering the \_\_\_\_\_ question.
- "what"
  - "how"
  - "where"
  - "for whom"

**Answer: B****Topic: How Are Goods and Services Produced?****Skill: Conceptual**

- 26) When a textile company keeps track of its inventory using a computer and its competitor uses a spreadsheet and pencil, they are both answering the \_\_\_\_\_ question.
- "what"
  - "how"
  - "for whom"
  - "where"

**Answer: B****Topic: Human Capital****Skill: Recognition**

- 27) Human capital is
- all capital owned by individuals, but not by corporations or governments.
  - all capital owned by individuals or corporations, but not by governments.
  - machinery that meets or exceeds federal safety standards for use by humans.
  - the skill and knowledge of workers.

**Answer: D****Topic: Entrepreneurship****Skill: Recognition**

- 28) Entrepreneurs do all of the following EXCEPT
- organize labor, land, and capital.
  - come up with new ideas about what, how, when, and where to produce.
  - bear risk from business decisions.
  - own all the other resources.

**Answer: D****Topic: For Whom are the Goods and Services Produced?****Skill: Conceptual**

- 29) To answer the "for whom" question, we study
- the global economy.
  - income differences.
  - business cycles.
  - technological change.

**Answer: B****Topic: For Whom are the Goods and Services Produced?****Skill: Conceptual**

- 30) The fact that people with higher incomes get to consume more goods and services addresses the \_\_\_\_\_ question.
- "for whom"
  - "when"
  - "where"
  - "how"

**Answer: A****Topic: Factors of Production****Skill: Conceptual**

- 31) Which of the following is NOT a factor of production?
- the water used to cool a nuclear power plant.
  - the effort of farmers raising cattle.
  - the wages paid to workers.
  - the management skill of a small business owner.

**Answer: C****Topic: Factors of Production****Skill: Conceptual**

- 32) Which of the following is NOT a factor of production?
- a new computer used by a small business owner.
  - the time worked by elementary school teachers.
  - a tractor used by a wheat farmer.
  - a share of stock issued by a firm.

**Answer: D****Topic: Labor****Skill: Conceptual**

- 33) An autoworker is considered \_\_\_\_\_ and earns \_\_\_\_\_.
- labor; rent.
  - entrepreneurship; wages.
  - labor; wages.
  - capital; rent.

**Answer: C**

**Topic: Labor****Skill: Conceptual**

- 34) Overtime worked by a JCPenney associate is considered \_\_\_\_ and earns \_\_\_\_.
- labor; wages.
  - entrepreneurship; profit.
  - human capital; interest.
  - labor; profit.

**Answer: A****The Economic Way of Thinking****Topic: What Tradeoff****Skill: Conceptual**

- 35) When a university decides to add to the football stadium instead of adding to the baseball stadium, it faces the
- "what" tradeoff.
  - "how" tradeoff.
  - "for whom" tradeoff.
  - macroeconomic question.

**Answer: A****Topic: What Tradeoff****Skill: Conceptual**

- 36) When a farmer decides to increase the amount of acreage devoted to wheat and grow fewer acres of soybeans, the farmer is facing the
- "what" tradeoff.
  - "how" tradeoff.
  - "for whom" tradeoff.
  - microeconomic question.

**Answer: A****Topic: How Tradeoff****Skill: Conceptual**

- 37) When a photographer decides to use a digital camera to take shots versus using film, the photographer is facing the
- "what" tradeoff.
  - "how" tradeoff.
  - "for whom" tradeoff.
  - microeconomic question.

**Answer: B****Topic: How Tradeoff****Skill: Conceptual**

- 38) The "how" tradeoff occurs when
- a firm decides to produce refrigerators instead of dishwashers.
  - a farm uses machinery to pick oranges instead of employing migrant workers.
  - the government increases income taxes paid by the rich.
  - we answer the macroeconomic question.

**Answer: B****Topic: For Whom Tradeoff****Skill: Conceptual**

- 39) When the government decides to provide tax relief for small businesses while placing higher taxes on large corporations, it is facing the
- "what" tradeoff.
  - "how" tradeoff.
  - "for whom" tradeoff.
  - macroeconomic question.

**Answer: C****Topic: Tradeoff and Opportunity Cost****Skill: Conceptual\***

- 40) Because we face scarcity, every choice involves
- money
  - the question "what."
  - giving up something for nothing.
  - an opportunity cost

**Answer: D****Topic: Opportunity Cost****Skill: Recognition**

- 41) The term used to emphasize that making choices in the face of scarcity involves a cost is
- substitution cost.
  - opportunity cost.
  - utility cost.
  - accounting cost.

**Answer: B****Topic: Opportunity Cost****Skill: Recognition**

- 42) The loss of the highest-valued alternative defines the concept of
- marginal benefit.
  - scarcity.
  - entrepreneurship.
  - opportunity cost.

**Answer: D**

**Topic: Opportunity Cost****Skill: Recognition**

- 43) Opportunity cost means
- the accounting cost minus the marginal cost.
  - the highest-valued alternative forgone.
  - the accounting cost minus the marginal benefit.
  - the monetary costs of an activity.

**Answer: B****Topic: Opportunity Cost****Skill: Recognition**

- 44) The opportunity cost of any action is
- all the possible alternatives forgone.
  - the highest-valued alternative forgone.
  - the time required but not the monetary cost.
  - the monetary cost but not the time required.

**Answer: B****Topic: Opportunity Cost****Skill: Recognition**

- 45) The opportunity cost of something you decide to get is
- all possible alternatives that you give up to get it.
  - the highest valued alternative you give up to get it.
  - the lowest valued alternative you give up to get it.
  - the amount of money you pay to get it.

**Answer: B****Topic: Opportunity Cost****Skill: Conceptual**

- 46) The ultimate cost of any choice is
- the dollars expended.
  - the highest-valued alternative forgone.
  - the after-tax cost.
  - what someone else would be willing to pay.

**Answer: B****Topic: Opportunity Cost****Skill: Conceptual**

- 47) During the summer you have made the decision to attend summer school, which precludes you from working at your usual summer job in which you normally earn \$6,000 for the summer. Your tuition cost is \$3,000, books and supplies cost \$300, and room and board cost \$1,000. The opportunity cost of attending summer school is

- \$10,300.
- \$6,000.
- \$4,300.
- \$3,300.

**Answer: A****Topic: Opportunity Cost****Skill: Conceptual**

- 48) On Saturday morning, you rank your choices for activities in the following order: go to the library, work out at the gym, have breakfast with friends, and sleep late. Suppose you decide to go to the library. Your opportunity cost is
- working out at the gym, having breakfast with friends, and sleeping late.
  - working out at the gym.
  - zero because you do not have to pay money to use the library.
  - not clear because not enough information is given.

**Answer: B****Topic: Opportunity Cost****Skill: Conceptual**

- 49) You decide to take a vacation and the trip costs you \$2,000. While you are on vacation, you do not report to work where you could have earned \$750. The opportunity cost of the vacation is

- \$2,000.
- \$750.
- \$2,750.
- \$1,250

**Answer: C**

**Topic: Opportunity Cost****Skill: Conceptual**

- 50) When an action is chosen, the highest-valued alternative NOT chosen is called the
- implicit cost.
  - explicit cost.
  - accounting cost.
  - opportunity cost.

**Answer: D****Topic: Opportunity Cost****Skill: Conceptual**

- 51) The term “opportunity cost” points out that
- there may be such a thing as a free lunch.
  - not all individuals will make the most of life’s opportunities because some will fail to achieve their goals.
  - executives do not always recognize opportunities for profit as quickly as they should.
  - any decision regarding the use of a resource involves a costly choice.

**Answer: D****Topic: Opportunity Cost****Skill: Conceptual**

- 52) During the next hour John can play basketball, watch television, or read a book. The opportunity cost of reading a book
- is how much the book cost when it was purchased.
  - is the value of playing basketball if John prefers that to watching television.
  - is the value of playing basketball *and* the value of watching television.
  - equals how much John enjoys the book.

**Answer: B****Topic: Opportunity Cost****Skill: Conceptual**

- 53) Misty has the option of purchasing one of three products: Brand A, Brand B, or Brand C. Each costs ten dollars. If she decides that Brand A meets her needs best, then the opportunity cost of this decision is
- Brand B plus Brand C.
  - twenty dollars.
  - Brand A.
  - Brand B or Brand C, depending on which is considered the highest-value alternative forgone.

**Answer: D****Topic: Opportunity Cost****Skill: Conceptual**

- 54) Which of the following is NOT an example of an opportunity cost?
- By spending Thursday night studying for an economics exam, a student was unable to complete a homework assignment for calculus class.
  - Because David used all of his vacation time to paint his house, he was unable to visit the Caribbean last year.
  - Because Mary is now being paid a higher wage, she can afford to buy a new car even though she is moving into a bigger apartment.
  - By choosing to attend college, Jean was not able to continue working as an electrician; as a result, she gave up more than \$85,000 in earnings while she was in college.

**Answer: C****Topic: Opportunity Cost****Skill: Conceptual**

- 55) From 8 to 11 p.m., Sam can either attend a basketball game, a hockey match or the symphony. Suppose that Sam decides to attend the hockey match and thinks to herself that if she did not go to the match she would go to the symphony. Then the opportunity cost of attending the hockey match is
- going to the symphony and the basketball game.
  - going to the symphony.
  - going to the basketball game.
  - three hours of time.

**Answer: B****Topic: Opportunity Cost****Skill: Analytical**

- 56) When the government chooses to use resources to build a dam, these sources are no longer available to build a highway. This choice illustrates the concept of
- a market mechanism.
  - macroeconomics.
  - opportunity cost.
  - a fallacy of composition.

**Answer: C**

**Topic: Marginal Benefit/Marginal Cost****Skill: Recognition**

- 57) Marginal benefit is the benefit
- that your activity provides to someone else.
  - of an activity that exceeds its cost.
  - that arises from the secondary effects of an activity.
  - that arises from an increase in an activity.

**Answer: D****Topic: Marginal Benefit****Skill: Recognition**

- 58) The benefit that arises from an increase in an activity is called
- the marginal benefit.
  - the marginal cost.
  - opportunity cost.
  - an incentive.

**Answer: A****Topic: Marginal Cost****Skill: Recognition**

- 59) Marginal cost is the cost
- that your activity imposes on someone else.
  - that arises from an increase in an activity.
  - of an activity that exceeds its benefit.
  - that arises from the secondary effects of an activity.

**Answer: B****Topic: Marginal Benefit/Marginal Cost****Skill: Conceptual\***

- 60) Laura is a manager for HP. When Laura must decide whether to produce a few additional printers, she is choosing at the margin when she compares
- the total revenue from sales of printers to the total cost of producing all the printers.
  - the extra revenue from selling a few additional printers to the extra costs of producing the printers.
  - the extra revenue from selling a few additional printers to the average cost of producing the additional printers.
  - HP's printers to printers from competing companies, such as Lexmark.

**Answer: B****Economics: A Social Science****Topic: Positive and Normative****Skill: Recognition**

- 61) In economics, positive statements are about
- the way things ought to be.
  - the way things are.
  - macroeconomics, not microeconomics.
  - microeconomics, not macroeconomics.

**Answer: B****Topic: Positive and Normative****Skill: Recognition**

- 62) A positive statement is
- about what ought to be.
  - about what is.
  - the result of a model's normative assumptions.
  - valid only in the context of a model with simple assumptions.

**Answer: B****Topic: Positive and Normative****Skill: Recognition**

- 63) A positive statement is
- about what ought to be.
  - about what is.
  - always true.
  - one that does not use the *ceteris paribus* clause.

**Answer: B****Topic: Positive and Normative****Skill: Recognition**

- 64) A positive statement
- is an affirming statement that is strongly worded.
  - is a statement of what ought to be.
  - is a statement of what is.
  - cannot be tested by checking it against the facts.

**Answer: C**

**Topic: Positive and Normative****Skill: Recognition**

- 65) Which of the following are true regarding “positive” statements?
- They describe what “ought to be.”
  - They describe what is believed about how the world appears.
  - They can be tested as to their truthfulness.
- I and II.
  - II and III.
  - I and III.
  - I, II and III.

**Answer: B****Topic: Positive and Normative****Skill: Recognition**

- 66) Positive and normative statements differ in that
- positive statements can be tested, whereas normative statements cannot.
  - normative statements can be tested, whereas positive statements cannot.
  - normative statements depict “what is” and positive statements depict “what ought to be.”
  - positive statements can be graphed, whereas normative statements cannot.

**Answer: A****Topic: Positive and Normative****Skill: Conceptual**

- 67) Which of the following is an example of a positive statement?
- Government should not redistribute income.
  - Business firms ought to contribute more to charities.
  - Households are the primary source of saving.
  - The foreign sector should be more tightly controlled.

**Answer: C****Topic: Positive and Normative****Skill: Conceptual\***

- 68) Which of the following is an example of a positive statement?
- We should cut back on our use of carbon-based fuels such as coal and oil.
  - Increasing the minimum wage results in more unemployment.
  - Every American should have equal access to health care.
  - The Federal Reserve ought to cut the interest rate.

**Answer: B****Topic: Positive and Normative****Skill: Conceptual**

- 69) Which of the following is a positive statement?
- Taxes should be lower because then people get to keep more of what they earn, so they will work more.
  - My economics class should last for two terms because it is my favorite class.
  - A 10 percent increase in income leads to a 4 percent increase in the consumption of beef.
  - Given their negative impact on productivity, the government should eliminate labor unions.

**Answer: C****Topic: Positive and Normative****Skill: Conceptual**

- 70) When Al makes the statement, “The cost of living has increased 10 percent over the past 10 years,” he is
- making a normative statement.
  - making a positive statement.
  - testing an economic model.
  - facing the standard of living tradeoff.

**Answer: B****Topic: Positive and Normative****Skill: Conceptual**

- 71) Which of the following is a positive statement?
- State lotteries are good methods to use for raising revenues.
  - Increased prison sentences are the best way to reduce the crime rate.
  - An increase in gas prices leads people to carpool more.
  - Inflation is a more serious problem than is deflation.

**Answer: D**

**Topic: Positive and Normative****Skill: Conceptual**

- 72) The statement “Managers with a college education earn \$18 an hour while ski instructors who did not complete college earn \$10” is
- a political statement.
  - a positive statement.
  - a normative statement.
  - an ethical statement.

**Answer: B****Topic: Positive and Normative****Skill: Conceptual**

- 73) The statement “An increase in the price of gasoline will lead to a decrease in the amount purchased” is
- a political statement.
  - a positive statement.
  - a normative statement.
  - a scientific statement.

**Answer: B****Topic: Positive and Normative****Skill: Conceptual**

- 74) Which of the following is a positive statement?
- The government must lower the price of a pizza so that more students can afford to buy it.
  - The best level of taxation is zero percent because then people get to keep everything they earn.
  - My economics class should last for two terms because it is my favorite class.
  - An increase in tuition will cause fewer students to apply to college.

**Answer: D****Topic: Positive and Normative****Skill: Conceptual**

- 75) Which of the following is a positive statement?
- Low rents will restrict the supply of housing.
  - Low rents are good because they make apartments more affordable.
  - Housing costs too much.
  - Owners of apartment buildings ought to be free to charge whatever rent they want.

**Answer: A****Topic: Positive and Normative****Skill: Conceptual**

- 76) The statement “The unemployment rate for teens is higher than that for adults” is
- a political statement.
  - a positive statement.
  - a normative statement.
  - an ethical statement.

**Answer: B****Topic: Positive and Normative****Skill: Conceptual**

- 77) The statement “Prices rise more in countries with rapid growth in the money supply” is
- a political statement.
  - a positive statement.
  - a normative statement.
  - an ethical statement.

**Answer: B****Topic: Positive and Normative****Skill: Recognition**

- 78) Statements about what ought to be are called
- positive statements.
  - normative statements.
  - assumptions.
  - implications.

**Answer: B****Topic: Positive and Normative****Skill: Recognition**

- 79) Normative statements are statements about
- prices.
  - quantities.
  - what is.
  - what ought to be.

**Answer: D****Topic: Positive and Normative****Skill: Recognition**

- 80) A normative statement is
- about what ought to be.
  - about what is.
  - always true.
  - one that does not use the *ceteris paribus* clause.

**Answer: A**

**Topic: Positive and Normative****Skill: Recognition**

- 81) In economics, normative statements are about
- the way things ought to be.
  - the way things are.
  - marginal benefits, not marginal costs.
  - marginal costs, not marginal benefits.

**Answer: A****Topic: Positive and Normative****Skill: Conceptual**

- 82) Which of the following is a normative statement?
- The price of candy bars is \$1.25 each.
  - Candy bars are more expensive than newspapers.
  - You should eat less candy.
  - Popcorn and candy are sold in movie theaters.

**Answer: C****Topic: Positive and Normative****Skill: Conceptual**

- 83) Which of the following is a normative statement?
- The unemployment rate is too high.
  - Forty percent of the public believes that the unemployment rate is too high.
  - The unemployment rate rose last month.
  - All of the above.

**Answer: A****Topic: Positive and Normative****Skill: Conceptual**

- 84) “Government should act to reduce poverty levels.”
- This statement is a normative statement.
  - This statement is a positive statement.
  - This statement is an example of the fallacy of composition.
  - This statement is an example of the *post hoc* fallacy.

**Answer: A****Topic: Positive and Normative****Skill: Conceptual**

- 85) When Susan makes the statement, “The government should spend less money to take care of national parks,” she is
- making a normative statement.
  - making a positive statement.
  - testing an economic model.
  - facing the standard of living tradeoff.

**Answer: A****Topic: Positive and Normative****Skill: Conceptual**

- 86) “All children should have health insurance” is a
- positive statement
  - normative statement
  - fallacy of composition
  - post hoc* fallacy

**Answer: B****Topic: Positive and Normative****Skill: Conceptual**

- 87) “The rich should pay higher income tax rates than the poor” is an example of a
- normative statement.
  - positive statement.
  - descriptive statement.
  - theoretical statement.

**Answer: A****Topic: Positive and Normative****Skill: Conceptual**

- 88) Which of the following is a normative statement?
- Studying more hours leads to an increase in your GPA.
  - An increase in tax rates means people work fewer hours.
  - Taking extra vitamin C prevents catching a cold.
  - States should require all motorcycle riders to wear helmets to reduce the number of riders killed.

**Answer: D****Topic: Positive and Normative****Skill: Conceptual**

- 89) Which of the following is a normative statement?
- Low rents will restrict the supply of housing.
  - Low rents are good because they make apartments more affordable.
  - Housing costs are rising.
  - Owners of apartment buildings are free to charge whatever rent they want.

**Answer: B**

**Topic: Positive and Normative****Skill: Conceptual**

- 90) Which of the following is an example of a normative statement?
- Household consumption is the largest component of spending.
  - Government spending rose in the 1990s.
  - The business sector is the primary source of jobs.
  - Households should save more.

**Answer: D****Topic: Positive and Normative****Skill: Conceptual**

- 91) Which of the following is a normative statement?
- Next year's inflation rate will be under 4 percent.
  - Consumers will buy more gasoline over the Christmas holiday even if the price of gas is 10 cents higher than it was during the Thanksgiving holiday.
  - The government's cuts in welfare spending impose an unfair hardship on the poor.
  - The current budget surplus is the result of federal policies.

**Answer: C****Topic: Positive and Normative****Skill: Conceptual**

- 92) Suppose that an economist tells you that people in the United States do not save enough out of their incomes. This is an example of \_\_\_\_ statement.
- an autonomous
  - a positive
  - a normative
  - a *ceteris paribus*

**Answer: C****Topic: Economic Science****Skill: Recognition\***

- 93) The task of economic science is to discover \_\_\_\_ that are consistent with \_\_\_\_.
- positive statements; what we observe
  - normative statements; positive statements
  - positive statements; normative statements
  - ways to make money; the law

**Answer: A****Topic: Model Building****Skill: Recognition\***

- 94) Economic models
- are essentially different from those used in other sciences.
  - always use graphs.
  - simplify reality.
  - include all relevant facts.

**Answer: C****Topic: Model Building****Skill: Recognition**

- 95) Economic models
- do not address questions about the economy.
  - are better if they include most of the detail of the real economy.
  - rely on simplification.
  - make no assumptions that have not been proved.

**Answer: C****Topic: Model Testing****Skill: Recognition**

- 96) An economic theory is
- a generalization that summarizes what we understand about economic choices.
  - always a mathematical, or nonverbal, model.
  - usually more complex than the real world.
  - a positive statement that cannot use the *ceteris paribus* clause.

**Answer: A****Topic: Model Testing****Skill: Recognition\***

- 97) Three steps that economists take to discover how the economic world works are
- speculation; observation and measurement; and, drawing conclusions.
  - observation and measurement; model building; and, testing models.
  - model building; speculation; and, revision.
  - data mining; data testing; and, drawing conclusions.

**Answer: B**

**Topic: Adam Smith****Skill: Recognition**

- 98) The birth of economics as an intellectual discipline can be dated fairly precisely in the eighteenth century with
- the opening of the London stock exchange.
  - the publication of the book, *The Wealth of Nations*.
  - the introduction of paper currency.
  - the development of the factory system.

**Answer: B****Topic: Adam Smith****Skill: Recognition**

- 99) Who wrote *The Wealth of Nations*?
- Thomas Jefferson.
  - Karl Marx.
  - Adam Smith.
  - Michael Parkin.

**Answer: C****Topic: Adam Smith****Skill: Recognition**

- 100) Adam Smith wrote the book
- First Principles of Economics*.
  - The Wealth of Nations*.
  - Poverty and Progress*.
  - The Dismal Science*.

**Answer: B****Topic: Adam Smith****Skill: Recognition**

- 101) The author of the book *The Wealth of Nations* is
- James Madison.
  - Adam Smith.
  - Thomas Carlyle.
  - John Pierpont Morgan.

**Answer: B****Topic: Ceteris Paribus****Skill: Recognition**

- 102) Allowing only one factor to vary at any given time, keeping all other factors constant, is using the technique of
- post hoc*.
  - ceteris paribus*.
  - composition.
  - compensation.

**Answer: B****Topic: Ceteris Paribus****Skill: Recognition**

- 103) Holding all variables except one constant and assessing the impact of the one variable which has changed is an example of using
- the *ceteris paribus* assumption.
  - normative economic analysis.
  - a flawed economic model.
  - an untestable proposition.

**Answer: A****Topic: Ceteris Paribus****Skill: Recognition**

- 104) *Ceteris paribus* is the Latin expression for
- the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
  - the error of reasoning that a first event causes a second event because the first event occurred before the second event.
  - an expression that means “other things being equal.”
  - a statement about the way the economic world ought to be.

**Answer: C****Topic: Ceteris Paribus****Skill: Recognition**

- 105) The expression that means “other things being equal” is
- The fallacy of composition.
  - the *post hoc* fallacy.
  - ceteris paribus*.
  - normative economics.

**Answer: C****Topic: Ceteris Paribus****Skill: Recognition**

- 106) The Latin term “*ceteris paribus*” means
- “false unless proven true”
  - “other things being equal”
  - “after this, therefore because of this”
  - “what is true of the whole is not necessarily true of the parts”

**Answer: B**

**Topic: Ceteris Paribus****Skill: Recognition**107) “*Ceteris paribus*” means

- A) what is
- B) what ought to be
- C) that which will be
- D) other things being equal

**Answer: D****Topic: Ceteris Paribus****Skill: Recognition**108) The term “*ceteris paribus*” means

- A) using market mechanisms.
- B) the study of scarcity and choice.
- C) value free and testable.
- D) all other things remaining constant or equal.

**Answer: D****Topic: Ceteris Paribus****Skill: Recognition**109) “*Ceteris paribus*” means

- A) making all the necessary changes.
- B) other things being equal.
- C) for certain parameters.
- D) let the buyer beware.

**Answer: B****Topic: Ceteris Paribus****Skill: Conceptual\***

110) When economists study the effects of unemployment insurance on the unemployment rate by comparing the United States with Canada, they assume that other conditions in the two economies do not differ significantly. This procedure is an example of

- A) the fallacy of composition.
- B) the *post hoc* fallacy.
- C) applying the *ceteris paribus* principle.
- D) falling prey to the *post* composition fallacy.

**Answer: C****Topic: Fallacy of Composition****Skill: Conceptual**

111) The fallacy of composition is evident in which of the following statements?

- A) “X and Y go together, therefore X has caused Y.”
- B) “What is bad for the Joneses is bad for the Smiths.”
- C) “Technological progress helps everybody.”
- D) “If each farmer works harder, all farmers will be richer.”

**Answer: D****Topic: Fallacy of Composition****Skill: Conceptual**

112) The fallacy of composition is the false belief that

- A) what is true for the parts is also true for the whole.
- B) because event A occurred before event B, event A caused event B.
- C) because event A occurred after event B, event A caused event B.
- D) the *ceteris paribus* condition does not apply.

**Answer: A****Topic: Fallacy of Composition****Skill: Recognition**

113) The fallacy of composition is the (false) statement that

- A) theories bridge models and the real world.
- B) models can be positive without being normative.
- C) what is true of the parts is true of the whole.
- D) experiments can be designed to analyze human behavior.

**Answer: C****Topic: Fallacy of Composition****Skill: Recognition**

114) The fallacy of composition is the

- A) assertion that what is true for the parts of the whole must be true for the whole.
- B) claim that one event caused another because the first event came first.
- C) use of *ceteris paribus* in order to study the impact of one factor.
- D) claim that the timing of two events has nothing to do with which event caused the other.

**Answer: A**

**Topic: Fallacy of Composition****Skill: Conceptual**

115) A farmer grazes two cows on one acre of land. To increase total milk yield, he purchases two more cows and allows all four cows to graze on his land. Unfortunately the cows overgraze on his land and the food supply to the cows is reduced, which causes the total milk yield of the four cows to fall below that achieved when only two cows were grazed. The farmer has fallen prey to

- A) the fallacy of composition.
- B) the *post hoc* fallacy.
- C) the *ceteris paribus* normative fallacy.
- D) the marginal benefit/marginal cost fallacy.

**Answer: A****Topic: Fallacy of Composition****Skill: Conceptual**

116) Because total income in the United States has increased over time, everyone's total income has increased as well. This incorrect argument is an example of

- A) opportunity cost.
- B) the fallacy of composition.
- C) the *post hoc* fallacy.
- D) voluntary exchange.

**Answer: B****Topic: Fallacy of Composition****Skill: Recognition**

117) The fallacy of composition is

- A) the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
- B) the error of reasoning that a first event causes a second event because the first event occurred before the second event.
- C) an expression that means "other things being equal."
- D) a statement about the way the economic world ought to be.

**Answer: A****Topic: Fallacy of Composition****Skill: Conceptual**

118) "Hunting limits on deer help ensure a constant population. Therefore, if I only hunt to my limit, there will be sufficient deer for all." This statement is an example of a possible

- A) *ceteris paribus* fallacy.
- B) fallacy of composition.
- C) *post hoc* fallacy.
- D) normative statement.

**Answer: B****Topic: Fallacy of Composition****Skill: Conceptual**

119) To better see a football game, one spectator stands. Assuming that everyone trying to get a good view of the game can also stand represents an example of the

- A) opportunity cost fallacy.
- B) fallacy of composition.
- C) fallacy of truth.
- D) *post hoc* fallacy.

**Answer: B****Topic: Post Hoc Fallacy****Skill: Recognition**

120) The *post hoc* fallacy is the error of reasoning

- A) from predictions to theories.
- B) from models to predictions.
- C) from cause and effect to models.
- D) from timing to cause and effect.

**Answer: D****Topic: Post Hoc Fallacy****Skill: Recognition**

121) You are not surprised that it has started to rain.

After all, a hour ago you just finished washing your car. Your reasoning is an example of

- A) the *ceteris paribus* assumption.
- B) the fallacy of composition.
- C) the *post hoc* fallacy.
- D) the distinction between positive and normative statements.

**Answer: C**

**Topic: Post Hoc Fallacy****Skill: Recognition**

- 122) The *post hoc, ergo propter hoc* fallacy is
- the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
  - the error of reasoning that a first event causes a second event because the first event occurred before the second event.
  - an expression that means “other things being equal.”
  - a statement about the way the economic world ought to be.

**Answer: B****Topic: Post Hoc Fallacy****Skill: Conceptual\***

- 123) A rooster crows and then the sun rises. The rooster thinks that the sun rises because he crows. And he is very proud of it. The rooster falls prey to
- his self interest
  - the *post hoc* fallacy
  - marginal thinking
  - the fallacy of composition

**Answer: B****Topic: Post Hoc Fallacy****Skill: Conceptual**

- 124) “Every time I go to a basketball game, our team wins.” This statement is an example of
- ceteris paribus* fallacy.
  - fallacy of composition.
  - post hoc* fallacy.
  - a normative economic statement.

**Answer: C****Topic: Post Hoc Fallacy****Skill: Conceptual**

- 125) An economic expansion follows a stock market boom. A cautious economist would not claim that the stock market caused the expansion because the economist wants to avoid
- the fallacy of composition, which is an error in reasoning from timing to cause and effect.
  - the *post hoc* fallacy, which is an error in reasoning from timing to cause and effect.
  - the fallacy of composition, which states that what is true of the parts is true of the whole.
  - the *post hoc* fallacy, which states that what is true of the parts is true of the whole.

**Answer: B****Topic: Agreement and Disagreement****Skill: Recognition**

- 126) Most economists agree that
- Tariffs and import restrictions make most people worse off.
  - A minimum wage increases unemployment among young workers and low-skilled workers.
  - Rent ceilings cut the availability of housing.
  - All of the above.

**Answer: D****■ Study Guide Questions****Topic: Study Guide Question, Definition of Economics****Skill: Recognition**

- 127) The fact that wants cannot be fully satisfied with available resources reflects the definition of
- the what tradeoff.
  - scarcity.
  - the big tradeoff.
  - for whom to produce.

**Answer: B****Topic: Study Guide Question, Macroeconomics****Skill: Recognition**

- 128) Studying the effects choices have on the individual markets within the economy is part of
- scarcity.
  - microeconomics.
  - macroeconomics.
  - incentives.

**Answer: C**

**Topic: Study Guide Question, Two Big Economic Questions****Skill: Analytical**

- 129) Which of the following is NOT part of the first big economic question?
- What goods and services are produced?
  - How are goods and services produced?
  - For whom are goods and services produced?
  - Why do incentives affect only marginal costs?

**Answer: D****Topic: Study Guide Question, What Goods and Services Are Produced?****Skill: Analytical**

- 130) The question, “Should Taco Bell produce more tacos or more burritos?” is an example of the
- “what” question.
  - “how” question.
  - “where” question.
  - “for whom” question.

**Answer: A****Topic: Study Guide Question, “What” Tradeoff****Skill: Conceptual**

- 131) The fact that KFC decides to produce chicken rather than meatloaf best reflects \_\_\_\_ tradeoff.
- a what
  - a how
  - a for whom
  - an incentive

**Answer: A****Topic: Study Guide Question, Opportunity Cost****Skill: Conceptual**

- 132) From 8 P.M to 10 P.M., Susan can attend a movie, study, or talk with friends. Suppose that Susan decides to go to the movie but thinks that, if she hadn’t, she would otherwise have talked with friends. The opportunity cost of attending the movie is
- talking with friends *and* studying.
  - studying.
  - talking with friends.
  - two hours of time.

**Answer: C****Topic: Study Guide Question, Opportunity Cost****Skill: Conceptual**

- 133) When the government hires people to serve in the army, these people are no longer available to do other work. This choice illustrates the concept of
- an incentive.
  - a social interest/private interest conflict.
  - opportunity cost.
  - marginal benefit.

**Answer: C****Topic: Study Guide Question, Positive and Normative****Skill: Recognition**

- 134) A normative statement is
- about what ought to be.
  - about what is.
  - always true.
  - one that does not use the *ceteris paribus* clause.

**Answer: A****Topic: Study Guide Question, Positive and Normative****Skill: Recognition**

- 135) Which of the following is a positive statement?
- The government must provide health insurance so that the poor can obtain decent medical treatment.
  - The government should spend more on education.
  - My favorite dinner is pizza and soda.
  - An increase in the price of pizza will lead fewer students to buy pizza.

**Answer: D****Topic: Study Guide Question, Economic Model****Skill: Recognition**

- 136) An economic model includes
- post hoc* statements.
  - no use of *ceteris paribus*.
  - all known details in order to increase its accuracy.
  - only details considered essential.

**Answer: D**

**Topic: Study Guide Question, Ceteris Paribus****Skill: Recognition**

- 137) The Latin term *ceteris paribus* means
- "false for the whole, false for the parts."
  - "other things the same."
  - "true for the parts not necessarily true for the whole."
  - "buyer beware."

**Answer: B****Topic: Study Guide Question, Fallacy of Composition****Skill: Conceptual**

- 138) One student in a football stadium with 30,000 students can see the game better if he or she stands up. Assuming that all 30,000 students can each see the game better if they all stand is an example of the
- fallacy of *ceteris paribus*.
  - fallacy of composition.
  - fallacy of large numbers.
  - post hoc* fallacy.

**Answer: B****Topic: Study Guide Question, Post Hoc Fallacy****Skill: Recognition**

- 139) The *post hoc* fallacy is the
- assertion that what is true for parts of the whole must be true for the whole.
  - claim that one event caused another because the one event came first.
  - incorrect use of *ceteris paribus* in order to study the impact of one factor.
  - claim that normative statements are less important than positive statements.

**Answer: B****■ MyEconLab Questions****Topic: Definition of Economics****Level I: Definitions and Concepts**

- 140) Economics can be defined as the social science that explains the \_\_\_\_.
- choices made by politicians
  - choices we make when we trade in markets
  - choices that we make as we cope with scarcity
  - choices made by households

**Answer: C****Topic: Scarcity****Level I: Definitions and Concepts**

- 141) Scarcity is a situation in which \_\_\_\_.
- some people are poor and others are rich
  - something is being wasted
  - we are unable to satisfy all our wants
  - long lines form at gas stations

**Answer: C****Topic: Microeconomics and Macroeconomics****Level I: Definitions and Concepts**

- 142) Microeconomics is the study of \_\_\_\_.
- the choices that individuals and businesses make
  - all aspects of scarcity
  - the global economy
  - the national economy

**Answer: D****Topic: Factors of Production****Level I: Definitions and Concepts**

- 143) Factors of production include all of the following EXCEPT \_\_\_\_.
- machines made in past years.
  - money
  - entrepreneurship
  - an wheat field that is not irrigated

**Answer: B****Topic: Factors of Production****Level I: Definitions and Concepts**

- 144) The income earned by the people who sell the services of the factor of production \_\_\_\_ is called \_\_\_\_.
- capital; rent
  - entrepreneurship; wages
  - land; profit
  - entrepreneurship; profit

**Answer: D****Topic: What Tradeoff****Level I: Definitions and Concepts**

- 145) When the government chooses to spend the tax dollars that it collects on homeland security, its choice \_\_\_\_.
- involves a tradeoff of other goods and services such as education for more homeland security
  - illustrates that scarcity does not always exist
  - involves no tradeoff because the defense is necessary
  - primarily affects who gets the goods and services produced.

**Answer: A**

**Topic: Choices at the Margin****Level I: Definitions and Concepts**

- 146) Making a choice at the margin means \_\_\_\_.
- letting someone else choose for you
  - waiting until the last minute to make a choice
  - deciding to do a little bit more or a little bit less of an activity
  - making a choice by comparing the total benefit and the total cost

**Answer: C****Topic: Choices at the Margin****Level I: Definitions and Concepts**

- 147) Suppose that for the past two months, you have studied economics one hour a day. You now decide to study economics two hours a day. For the past two months, \_\_\_\_.
- your marginal cost of studying economics for an hour must have exceeded its marginal benefit
  - the marginal cost of studying economics must have fallen
  - your marginal benefit from studying economics an hour must have been greater than its marginal cost
  - the opportunity cost of studying economics must have risen.

**Answer: C****Topic: Incentives, Marginal Cost and Marginal Benefit****Level I: Definitions and Concepts**

- 148) If the cost of a computer falls by a large amount, you have an incentive to \_\_\_\_.
- buy a new computer
  - take a shorter vacation
  - use your friend's computer rather than buy one yourself
  - avoid buying a new computer because it is now less valuable

**Answer: A****Topic: Positive and Normative****Level I: Definitions and Concepts**

- 149) The statement that \_\_\_\_ is a positive statement.
- more students should study economics
  - the price of gasoline is too high
  - too many people in the United States have no health care insurance
  - the price of sugar in the United States is higher than the price in Australia

**Answer: D****Topic: Economic Science****Level I: Definitions and Concepts**

- 150) The task of economic science is to \_\_\_\_.
- help us understand how the economic world works
  - tell us what is good for us
  - make moral choices about things like drugs
  - save the earth from the overuse of natural resources

**Answer: A****Topic: Economic Science****Level I: Definitions and Concepts**

- 151) Economists make progress by \_\_\_\_.
- concentrating on clarifying all normative statements while disregarding positive statements
  - discarding normative statements that do not pass extensive testing
  - building and testing economic models
  - asking people whether they are better off or worse off

**Answer: C****Topic: Ceteris Paribus****Level I: Definitions and Concepts**

- 152) The term *ceteris paribus* means \_\_\_\_.
- other things being equal
  - equal access to public transportation
  - when other things all change
  - for better or worse

**Answer: A****Topic: Post Hoc Fallacy****Level I: Definitions and Concepts**

- 153) Which statement is an example of the *post hoc* fallacy?
- Fans crowding into a college football stadium cause the football game to be played.
  - There should be equal access to public transportation.
  - The reason cows are not an endangered species is because many people eat beef.
  - Hold everything constant except the price of juice.

**Answer: A**

**Topic: Fallacy of Composition****Level I: Definitions and Concepts**

- 154) The statement that \_\_\_\_ is an example of the fallacy of composition.
- A) the *ceteris paribus* fallacy cannot lead to the *post hoc* fallacy
  - B) all children should have equal access to good public transportation
  - C) end-of-the-year holiday season shopping causes the holiday season
  - D) if one fan at a football can see better by standing, then all fans can see better if they all stand

**Answer:** D

**Topic: Agreement and Disagreement****Level I: Definitions and Concepts**

- 155) Economists generally agree that \_\_\_\_.
- A) minimum wages increase the employment of low-skilled workers
  - B) rent ceilings cut the availability of housing
  - C) a large budget deficit makes no significant difference
  - D) tariffs make people better off

**Answer:** B

**Graphing Data****Topic: Graphing Data****Skill: Recognition**

- 1) The horizontal axis in a graph
- measures time on a scatter diagram.
  - measures the quality of a variable.
  - is named the  $y$ -axis.
  - is named the  $x$ -axis.

**Answer: D****Topic: Graphing Data****Skill: Recognition**

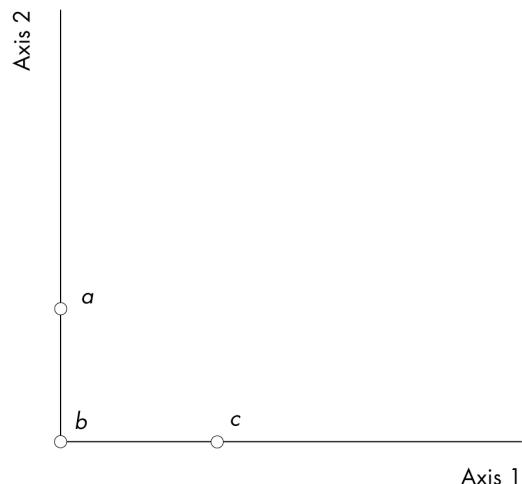
- 2) The vertical axis in a graph
- is named the  $y$ -axis.
  - is named the  $x$ -axis.
  - measures time in a cross-section/time-series graph.
  - has no origin.

**Answer: A****Topic: Graphing Data****Skill: Recognition**

- 3) The value of the  $y$ -coordinate of a point in a graph is the length of a line from the point to the
- origin.
  - scalar.
  - $x$ -axis.
  - $y$ -axis.

**Answer: C****Topic: Graphing Data****Skill: Conceptual**

- 4) The value of the  $x$ -coordinate of a point in a graph is the length of a line from the point to the
- origin.
  - scalar.
  - $x$ -axis.
  - $y$ -axis.

**Answer: D****Topic: Graphing Data****Skill: Analytical**

- 5) Using the above figure, the origin is at which point?
- Point  $a$ .
  - Point  $b$ .
  - Point  $c$ .
  - None of the points in the figure is the origin.

**Answer: B****Topic: Graphing Data****Skill: Analytical**

- 6) Using the above figure, which of the following is true?
- Axis 1 is typically called the  $y$ -axis.
  - Axis 1 is also known as the origin.
  - Axis 2 is typically called the  $x$ -axis.
  - Point  $b$  is known as the origin.

**Answer: D**

**Topic: Time-Series Graphs****Skill: Recognition**

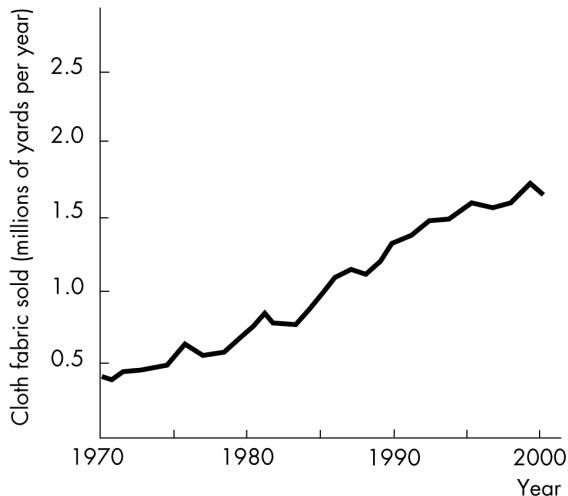
- 7) To see how variables evolve over time we use
- a scatter graph.
  - an evolution plot.
  - a cross-section plot.
  - a time-series graph.

**Answer: D****Topic: Time-Series Graphs****Skill: Conceptual**

- 8) You think that the volume of textiles produced in the United States has generally decreased. This belief means that in a time-series graph illustrating the total amount produced, you expect to find
- a positive trend.
  - no relationship between time and the amount produced.
  - an inverse relationship between time and the amount produced.
  - a linear relationship.

**Answer: C****Topic: Time-Series Graphs****Skill: Conceptual**

- 9) Demonstrating how an economic variable differs across countries for a specific year is best illustrated by
- a time-series graph.
  - a cross-section graph.
  - a scatter diagram.
  - None of the above because any type of graph might mislead.

**Answer: B****Topic: Time-Series Graphs****Skill: Analytical**

- 10) In the above figure, the amount of cloth fabric sold over time exhibits
- a downward trend.
  - no trend.
  - an upward trend.
  - None of the above because the figure cannot show the trend of the amount of cloth fabric sold.

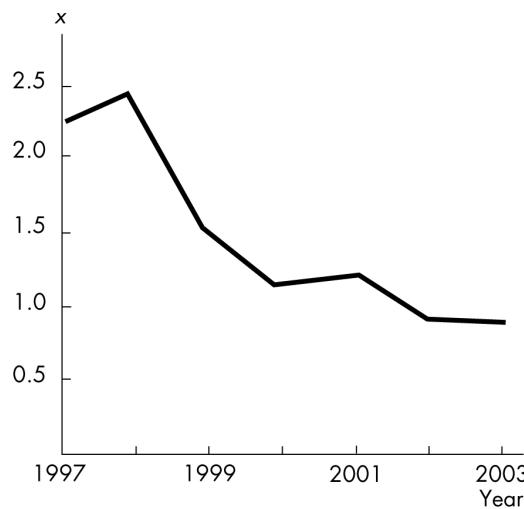
**Answer: C****Topic: Time-Series Graphs****Skill: Recognition**

- 11) On a time-series graph, time is typically shown
- as an area.
  - along the  $x$ -axis.
  - along the  $y$ -axis.
  - as an implicit variable held constant.

**Answer: B****Topic: Time-Series Graphs****Skill: Conceptual**

- 12) The horizontal axis on a time-series graph
- measures the variable being graphed.
  - measures units of time such as years.
  - runs parallel to the  $y$ -axis.
  - measures how the variable being graphed changes.

**Answer: B**

**Topic: Time-Series Graphs****Skill: Conceptual**

- 13) In the above figure, the diagram shows
- a downward trend in  $x$ .
  - an upward trend in  $x$ .
  - a scatter diagram.
  - a two-variable scatter diagram.

**Answer: A****Topic: Time-Series Graphs****Skill: Conceptual**

- 14) A time-series graph displaying real GDP from 1950 to 2001 has a positive trend. It is likely that real GDP
- fell every year from 1950 to 2001.
  - rose every year from 1950 to 2001.
  - was lower in 1950 than in 2001.
  - was higher in 1950 than in 2001.

**Answer: C****Topic: Time-Series Graphs****Skill: Analytical**

- 15) Inflation climbed steadily from 1952 to 1972. A time-series graph with inflation on the vertical axis and time (in years) on the horizontal axis would show
- the rate of inflation as a horizontal line.
  - that inflation was following a decreasing trend line.
  - that inflation had a positive trend.
  - that inflation had a negative trend.

**Answer: C****Topic: Time-Series Graphs****Skill: Analytical**

- 16) A time-series graph displays the price of copper. The slope of the line is negative for periods when
- the price of copper is falling.
  - the price of copper is rising.
  - the quantity of copper is falling.
  - the price of copper is low and not changing.

**Answer: A****Topic: Time-Series Graphs****Skill: Analytical**

- 17) A graph shows the wages of factory workers. The slope of the line is positive for periods when
- the wage is falling.
  - the wage is rising.
  - the wage is high but not rising any higher.
  - the wage is low.

**Answer: B****Topic: Time-Series Graphs****Skill: Recognition**

- 18) A trend is
- a measure of closeness on a scatter diagram.
  - a general tendency for a variable to rise or fall.
  - the maximum value of a variable.
  - the minimum value of a variable.

**Answer: B****Topic: Time-Series Graphs****Skill: Recognition**

- 19) Trend refers to
- the scale used on the  $x$ - and  $y$ -coordinates.
  - increases but not decreases of a variable.
  - decreases but not increases of a variable.
  - a general tendency for a variable to rise or fall.

**Answer: D****Topic: Time-Series Graphs****Skill: Conceptual**

- 20) Which of the following is TRUE regarding a trend?
- A cross section graph shows trends.
  - A time-series graph shows trends.
  - A scatter plot shows trends over time.
- I.
  - I and II.
  - II.
  - II and III.

**Answer: C**

**Topic: Time-Series Graphs****Skill: Conceptual**

- 21) A graph shows the unemployment rate rising during a recession and falling during expansions. This graph implies
- there is a positive trend during recessions.
  - there is a negative trend during expansions.
  - there is a tendency for the unemployment rate to go up and down.
  - all of the above are true.

**Answer: D****Topic: Time-Series Graphs****Skill: Analytical**

- 22) A graph shows the level of imports falling during a recession and rising during an expansion. This result implies
- there is a negative trend during recessions.
  - there is a positive trend during recessions.
  - there is a negative trend during expansions.
  - the level of imports is fairly steady over time.

**Answer: A****Topic: Cross-Section Graphs****Skill: Recognition**

- 23) A cross-section graph shows the value of a variable
- for different groups at a point in time.
  - for a given group across time.
  - as an absolute rate of change over time.
  - as a percentage rate of change over time.

**Answer: A****Topic: Cross-Section Graphs****Skill: Conceptual**

- 24) A graph shows the average wage of various demographic groups in 2002. The kind of graph used to show this data would be
- a scatter plot.
  - a time-series graph.
  - a cross-section graph.
  - a Venn-diagram.

**Answer: C****Topic: Cross-Section Graphs****Skill: Conceptual**

- 25) A graph shows the average SAT scores for males and females in 2002. The kind of graph used to show this data would be
- a scatter plot.
  - a time-series graph.
  - a cross-section graph.
  - None of the above.

**Answer: C****Topic: Cross-Section Graphs****Skill: Analytical**

- 26) An economist is studying how wages for high-school dropouts vary among six western European countries in 2002. These data could be graphed in
- a one-variable graph.
  - two triple-axes graphs.
  - a cross-section graph.
  - a time-series graph with each different country measured along the horizontal axis.

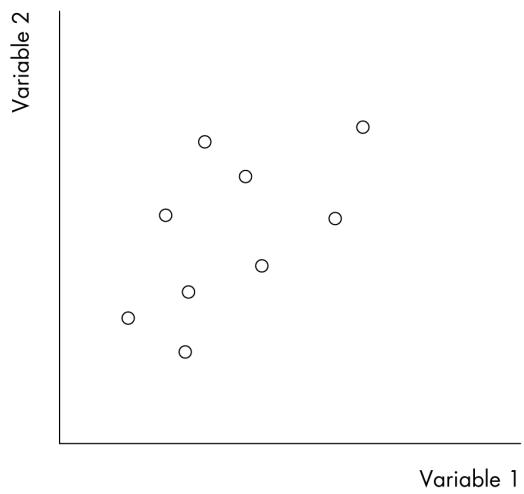
**Answer: C****Topic: Cross-Section Graphs****Skill: Analytical**

- 27) A school board is studying how test scores vary by socio-economic levels. The data represent information observed in 2002. The most effective way of depicting the data is a
- one-variable graph.
  - trending-line graph.
  - cross-section graph.
  - time-series graph.

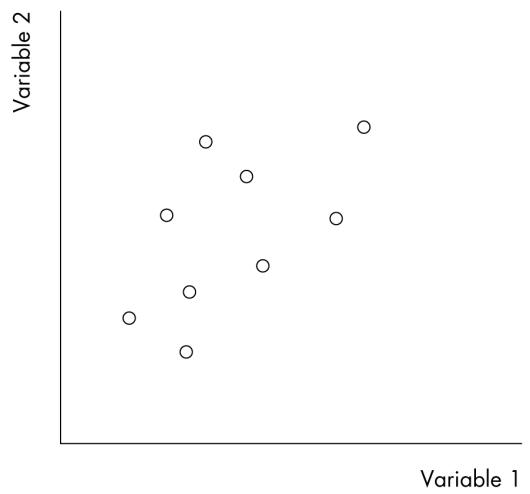
**Answer: C****Topic: Scatter Diagrams****Skill: Recognition**

- 28) A scatter diagram shows the
- level of one variable over time.
  - change in one variable over time.
  - relationship between two variables.
  - evolution of a variable.

**Answer: C**

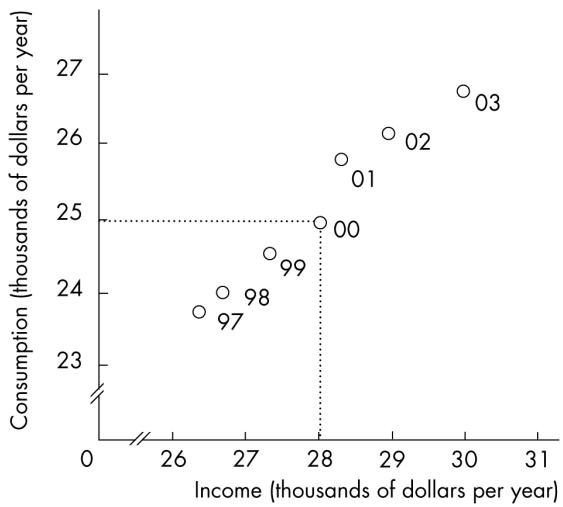
**Topic: Scatter Diagrams****Skill: Recognition**

- 29) The figure above is a
- scatter diagram.
  - time-series graph.
  - cross-section graph.
  - not a scatter diagram, nor a time-series graph, nor a cross-section graph.

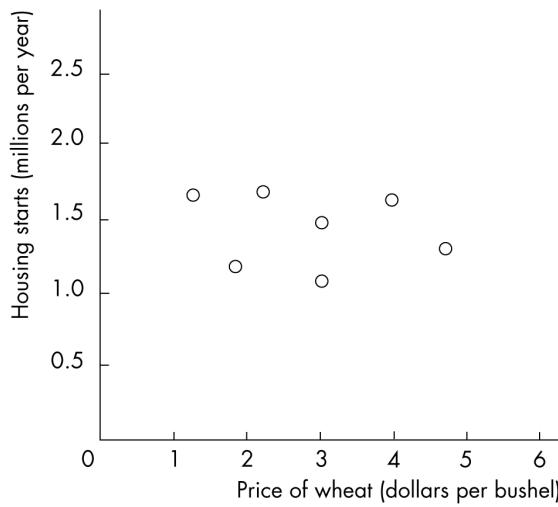
**Answer: A****Topic: Scatter Diagrams****Skill: Conceptual**

- 30) The above figure is
- a time-series graph showing that when unemployment rises, so too does inflation.
  - a cross-section graph showing that when unemployment falls, so too does inflation.
  - a scatter diagram showing that there is no clear relationship between unemployment and inflation.
  - an economic model showing that when unemployment falls, inflation rises.

**Answer: C**

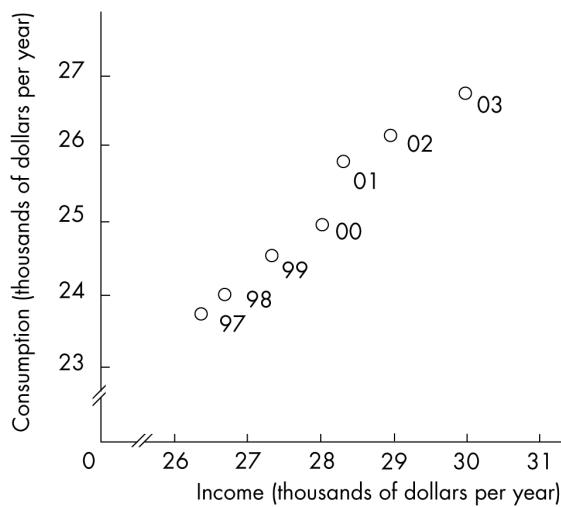
**Topic: Scatter Diagrams****Skill: Conceptual**

- 31) The above figure plots income and consumption in a nation. In 2000
- consumption was equal to \$25,000 and income was equal to \$28,000.
  - consumption was equal to \$28,000 and income was equal to \$25,000.
  - consumption was equal to \$25,000 and income was equal to \$25,000.
  - consumption was equal to \$27,000 and income was equal to \$31,000.

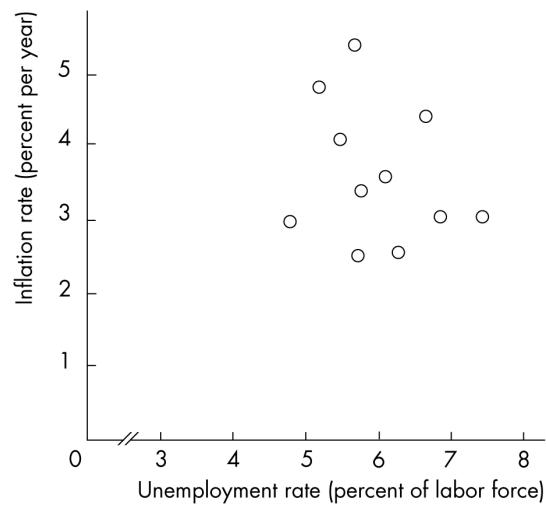
**Answer: A****Topic: Scatter Diagrams****Skill: Analytical**

- 32) The above figure graphs the price of a bushel of wheat and housing starts. The graph shows the variables are
- strongly positively related.
  - strongly negatively related.
  - not related.
  - related via an indirect relationship.

**Answer: C**

**Topic: Breaks in the Axes****Skill: Recognition**

- 33) In the above figure, the axis breaks are used
- to create a misleading graph.
  - to indicate that there are jumps from the origin, 0, to the first values recorded along the axes.
  - to indicate that there is not enough data to be included in the graph.
  - to show that there is no data available for the omitted ranges.

**Answer: B****Topic: Breaks in the Axes****Skill: Analytical**

- 34) In the above figure, the axis break in the  $x$ -axis
- reflects the fact that for the years covered in the figure, the unemployment rate was never less than 4 percent.
  - shows that there is no relationship between inflation and unemployment.
  - misleadingly shows that inflation has changed very little even though the unemployment rate has increased a great deal.
  - implies that for the years covered in the figure, the inflation rate was always greater than 1 percent.

**Answer: A****Topic: Correlation and Causation****Skill: Conceptual**

- 35) On a graph, high correlation between the variable measured along the  $x$ -axis and the variable measured along the  $y$ -axis
- means that changes in the variable measured along the  $x$ -axis must cause changes in the variable measured along the  $y$ -axis.
  - means that changes in the variable measured along the  $y$ -axis must cause changes in the variable measured along the  $x$ -axis.
  - means that changes in either variable must cause changes in the other variable.
  - does NOT mean that a change in the variable measured along the  $x$ -axis must cause a change in the variable measured along the  $y$ -axis.

**Answer: D**

## ■ Graphs Used in Economic Models

### Topic: Variables That Move in the Same Direction

#### Skill: Recognition

- 36) If two variables are positively related
- they move in opposite directions over time.
  - they are independent of each other.
  - they move in the same direction over time.
  - their graph will have a negative slope.

**Answer: C**

### Topic: Variables That Move in the Same Direction

#### Skill: Recognition

- 37) If two variables both increase at the same time or decrease at the same time, they are
- unrelated to each other.
  - positively related.
  - negatively related.
  - conversely related.

**Answer: B**

### Topic: Variables That Move in the Same Direction

#### Skill: Conceptual

- 38) If the slope of a line that graphs the relationship between variable  $x$  and variable  $y$  is positive, then we know that
- when the value of variable  $x$  increases, then the value of variable  $y$  decreases.
  - when the value of variable  $x$  decreases, then the value of variable  $y$  decreases.
  - the two variables are unrelated.
  - the two variables have an inverse relationship.

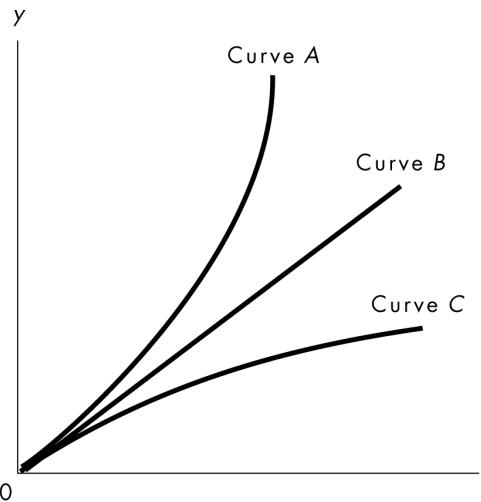
**Answer: B**

### Topic: Variables That Move in the Same Direction

#### Skill: Recognition

- 39) For the Jones household it has been estimated that for every ten degrees increase in the outdoor temperature the consumption of ice tea increases by 5 glasses. What type of relationship exists between temperature change and the consumption of ice tea?
- Negative relationship.
  - Positive relationship.
  - No relationship.
  - Maximum relationship.

**Answer: B**



### Topic: Variables That Move in the Same Direction

#### Skill: Conceptual

- 40) In the above figure, which curve shows a positive relationship between  $x$  and  $y$ ?
- Only curve A.
  - Only curve B.
  - Only curve C.
  - All the curves show a positive relationship.

**Answer: D**

### Topic: Variables That Move in the Same Direction

#### Skill: Conceptual

- 41) In the above figure, which curve shows a negative relationship between  $x$  and  $y$ ?
- Only curve A.
  - Only curve B.
  - Only curve C.
  - None of the curves show a negative relationship.

**Answer: D**

**Topic: Variables That Move in the Same Direction****Skill: Conceptual**

- 42) A scatter diagram with the price of vacations to Mexico on the vertical axis and the price of vacations to California on the horizontal axis shows a positive relationship. If the price of vacations to Mexico were placed on the horizontal axis, and the price of vacations to California on the vertical axis, the relationship would be
- negative relationship, also called a direct relationship.
  - negative relationship, also called an inverse relationship.
  - positive relationship, also called a direct relationship.
  - positive relationship, also called an inverse relationship.

**Answer: C****Topic: Variables That Move in the Same Direction****Skill: Conceptual**

- 43) If you hire 1 worker, he can produce 10 pretzels a day. If you hire a 2nd worker, she can produce 8 more pretzels. If you hire a 3rd worker, she can produce 6 more pretzels a day. A graph displaying this relationship between the number of employees on the horizontal axis and total pretzel output per day on the vertical axis shows
- a positive linear relationship.
  - an upward-sloping curve that becomes less steep as employment increases.
  - a negative linear relationship.
  - a negatively-sloped curve that becomes less steep as employment increases.

**Answer: B**

$x$	$y$
0	0
2	6
4	12
6	18
8	24
10	30

**Topic: Variables That Move in the Same Direction****Skill: Analytical**

- 44) In the above table, when  $x$  increases from 4 units to 6 units,  $y$  changes by \_\_\_\_ units.
- 2
  - 2
  - 6
  - 6

**Answer: C****Topic: Variables That Move in the Same Direction****Skill: Analytical**

- 45) The above table indicates that variables  $x$  and  $y$  are
- positively related.
  - inversely related.
  - negatively related.
  - second cousins.

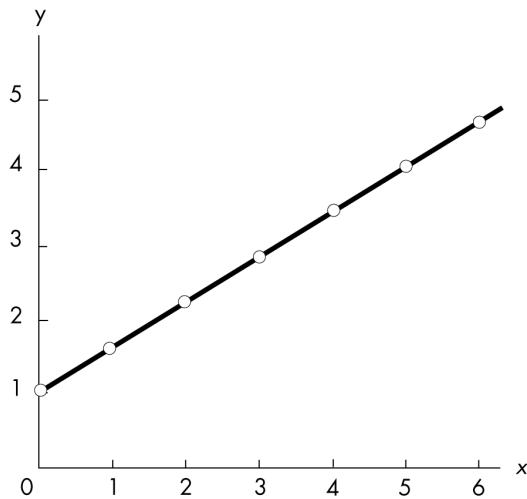
**Answer: A**

$x$	$y$
0	2
1	5
2	8
3	11
4	14
5	17

**Topic: Variables That Move in the Same Direction****Skill: Analytical**

- 46) Given the information in the above table, the relationship between  $x$  and  $y$  is
- positive, and the curve becomes flatter as  $x$  increases.
  - positive, and the curve becomes steeper as  $x$  increases.
  - positive and linear.
  - negative and linear.

**Answer: C**



**Topic:** Variables That Move in the Same Direction  
**Skill:** Analytical

- 47) In the above figure, the relationship between  $x$  and  $y$  is
- positive, and the curve becomes flatter as  $x$  increases.
  - positive, and the curve becomes steeper as  $x$  increases.
  - positive and linear.
  - negative and linear.

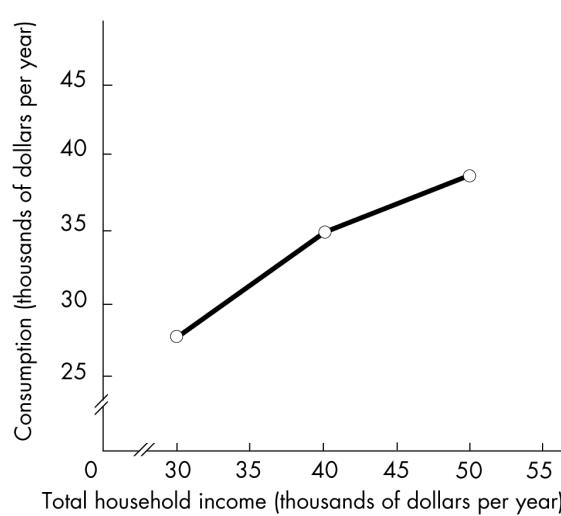
**Answer:** C

Total household income (dollars)	Total consumption (dollars)
30,000	27,000
40,000	35,000
50,000	38,000

**Topic:** Variables That Move in the Same Direction  
**Skill:** Recognition

- 48) The data in the table above shows the relationship between the Joneses' total consumption and total household income. Based on these data, total consumption varies
- directly with their total household income.
  - independently of their total household income.
  - inversely with their total household income.
  - negatively with their income.

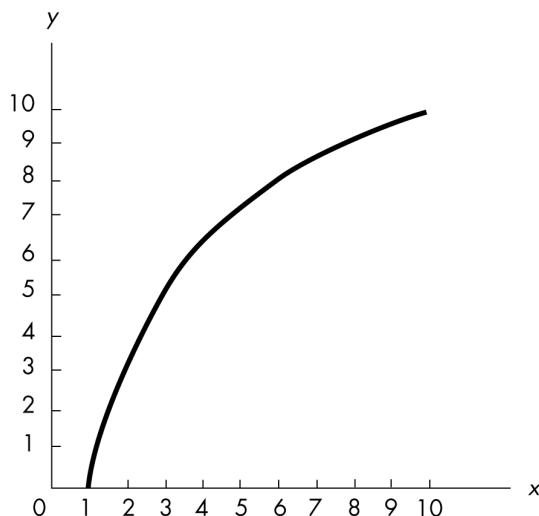
**Answer:** A



**Topic:** Variables That Move in the Same Direction  
**Skill:** Analytical

- 49) The above figure shows the relationship between the Joneses' total consumption and total household income. The figure illustrates that the Joneses' total consumption varies
- directly with their total household income.
  - independently of their total household income.
  - inversely with their total household income.
  - negatively with their income.

**Answer:** A

**Topic: Variables That Move in the Same Direction****Skill: Recognition**

- 50) The relationship depicted in the above figure is
- a negative linear relationship.
  - a positive linear relationship.
  - a positive becoming less steep relationship.
  - a positive becoming steeper relationship.

**Answer: C****Topic: Variables That Move in the Opposite Direction****Skill: Recognition**

- 51) Whenever one variable increases, another variable decreases. The two variables are
- definitely related through a third variable.
  - negatively related.
  - positively related.
  - unrelated to each other.

**Answer: B****Topic: Variables That Move in the Opposite Direction****Skill: Recognition**

- 52) If variable  $x$  always increases when variable  $y$  decreases,  $x$  and  $y$  are said to be
- positively related.
  - negatively related.
  - unrelated.
  - trend related.

**Answer: B****Topic: Variables That Move in Opposite Directions****Skill: Recognition**

- 53) If there is an inverse relationship between variable  $x$  and variable  $y$ , then that means that an increase in the value of variable  $x$  will be accompanied by
- an increase in the value of variable  $y$ .
  - a decrease in the value of variable  $y$ .
  - no change in the value of variable  $y$ .
  - variable  $y$  reaching its maximum value.

**Answer: B****Topic: Variables That Move in Opposite Directions****Skill: Recognition**

- 54) If there is an inverse relationship between two variables, the
- graph of this relationship will be a horizontal line.
  - graph of this relationship will be downward-sloping.
  - slope of the line (or the slope of a tangent line to the curve) will be positive.
  - graph of this relationship will be upward-sloping.

**Answer: B****Topic: Variables That Move in Opposite Directions****Skill: Conceptual**

- 55) Suppose that we find that student grades and time spent at parties move in opposite directions. A graph of the relationship between these two variables would curve
- upward and be linear.
  - upward and may be linear or nonlinear.
  - downward and be linear.
  - downward and may be linear or nonlinear.

**Answer: D****Topic: Variables That Move in Opposite Directions****Skill: Recognition**

- 56) The faster an automobile is driven (speed), the lower the miles per gallon (mpg) for that automobile. Given this information, we say that an automobile's speed and mpg have a(n)
- direct relationship.
  - inverse relationship.
  - linear relationship.
  - maximum relationship.

**Answer: B**

**Topic: Variables That Move in Opposite Directions****Skill: Conceptual**

- 57) As you devote more hours to studying, your snowboarding skills decrease. A graph of this relationship would show
- a negative relationship.
  - a direct relationship.
  - an inverse relationship.
  - Both answers A and C are correct.

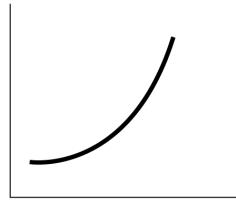
**Answer: D**

Figure A

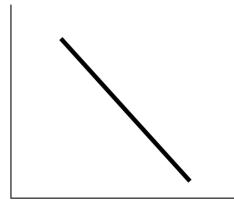


Figure B

**Topic: Variables That Move in the Opposite Direction****Skill: Conceptual**

- 58) If the quantity of wood purchased decreases when the price of wood rises, a graph representing these variables would have
- time on the vertical axis.
  - the slope on the vertical axis.
  - a negative slope.
  - a positive slope.

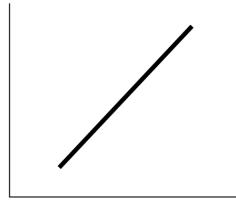
**Answer: C**

Figure C



Figure D

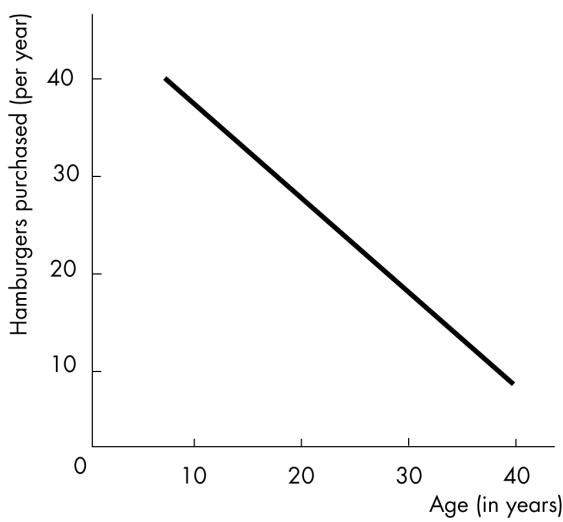
**Topic: Variables That Move in the Opposite Direction****Skill: Conceptual**

- 59) A scatter diagram with the price of peanut butter on the vertical axis and the price of jelly on the horizontal axis shows a negative relationship. If the price of jelly was placed on the vertical axis and the price of peanut butter was placed on the horizontal axis, the relationship would be a
- negative relationship, also called a direct relationship.
  - negative relationship, also called an inverse relationship.
  - positive relationship, also called a direct relationship.
  - positive relationship, also called an inverse relationship.

**Answer: B****Topic: Variables That Move in Opposite Directions****Skill: Recognition**

- 60) In the above figure, a negative relationship is demonstrated in which of the graphs?
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

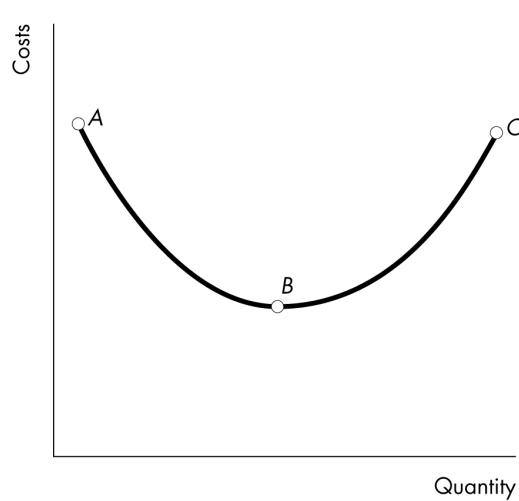
**Answer: B**



**Topic: Variables That Move in Opposite Directions**  
**Skill: Analytical**

- 61) The above figure depicts a
- positive non-linear relationship between age and the number of hamburgers purchased per year.
  - negative non-linear relationship between age and the number of hamburgers purchased per year.
  - positive linear relationship between age and the number of hamburgers purchased per year.
  - negative linear relationship between age and the number of hamburgers purchased per year.

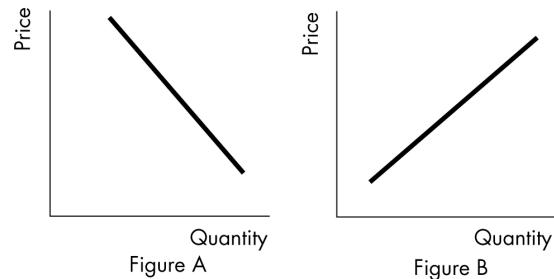
**Answer: D**



**Topic: Variables That Move in Opposite Directions**  
**Skill: Analytical**

- 62) In the above figure, the relationship between costs and quantity is negative
- between point A and point B.
  - between point B and point C.
  - along the entire curve.
  - at nowhere along the curve.

**Answer: A**



**Topic: Variables That Move in the Same Direction**  
**Skill: Analytical**

- 63) In the above, a positive relationship between price and quantity is shown in
- Figure A.
  - Figure B.
  - Both Figure A and Figure B.
  - Neither Figure A nor Figure B.

**Answer: B**

**Topic: Variables That Move in Opposite Directions****Skill: Analytical**

- 64) In the above figure, a negative relationship between price and quantity is shown in
- Figure A.
  - Figure B.
  - Both Figure A and Figure B.
  - Neither Figure A nor Figure B.

**Answer: A****Topic: Variables That Have a Maximum or Minimum****Skill: Conceptual**

- 65) If as a firm expands its output, cost per unit of output (average cost) decreases and then increases, then average cost and output have
- a relationship with a minimum.
  - a relationship with a maximum.
  - no relationship.
  - a linear positive relationship.

**Answer: A**

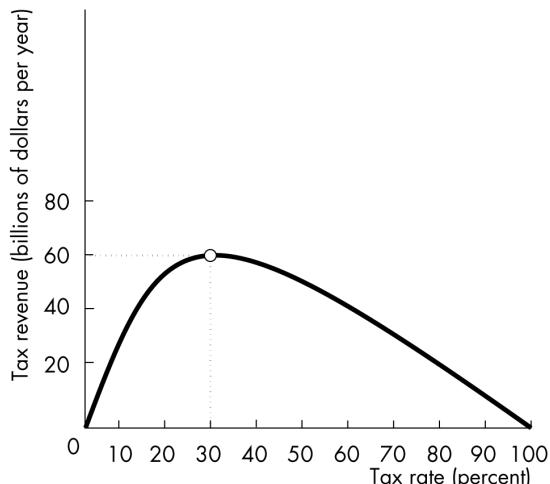
Decade	Productivity growth (percent)
1900s	1.80
1910s	1.85
1920s	2.40
1930s	1.55
1940s	2.60
1950s	3.00
1960s	2.55
1970s	1.15
1980s	1.23
1990s	2.15

**Topic: Variables That Have A Maximum or A Minimum****Skill: Analytical**

- 66) In the above table, two minimum points in the table are the decades of
- 1910s and 1970s.
  - 1960s and 1970s.
  - 1950s and 1980s.
  - 1930s and 1970s.

**Answer: D****Topic: Variables That Have A Maximum or A Minimum****Skill: Analytical**

- 67) In the above table, the maximum productivity growth equals
- 2.40 percent.
  - 3.00 percent.
  - 1.15 percent.
  - 1.23 percent.

**Answer: B****Topic: Variables That Have a Maximum or Minimum****Skill: Analytical**

- 68) In the above figure, the relationship between the tax rate and tax revenue is positive and becoming less steep between tax rates of
- 0 percent and 30 percent.
  - 30 percent and 100 percent.
  - 0 percent and 100 percent.
  - None of the above answers are correct.

**Answer: A****Topic: Variables That Have a Maximum or Minimum****Skill: Analytical**

- 69) In the above figure, if the tax rate is increased from 20 percent to 30 percent, tax revenue
- decreases.
  - is constant.
  - increases.
  - may increase or decrease.

**Answer: C**

**Topic: Variables That Have a Maximum or Minimum****Skill: Analytical**

- 70) In the above figure, tax revenue is at a maximum when the tax rate is
- 0 percent.
  - 30 percent.
  - 50 percent.
  - 100 percent.

**Answer: B****Topic: Maximum and Minimum Points****Skill: Conceptual**

- 71) As a curve approaches a maximum point, the slope will
- be positive, then negative after the maximum point.
  - be negative, then positive after the maximum point.
  - remain constant on either side of the maximum point.
  - increase before and after the maximum point.

**Answer: A****Topic: Maximum and Minimum Points****Skill: Analytical**

- 72) If a curve rises and then falls, it shows a
- maximum.
  - minimum.
  - linear relationship.
  - constant slope relationship.

**Answer: A****Topic: Maximum and Minimum Points****Skill: Analytical**

- 73) If a curve falls and then rises, it shows
- a maximum.
  - a minimum.
  - a linear relationship.
  - a constant slope relationship.

**Answer: B****Topic: Maximum and Minimum Points****Skill: Conceptual**

- 74) Along a curved line, the slope at the maximum
- is greater than zero.
  - is zero.
  - is less than zero.
  - may be greater than, less than, or equal to zero.

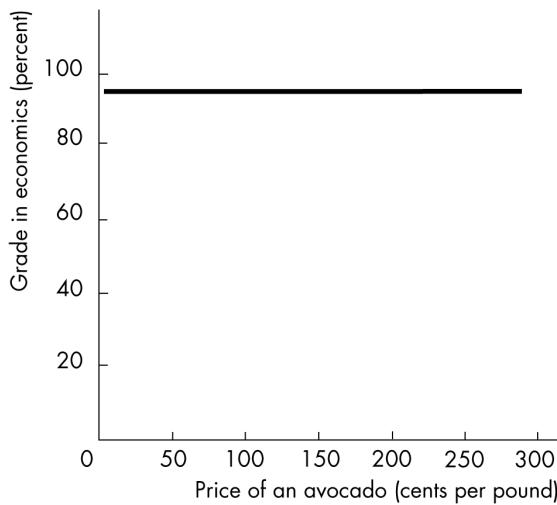
**Answer: B****Topic: Variables That Are Unrelated****Skill: Recognition**

- 75) Monthly precipitation and monthly cable TV bills
- are linearly related.
  - are positively related.
  - are unrelated.
  - Both answers A and B are correct.

**Answer: C****Topic: Variables That Are Unrelated****Skill: Recognition**

- 76) When  $y$  changes,  $x$  stays the same. The line depicting this relationship would be
- vertical.
  - horizontal.
  - linear with a negative slope.
  - linear with a positive slope.

**Answer: A**

**Topic: Variables That Are Unrelated****Skill: Analytical**

- 77) Which of the following correctly describes the above figure?
- I) There is no relationship between the price of an avocado and a student's grade in economics.
  - II) The value of variable measured on the  $y$ -axis is constant as the variable measured on the  $x$ -axis increases.
  - III) As a student's grade in economics increases, the price of an avocado increases.
- A) I.  
B) I and II.  
C) II and III.  
D) I, II, and III.

**Answer: B****Topic: Variables That Are Unrelated****Skill: Analytical**

- 78) A diagram shows the quantity of tomatoes on the horizontal axis and the quantity of coffee on the vertical axis. The quantity of tomatoes remains constant as the quantity of coffee increases. The graph of these data is
- A) a horizontal line.  
B) a vertical line.  
C) a positively sloped line.  
D) a negatively sloped line

**Answer: B****Topic: Variables That Are Unrelated****Skill: Analytical**

- 79) A graph measures  $y$  on the vertical axis and  $x$  on the horizontal. The curve on the graph is a horizontal line. From this fact we know that
- A) the value of  $x$  never changes.
  - B) the value of  $y$  does not depend on the value of  $x$ .
  - C) the ratio of  $x$  to  $y$  is constant.
  - D) the slope of the line is not defined because  $y$  never changes.

**Answer: B****Topic: Variables That Are Unrelated****Skill: Analytical**

- 80) A graph measures  $y$  on the vertical axis and  $x$  on the horizontal. The curve on the graph is a vertical line. From this fact we know that
- A) the value of  $x$  does not change when the value of  $y$  changes.
  - B) the value of  $y$  is constant.
  - C) the ratio of  $x$  to  $y$  is constant.
  - D) the ratio of  $y$  to  $x$  is constant.

**Answer: A****Topic: Variables That Are Unrelated****Skill: Conceptual**

- 81) The graph of two variables,  $x$  and  $y$ , is a horizontal line. This result indicates that  $x$  and  $y$  are
- A) positively related.
  - B) negatively related.
  - C) not related.
  - D) falsely related.

**Answer: C****Topic: Variables That Are Unrelated****Skill: Analytical**

- 82) Consider a diagram in which the variable measured on the  $y$ -axis remains constant while the variable measured on the  $x$ -axis increases. The graph of this relationship is
- A) a perpendicular line.
  - B) a line with slope equal to zero.
  - C) a line that has positive slope.
  - D) a line that has a negative slope.

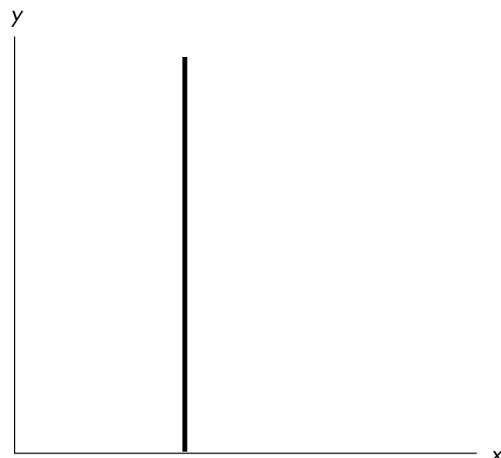
**Answer: B**

**Topic: Variables That Are Unrelated****Skill: Conceptual**

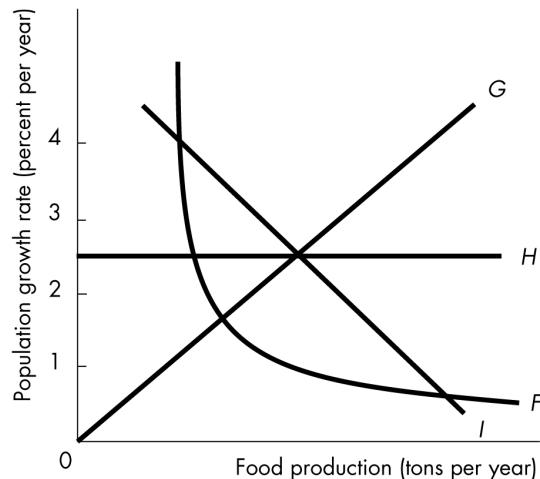
- 83) An independent relationship between two variables is shown in a graph by
- an upward-sloping line.
  - a horizontal or a vertical line.
  - a downward-sloping line.
  - a steeply sloped line.

**Answer: B****Topic: Variables That Are Unrelated****Skill: Analytical**

- 84) If two variables are unrelated, a scatter diagram of those variables will
- be a vertical line.
  - be a horizontal line.
  - be either a vertical or horizontal line.
  - have a constant positive slope.

**Answer: C****Topic: Variables That Are Unrelated****Skill: Analytical**

- 85) Which of the following correctly describes the above figure?
- There is no relationship between  $x$  and  $y$ .
  - There is a positive relationship between  $x$  and  $y$ .
  - There is a negative relationship between  $x$  and  $y$ .
  - None of the above answers are correct.

**Answer: A****Topic: Variables That Are Unrelated****Skill: Analytical**

- 86) In the above figure, which curve indicates that the level of food production does not affect the population growth rate?
- $F$
  - $G$
  - $H$
  - $I$

**Answer: C****■ The Slope of a Relationship****Topic: The Slope of a Relationship****Skill: Recognition**

- 87) The slope of a line equals
- the change in the variable measured along the  $x$ -axis divided by the change in the variable measured along the  $y$ -axis.
  - the change in the variable measured along the  $y$ -axis divided by the change in the variable measured along the  $x$ -axis.
  - the change in the variable measured along the  $x$ -axis minus the change in the variable measured along the  $y$ -axis.
  - the change in the variable measured along the  $x$ -axis multiplied by the change in the variable measured along the  $y$ -axis.

**Answer: B**

**Topic: The Slope of a Relationship****Skill: Analytic**

- 88) The slope of a positive relationship is
- positive.
  - undefined.
  - positive to the right of the maximum point and negative to the left.
  - constant as long as the relationship is nonlinear.

**Answer: A**

$x$	$y$
0	4
1	5
2	8
3	13
4	20

**Topic: The Slope of a Relationship****Skill: Analytical**

- 89) In the above table, the relationship between  $x$  and  $y$  is \_\_\_\_\_ and, with  $y$  measured on the vertical axis, the slope between  $y = 5$  and  $y = 8$  is equal to \_\_\_\_\_.  
 A) negative; 8  
 B) negative; 6  
 C) positive; 5  
 D) positive; 3

**Answer: D****Topic: The Slope of a Straight Line****Skill: Recognition**

- 90) The slope of a straight line is
- variable.
  - increasing.
  - decreasing.
  - constant.

**Answer: D****Topic: The Slope of a Straight Line****Skill: Analytical**

- 91) With  $y$  measured on the vertical axis and  $x$  measured on the horizontal axis, the slope of a straight line is defined as
- $y/x$ .
  - $x/y$ .
  - (change in  $y$ ) / (change in  $x$ ).
  - (change in  $x$ ) / (change in  $y$ ).

**Answer: C****Topic: The Slope of a Straight Line****Skill: Analytical**

- 92) The slope of a straight line is  $3/4$ . When  $x$  equals 20,  $y$  equals 14. When  $x$  equals 32,  $y$  equals
- 17.
  - 23.
  - 9.
  - 26.

**Answer: B****Topic: The Slope of a Straight Line****Skill: Analytical**

- 93) The slope of a straight line is 3. When  $x$  equals 10,  $y$  equals 33. When  $x$  equals 11,  $y$  equals
- 27.
  - 30.
  - 36.
  - 39.

**Answer: C****Topic: The Slope of a Straight Line****Skill: Analytical**

- 94) Along a straight line, when  $x$  equals 90, then  $y$  equals 30. When  $x$  equals 120, then  $y$  equals 40. The slope of the straight line is
- $1/3$ .
  - $-1/3$ .
  - 3.
  - 3.

**Answer: A****Topic: The Slope of a Straight Line****Skill: Analytical**

- 95) Along a straight line, the value of  $y$  is always equal to the value of  $x$ . The slope of the line is
- 1.
  - 0.
  - 1.
  - infinite.

**Answer: C****Topic: The Slope of a Straight Line****Skill: Analytical**

- 96) If the change in  $y = -4$ , and the change in  $x = 2$ , there is
- an independent relationship between  $y$  and  $x$ .
  - a positive relationship between  $y$  and  $x$ .
  - a negative relationship between  $y$  and  $x$ .
  - no relationship between  $y$  and  $x$ .

**Answer: C**

**Topic: The Slope of a Straight Line****Skill: Analytical**

- 97) If the change in  $y = 10$ , and the change in  $x = 3$ , there is  
 A) a positive relationship between  $y$  and  $x$ .  
 B) a negative relationship between  $y$  and  $x$ .  
 C) an independent relationship between  $y$  and  $x$ .  
 D) no relationship between  $y$  and  $x$ .

**Answer: A****Topic: The Slope of a Straight Line****Skill: Analytical**

- 98) The change in  $y = -20$ , and the change in  $x = -4$ . Thus there is  
 A) no relationship between  $y$  and  $x$ .  
 B) a negative relationship between  $y$  and  $x$ .  
 C) a positive relationship between  $y$  and  $x$ .  
 D) an independent relationship between  $y$  and  $x$ .

**Answer: C**

$x$	$y$
0	0
1	3
2	6
3	9
4	12
5	15

**Topic: The Slope of a Straight Line****Skill: Analytical**

- 99) Using the data in the table above, with  $y$  measured on the vertical axis, the slope of the line relating  $y$  to  $x$  is  
 A)  $1/3$ .  
 B) 1.  
 C) 3.  
 D) 6.

**Answer: C****Topic: The Slope of a Curved Line****Skill: Conceptual**

- 100) On a graph, an upward-sloping curve that is flatter as you move away from the origin indicates  
 A) a positive relationship with an increasing slope.  
 B) a positive relationship with a decreasing slope.  
 C) a negative relationship with an increasing slope.  
 D) a negative relationship with a decreasing slope.

**Answer: B****Topic: The Slope of a Curved Line****Skill: Analytical**

- 101) If the price of apples is on the vertical axis and the quantity of apples demanded is on the horizontal axis, the slope between two points on the line describing the relationship between price and quantity is  
 A) the change in price multiplied by the change in quantity.  
 B) the change in price divided by the change in quantity.  
 C) the change in quantity divided by the change in price.  
 D) price divided by quantity.

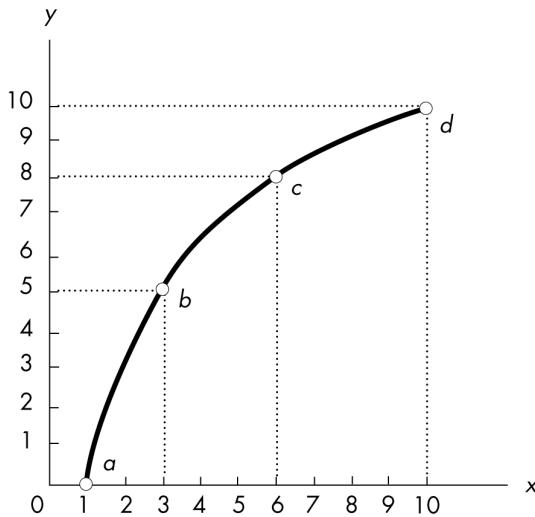
**Answer: B****Topic: The Slope Across an Arc****Skill: Conceptual**

- 102) The formula for the slope across an arc is used to approximate the slope for  
 A) linear relationships only.  
 B) a curved line.  
 C) a positive relationship only.  
 D) a negative relationship only.

**Answer: B****Topic: The Slope Across an Arc****Skill: Conceptual**

- 103) The slope of a curved line can be approximated by  
 A) the average of the variable measured along the  $y$ -axis divided by the average of the variable measured along the  $x$ -axis.  
 B) the inverse of the straight-line method.  
 C) the average of the variable measured along the  $x$ -axis divided by the average of the variable measured along the  $y$ -axis.  
 D) the slope across an arc from one point on the curve to another point on the curve.

**Answer: D**

**Topic: The Slope Across an Arc****Skill: Analytical**

104) In the above figure, the slope across the arc between  $c$  and  $d$  is

- A)  $1/2$ .
- B)  $1$ .
- C)  $4/3$ .
- D)  $2$ .

**Answer: A**

**Topic: The Slope Across an Arc****Skill: Analytical**

105) In the above figure, the slope across the arc between  $b$  and  $c$  is

- A)  $1/2$ .
- B)  $2/3$ .
- C)  $1$ .
- D)  $2$ .

**Answer: C**

**Topic: The Slope Across an Arc****Skill: Analytical**

106) In the above figure, the slope across the arc between  $a$  and  $b$  is

- A)  $2/5$ .
- B)  $1$ .
- C)  $3/2$ .
- D)  $5/2$ .

**Answer: D**

**Topic: The Slope at a Point****Skill: Analytical**

107) In the above figure, the slope at point  $b$  is

- A)  $1$ .
- B)  $5/2$ .
- C) between  $1$  and  $5/2$ .
- D) greater than  $5/2$ .

**Answer: C**

**Topic: The Slope of a Relationship****Skill: Analytical**

108) In the above figure, the relationship between  $x$  and  $y$  is

- A) positive, with slope decreasing as  $x$  increases.
- B) negative, with slope decreasing as  $x$  increases.
- C) negative, with slope increasing as  $x$  increases.
- D) positive, with slope increasing as  $x$  increases.

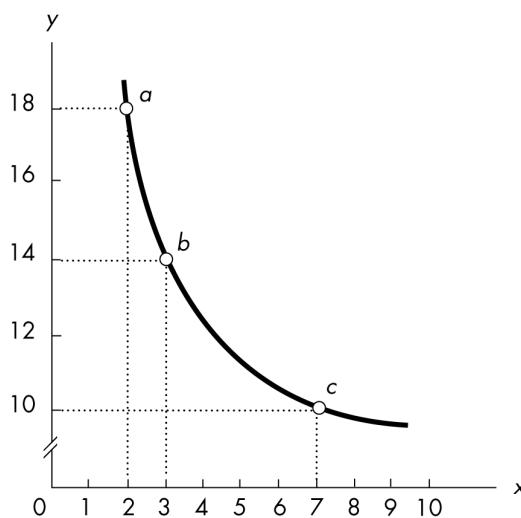
**Answer: A**

**Topic: The Slope of a Relationship****Skill: Analytical**

109) The slope in the above figure is

- A) negative and increasing.
- B) negative and decreasing.
- C) positive and increasing.
- D) positive and decreasing.

**Answer: D**

**Topic: The Slope Across an Arc****Skill: Analytical**

110) In the above figure, the slope across the arc between *a* and *b* is

- A) 1.
- B) -4.
- C) 1/4.
- D) -1/4.

**Answer: B**

**Topic: Graphing Data****Skill: Analytical**

111) In the above figure, the *x*-coordinate of point *b* is

- A) 1.
- B) 2.
- C) 3.
- D) 14.

**Answer: C**

**Topic: Graphing Data****Skill: Analytical**

112) In the above figure, the *y*-coordinate of point *b* is

- A) 1.
- B) 2.
- C) 3.
- D) 14.

**Answer: D**

## ■ Graphing Relationships Among More Than Two Variables

**Topic: Graph Relationships—More Than Two Variables, *Ceteris Paribus***

**Skill: Recognition**

113) *Ceteris paribus* when graphing a relationship refers to

- A) letting all the variables change at once.
- B) changing the origin of the graph.
- C) holding constant all but two variables.
- D) rescaling the coordinates.

**Answer: C**

**Topic: Graph Relationships—More Than Two Variables, *Ceteris Paribus***

**Skill: Conceptual**

114) In evaluating a relationship between *x* and *y*, *ceteris paribus* means other variables

- A) are not relevant to *x* and *y*.
- B) move in opposite directions to *x* and *y*.
- C) are not changing while *x* and *y* change.
- D) move with *x* and *y*.

**Answer: C**

**Topic: Graph Relationships—More Than Two Variables, *Ceteris Paribus***

**Skill: Conceptual**

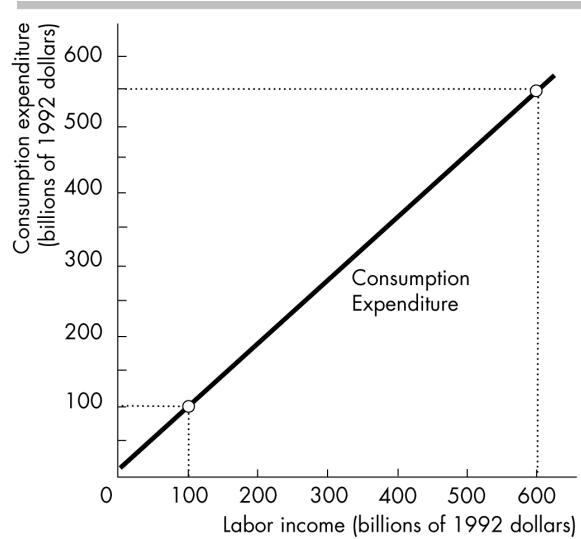
115) On a graph showing the relationship between *x* and *y*, the *ceteris paribus* condition implies that

- A) no other variables are related to *x* and *y*.
- B) the value of *x* is held constant.
- C) the value of *y* is held constant.
- D) other variables not shown are held constant.

**Answer: D**

**Topic: Graph Relationships—More Than Two Variables, Ceteris Paribus****Skill: Conceptual**

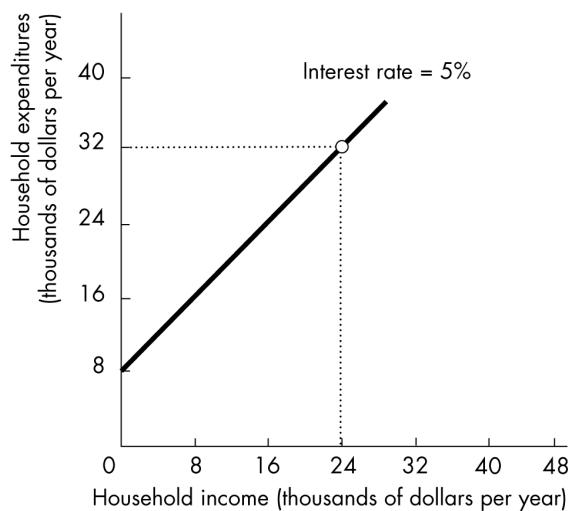
- 116) Assume that the quantity consumed of pizza is dependent on three factors: the price of a pizza, the income of pizza purchasers, and consumers' taste for pizza. When graphing the relationship between the price of a pizza and the quantity of pizza consumed
- the price of a pizza and the income of pizza consumers are the only variables that are allowed to change.
  - the price of pizza and quantity consumed of pizza are the only variables that are allowed to change.
  - consumers' taste for pizza and the income of pizza purchasers are the only variables that are allowed to change.
  - None of the above answers are correct.

**Answer: B****Topic: Slope****Skill: Conceptual**

- 117) In the above figure,
- consumption expenditures are a linear function of labor income.
  - the slope of the function depicted is 0.9.
  - consumption expenditures are positively related to labor income.
  - All of the above answers are correct.

**Answer: D****Topic: Graphing Relationships Among More Than Two Variables****Skill: Analytical**

- 118) If consumption expenditures are positively related to non-labor income, then if non-labor income were higher than that corresponding to the function in the above figure,
- consumption expenditure would be higher at any level of labor income than depicted above.
  - consumption expenditure would be lower at any level of labor income than depicted above.
  - consumption expenditures would be the same at any level of labor income as that depicted above.
  - We cannot say how the function depicted above would be affected.

**Answer: A****Topic: Graphing Data****Skill: Analytical**

- 119) In the above figure, when income is zero, household expenditures equal

- 0.
- \$1000.
- \$4000.
- \$8000.

**Answer: D**

**Topic: Variables That Move in the Same Direction****Skill: Analytical**

120) In the above figure, the relationship between income and expenditures is

- A) positive.
- B) negative.
- C) independent.
- D) random.

**Answer: A**

**Topic: Variables That Move in the Same Direction****Skill: Analytical**

121) The relationship in the above figure suggests that when the interest rate is 5 percent,

- A) a decrease in income will be associated with a decrease in expenditures.
- B) a decrease in income will be associated with an increase in expenditures.
- C) an increase in income will be associated with a decrease in expenditures.
- D) there is no relationship between expenditures and income.

**Answer: A**

**Topic: The Slope of a Straight Line****Skill: Analytical**

122) The slope of the line in the above figure is

- A) -4.
- B) -2.5.
- C) -1.0.
- D) 1.0.

**Answer: D**

**Topic: Graphing Relationships Among More Than Two Variables****Skill: Analytical**

123) In the above figure, while moving along the line showing the relationship between household income and expenditure,

- A) household expenditures are held constant.
- B) household income is held constant.
- C) the interest rate is held constant.
- D) no variable is held constant.

**Answer: C**

**Topic: Graphing Relationships Among More Than Two Variables****Skill: Analytical**

124) In the above figure, if the interest rate is negatively related to household expenditures for any given level of household income, an increase in the interest rate will

- A) shift the line vertically upward.
- B) shift the line vertically downward.
- C) make the line negatively sloped.
- D) cause no change in the line's position.

**Answer: B**

## ■ Study Guide Questions

**Topic: Study Guide Question, Time-Series Graphs****Skill: Recognition\***

125) Demonstrating how an economic variable changes from one year to the next is best illustrated by a

- A) one-variable graph.
- B) time-series graph.
- C) linear graph.
- D) cross-section graph.

**Answer: B**

**Topic: Study Guide Question, Time-Series Graphs****Skill: Recognition\***

126) You believe that the total amount of goods produced in the United States has generally increased. In a time-series graph illustrating the total amount produced, you expect to find

- A) an upward trend.
- B) no relationship between time and the amount of goods produced.
- C) an inverse relationship between time and the amount of goods produced.
- D) a linear relationship.

**Answer: A**

**Topic: Study Guide Question, Scatter Diagrams****Skill: Conceptual**

- 127) You notice that when the inflation rate increases, the interest rate tends to increase. This observation indicates that
- there might be false causality between inflation and the interest rate.
  - higher inflation rates must cause a higher interest rate.
  - a scatter diagram of the inflation rate and the interest rate will show a positive relationship.
  - a cross-section graph of the inflation rate and the interest rate will show a positive relationship.

**Answer: C****Topic: Study Guide Question, Scatter Diagrams****Skill: Conceptual\***

- 128) You hypothesize that more natural gas is sold in the Northeast when winters are colder. Which of the following possibilities would best reveal if your belief is correct?
- A time-series diagram showing the amount of natural gas sold in the Northeast during the last 30 years.
  - A time-series diagram showing the average temperature in the Northeast during the last 30 years.
  - A scatter-diagram plotting the average temperature in the Northeast against the amount of natural gas sold.
  - A trend diagram that plots the trend in natural gas sales over the last 30 years against the average temperature in the Northeast 30 years ago and this year.

**Answer: C****Topic: Study Guide Question, Misleading Graphs****Skill: Conceptual\***

- 129) Which type of graph can mislead?
- A time-series graph.
  - A cross-section graph.
  - A scatter diagram.
  - Any type of graph might mislead.

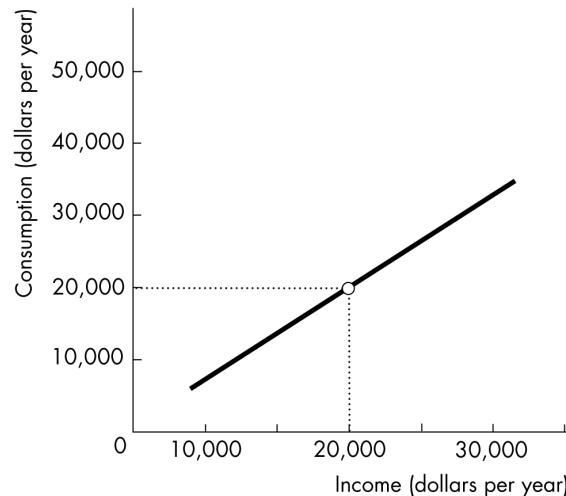
**Answer: D****Topic: Study Guide Question, Variables That Move in the Same Direction****Skill: Recognition\***

- 130) If variables  $x$  and  $y$  move up and down together, they are

- positively related.
- negative related.
- unrelated.
- trend related.

**Answer: A****Topic: Study Guide Question, Variables That Move in the Same Direction****Skill: Recognition\***

- 131) The term “direct relationship” means the same as
- correlation.
  - trend.
  - positive relationship.
  - negative relationship.

**Answer: C****Topic: Study Guide Question, Scatter Diagrams****Skill: Conceptual\***

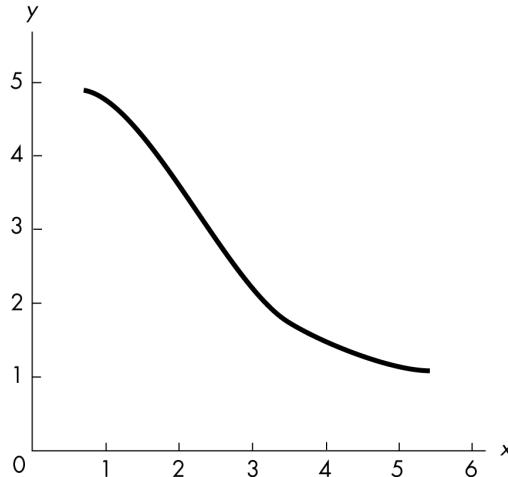
- 132) In the figure above, when income equals \$20,000, what does consumption equal?

- \$0
- \$10,000
- \$20,000
- Impossible to tell

**Answer: D**

**Topic: Study Guide Question, Variables That Move in the Same Direction****Skill: Analytical\***

- 133) The relationship between income and consumption illustrated in the figure above is
- positive and linear.
  - positive and nonlinear.
  - negative and linear.
  - negative and nonlinear.

**Answer: A****Topic: Study Guide Question, Variables That Move in the Opposite Direction****Skill: Analytical\***

- 134) The figure above shows
- a positive relationship.
  - a time-series relationship.
  - a negative relationship.
  - no relationship between the variables.

**Answer: C****Topic: Study Guide Question, Variables That Are Unrelated****Skill: Analytical\***

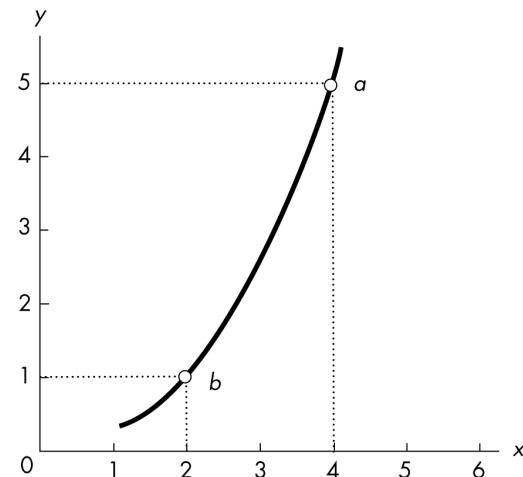
- 135) The relationship between two variables,  $x$  and  $y$ , is a vertical line. Thus  $x$  and  $y$  are
- positively correlated.
  - negatively correlated.
  - not related.
  - falsely related.

**Answer: C****Topic: Study Guide Question, The Slope of a Relationship****Skill: Analytic\***

- 136) The slope of a negative relationship is
- negative.
  - undefined.
  - positive to the right of the maximum point and negative to the left.
  - constant as long as the relationship is nonlinear.

**Answer: A****Topic: Study Guide Question, The Slope of a Straight Line****Skill: Recognition\***

- 137) A linear relationship
- always has a maximum.
  - always has a constant slope.
  - always slopes up to the right.
  - never has a constant slope.

**Answer: B****Topic: Study Guide Question, The Slope Across an Arc****Skill: Analytical\***

- 138) The relationship between  $x$  and  $y$  in the above figure is
- positive with an increasing slope.
  - positive with a decreasing slope.
  - negative with an increasing slope.
  - negative with a decreasing slope.

**Answer: A**

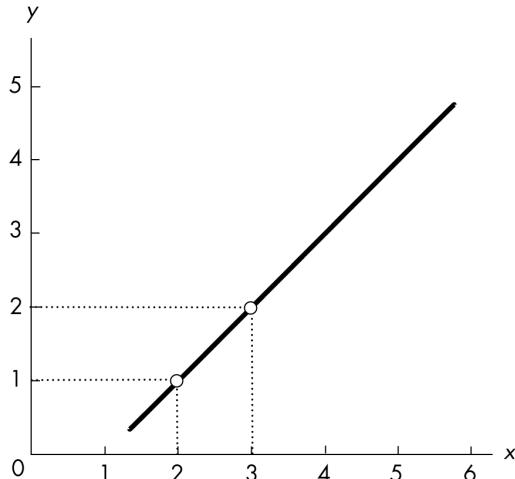
**Topic: Study Guide Question, The Slope Across an Arc**

**Skill: Analytical\***

139) In the above figure, the slope across the arc between points  $a$  and  $b$  equals

- A) 5.
- B) 4.
- C) 2.
- D) 1.

**Answer: C**



**Topic: Study Guide Question, The Slope of a Straight Line**

**Skill: Analytical\***

140) In the above figure, between  $x = 2$  and  $x = 3$ , what is the slope of the line?

- A) 1
- B) -1
- C) 2
- D) 3

**Answer: A**

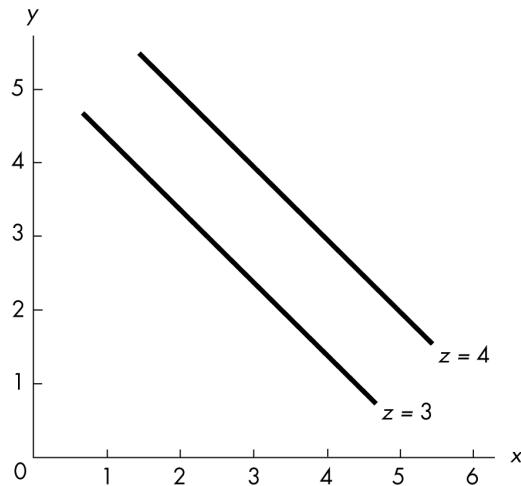
**Topic: Study Guide Question, The Slope of a Straight Line**

**Skill: Analytical\***

141) In the above figure, how does the slope of the line between  $x = 4$  and  $x = 5$  compare with the slope between  $x = 2$  and  $x = 3$ ?

- A) The slope is greater between  $x = 4$  and  $x = 5$ .
- B) The slope is greater between  $x = 2$  and  $x = 3$ .
- C) The slope is the same.
- D) The slope is not comparable.

**Answer: C**



**Topic: Study Guide Question, Graphing More Than Two Variables**

**Skill: Analytical\***

142) In the above figure,  $x$  is

- A) positively related to  $y$  and negatively related to  $z$ .
- B) positively related to both  $y$  and  $z$ .
- C) negatively related to  $y$  and positively related to  $z$ .
- D) negatively related to both  $y$  and  $z$ .

**Answer: C**

**Topic: Study Guide Question, Graphing More Than Two Variables**

**Skill: Analytical\***

143) In the figure above, *ceteris paribus*, an increase in  $x$  is associated with

- A) an increase in  $y$ .
- B) a decrease in  $y$ .
- C) a decrease in  $z$ .
- D) None of the above answers is correct.

**Answer: A**

**Topic: Study Guide Question, Graphing More Than Two Variables**

**Skill: Analytical\***

- 144) In the figure above, an increase in  $z$  leads to a
- A) movement up along one of the lines showing the relationship between  $x$  and  $y$ .
  - B) movement down along one of the lines showing the relationship between  $x$  and  $y$ .
  - C) shift rightward in the line showing the relationship between  $x$  and  $y$ .
  - D) shift leftward in the line showing the relationship between  $x$  and  $y$ .

**Answer: C**



## ■ Production Possibilities and Opportunity Cost

**Topic: Production Possibilities Frontier**

**Skill: Recognition**

- 1) The production possibilities frontier
  - A) refers to the technology used in such goods as computers and military aircraft.
  - B) once applied to U.S. technology but now refers to Japanese technology.
  - C) marks the boundary between attainable combinations of goods and services and unattainable combinations.
  - D) is also called the supply curve.

**Answer: C**

**Topic: Production Possibilities Frontier**

**Skill: Recognition\***

- 2) The production possibilities frontier is the boundary between
  - A) those combinations of goods and services that can be produced and those that can be consumed.
  - B) those resources that are limited and those that are unlimited.
  - C) those combinations of goods and services that can be produced and those that cannot.
  - D) those wants that are limited and those that are unlimited.

**Answer: C**

**Topic: Production Possibilities Frontier**

**Skill: Conceptual**

- 3) The production possibilities frontier is the boundary between those combination of goods and services that can be
  - A) produced and those that can be consumed.
  - B) consumed domestically and those that can be consumed by foreigners.
  - C) produced and those that cannot be produced.
  - D) consumed and those that cannot be produced.

**Answer: C**

**Topic: Production Possibilities Frontier**

**Skill: Recognition**

- 4) The production possibilities frontier is
  - A) upward sloping and reflects unlimited choices.
  - B) upward sloping and reflects tradeoffs in choices.
  - C) downward sloping and reflects unlimited choices.
  - D) downward sloping and reflects tradeoffs in choices.

**Answer: D**

**Topic: Production Possibilities Frontier**

**Skill: Recognition**

- 5) The production possibilities frontier
  - A) depicts the boundary between those combinations of goods and services that can be produced and those that cannot given resources and the current state of technology.
  - B) shows how many goods and services are consumed by each person in a country.
  - C) is a model that assumes there is no scarcity and no opportunity cost.
  - D) is a graph with price on the vertical axis and income on the horizontal axis.

**Answer: A**

**Topic: Production Possibilities Frontier**

**Skill: Conceptual**

- 6) The production possibilities frontier illustrates
  - A) all goods that can be produced by an economy
  - B) the combination of goods and services that can be produced efficiently
  - C) all goods and services that are desired but cannot be produced due to scarce resources.
  - D) all possible production of capital goods

**Answer: B**

**Topic: Production Possibilities Frontier****Skill: Recognition**

- 7) The production possibilities frontier represents
- the maximum amount of resources available at any given time.
  - combinations of goods and services that do not fully use available resources.
  - the maximum rate of growth of output possible for an economy.
  - the maximum levels of production that can be attained.

**Answer: D****Topic: Production Possibilities Frontier****Skill: Analytical**

- 8) A production possibilities frontier does NOT illustrate
- the limits on production imposed by our limited resources and technology.
  - the exchange of one good or service for another.
  - opportunity cost.
  - attainable and unattainable points.

**Answer: B****Topic: Production Possibilities Frontier****Skill: Analytical**

- 9) Any production point outside the production possibilities frontier
- is unattainable.
  - is associated with unused resources.
  - is attainable only if prices fall.
  - is attainable only if prices rise.

**Answer: A****Topic: Production Possibilities Frontier****Skill: Analytical**

- 10) Which of the following statements regarding the production possibilities frontier is true?
- Points outside the frontier are attainable.
  - Points inside the frontier are attainable.
  - Points on the frontier are less efficient than points inside the frontier.
  - None of the above because all of the above statements are false.

**Answer: B****Topic: Production Possibilities Frontier****Skill: Analytical**

- 11) Jane produces only corn and cloth. Taking account of her preferences for corn and cloth
- makes her production possibilities frontier straighter.
  - makes her production possibilities frontier steeper.
  - makes her production possibilities frontier flatter.
  - does not affect her production possibilities frontier.

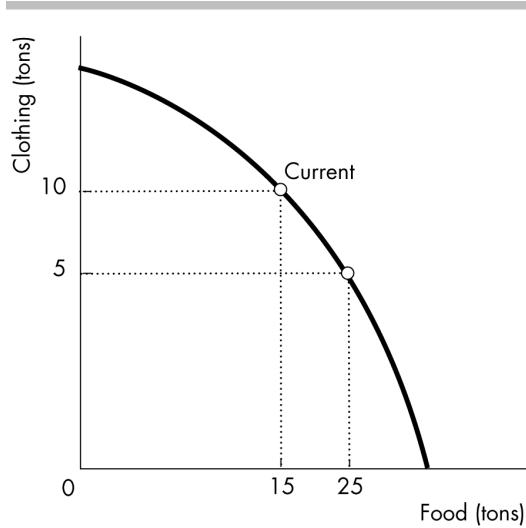
**Answer: D****Topic: Production Possibilities Frontier****Skill: Recognition**

- 12) On the vertical axis, the production possibilities frontier shows \_\_\_\_; on the horizontal axis, the production possibilities frontier shows \_\_\_\_.
- the quantity of a good; the number of workers employed to produce the good
  - the quantity of a good; the price of the good
  - the quantity of a good; a weighted average of resources used to produce the good
  - the quantity of one good; the quantity of another good

**Answer: D****Topic: Production Possibilities Frontier****Skill: Conceptual**

- 13) Scarcity is represented on the production possibilities frontier by
- the amount of the good on the horizontal axis forgone.
  - the fact that there are only two goods in the diagram.
  - technological progress.
  - the fact there are attainable and unattainable points.

**Answer: D**

**Topic: Production Possibilities****Skill: Analytical**

- 14) The above figure illustrates that if this country wishes to move from its current production point (labeled "Current") and have 10 more tons of food, it can do this by producing
- 10 more tons of clothing.
  - 10 fewer tons of clothing.
  - 5 more tons of clothing.
  - 5 fewer tons of clothing.

**Answer: D****Topic: Production Efficiency****Skill: Analytical**

- 15) A point inside a production possibilities frontier
- could indicate that some resources are unemployed.
  - is unattainable.
  - is more efficient than points on the production possibilities frontier.
  - implies that too much capital and not enough labor are being used.

**Answer: A****Topic: Production Efficiency****Skill: Analytical**

- 16) A point inside a production possibilities frontier
- could indicate that resources are misallocated.
  - is more efficient than a point on the production possibilities frontier.
  - reflects the fact that more technology needs to be developed to fully employ all resources.
  - implies that too much labor and not enough capital is being used.

**Answer: A****Topic: Production Efficiency****Skill: Analytical**

- 17) When resources are assigned to inappropriate tasks, that is, tasks for which they are not the best match, the result will be producing at a point
- where the slope of the PPF is positive.
  - where the slope of the PPF is zero.
  - inside the PPF.
  - outside the PPF.

**Answer: C****Topic: Production Efficiency****Skill: Conceptual**

- 18) Production efficiency requires that
- we cannot produce more of one good without producing less of some other good.
  - we are producing at a point on the PPF.
  - resources be assigned to the task for which they are the best match.
  - All of the above answers are correct.

**Answer: D****Topic: Production Efficiency****Skill: Analytical**

- 19) Sam's production possibilities frontier has good *A* on the horizontal axis and good *B* on the vertical axis. If Sam is producing at a point *inside* his frontier, then he
- can increase production of both goods with no increase in resources.
  - is fully using all his resources.
  - values good *A* more than good *B*.
  - values good *B* more than good *A*.

**Answer: A**

**Topic: Production Efficiency****Skill: Analytical**

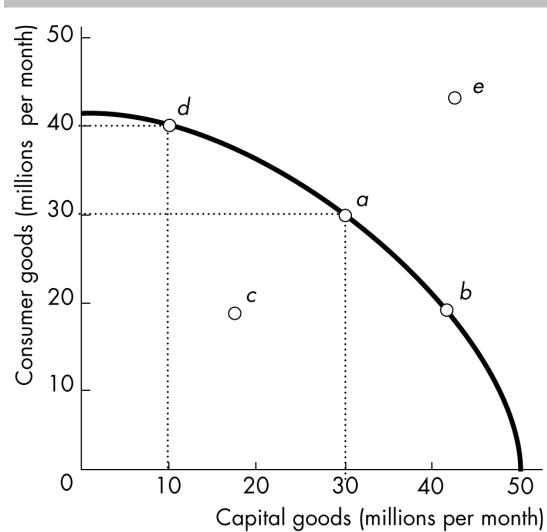
- 20) A situation in which some resources are NOT fully utilized is represented in a production possibilities frontier diagram by
- any point on either the horizontal or the vertical axis.
  - the midpoint of the production possibilities frontier.
  - a point outside the production possibilities frontier.
  - a point inside the production possibilities frontier.

**Answer: D****Topic: Production Efficiency****Skill: Analytical**

- 21) Production points inside the production possibilities frontier
- are unattainable.
  - are attainable only with the full utilization of all resources.
  - are associated with unused or misallocated resources.
  - result in more rapid growth.

**Answer: C****Topic: Production Efficiency****Skill: Analytical**

- 22) A nation produces at a point inside its *PPF*
- when it trades with other nations.
  - when it produces inefficiently.
  - when its *PPF* is bowed out.
  - never.

**Answer: B****Topic: Production Efficiency****Skill: Analytical**

- 23) Refer to the production possibilities frontier in the figure above. Which point indicates that resources are NOT fully utilized or are misallocated?
- Point *a*.
  - Point *b*.
  - Point *c*.
  - Point *e*.

**Answer: C****Topic: Production Possibilities Frontier****Skill: Analytical**

- 24) Refer to the production possibilities frontier in the figure above. Which point is unattainable?
- Point *a*.
  - Point *b*.
  - Point *c*.
  - Point *e*.

**Answer: D****Topic: Production Possibilities Frontier****Skill: Analytical**

- 25) Refer to the production possibilities frontier in the figure above. Point \_\_\_\_\_ represents an \_\_\_\_\_ point.
- b*; unattainable.
  - c*; unattainable.
  - e*; inefficient.
  - c*; inefficient.

**Answer: D**

**Topic: Tradeoff****Skill: Analytical**

- 26) In the figure above, moving from point *d* to point *a* requires
- technological change.
  - a decrease in unemployment.
  - decreasing the output of consumer goods in order to boost the output of capital goods.
  - both capital accumulation and a decrease in unemployment.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 27) Refer to the production possibilities frontier in the figure above. Suppose a country is at point *a*. A movement to point \_\_\_\_ means that the country \_\_\_\_\_.  
 A) *d*; must give up 20 million capital goods  
 B) *e*; is not operating efficiently  
 C) *d*; gives up 10 million consumer goods.  
 D) *b*; is producing at an inefficient point.

**Answer: A****Topic: Opportunity Cost****Skill: Analytical**

- 28) Refer to the production possibilities frontier in the figure above. If the country moves from point *a* to point *c*, the opportunity cost of the move is
- 30 million capital goods.
  - 20 million capital goods.
  - 10 million capital goods.
  - 10 million consumption goods.

**Answer: B****Topic: Production Efficiency****Skill: Conceptual**

- 29) Some time ago the government of China required many highly skilled technicians and scientists to engage in unskilled agricultural labor in order to develop “proper social attitudes.” This policy probably caused China to produce
- at an inappropriate point along its production possibilities frontier.
  - outside its production possibilities frontier with respect to food, but inside with respect to high-technology goods.
  - inside its production possibilities frontier with respect to food, but outside with respect to high-technology goods.
  - inside its production possibilities frontier.

**Answer: D****Topic: Production Efficiency****Skill: Conceptual**

- 30) Production efficiency is achieved
- when all goods and services desired by consumers can be produced in the economy
  - when producing inside the production possibilities frontier
  - when the ability is gained to produce goods and services that are desired beyond the *PPF* boundary
  - when it producing one more unit of one good cannot occur without producing less of some other good.

**Answer: D****Topic: Production Efficiency****Skill: Conceptual**

- 31) A society that is producing on its production possibilities frontier is
- not utilizing all of its resources.
  - not being technologically efficient.
  - producing too much output.
  - fully utilizing all of its productive resources.

**Answer: D**

**Topic: Production Efficiency****Skill: Conceptual**

- 32) If a country must decrease current consumption to increase the amount of capital goods it produces today, then it
- must be using resources inefficiently today, but will be more efficient in the future.
  - must be producing along the production possibilities frontier today and will see a shift outward of the frontier in the future if produces more capital goods.
  - must be producing outside the production possibilities frontier and will continue to do so in the future.
  - must not have private ownership of property and will have to follow planning authorities decisions today and in the future.

**Answer: B****Topic: Production Efficiency****Skill: Conceptual**

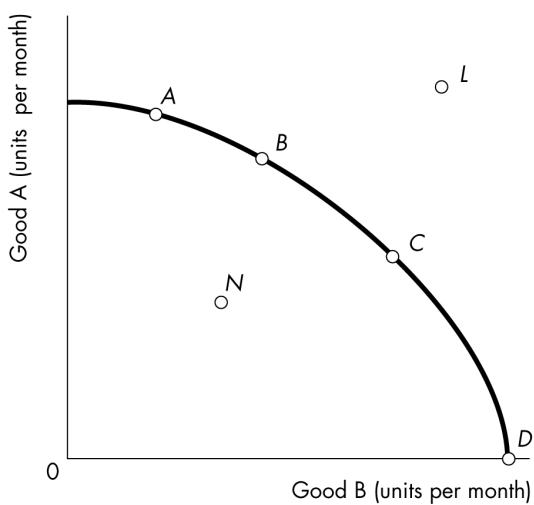
- 33) If production of two goods is currently at levels such that we are inside the production possibilities frontier
- it is not possible to produce more of both goods
  - production is inefficient.
  - in order to produce more of one good, we must produce less of the other.
  - we are in the “unattainable” region.

**Answer: B****Topic: Production Efficiency****Skill: Conceptual**

- 34) Using the production possibilities frontier model, unemployment is described as producing at a point
- on the exact middle of the PPF curve.
  - on either end of the PPF curve.
  - inside the PPF curve.
  - outside the PPF curve.

**Answer: C****Topic: Production Efficiency****Skill: Conceptual**

- 35) If a society is operating at a point inside its production possibilities frontier, then this society's
- resources are being inefficiently utilized.
  - production possibilities frontier will shift rightward.
  - resources are being used in the most efficient manner.
  - economy will grow too fast.

**Answer: A****Topic: Production Efficiency****Skill: Analytical**

- 36) Point C on the production possibilities frontier in the above diagram illustrates
- a point with maximum and efficient production of Goods A and Goods B
  - a combination of goods and services that cannot be produced efficiently
  - all goods and services that are desired but cannot be produced due to scarce resources.
  - an underutilization of resources

**Answer: A**

**Topic: Production Possibilities Frontier****Skill: Analytical**

- 37) In the above figure, which point represents an unattainable production combination of the two goods?
- Point C.
  - Point L.
  - Point D.
  - Point N.

**Answer: B****Topic: Production Efficiency****Skill: Analytical**

- 38) In the above figure, which point represents an attainable but inefficient production point?
- Point C.
  - Point N.
  - Point L.
  - Point D.

**Answer: D****Topic: Tradeoff****Skill: Conceptual**

- 39) A tradeoff is
- represented by a point inside a *PPF*.
  - represented by a point outside a *PPF*.
  - a constraint that requires giving up one thing to get another.
  - a transaction at a price either above or below the equilibrium price.

**Answer: C****Topic: Tradeoff****Skill: Conceptual**

- 40) A tradeoff is illustrated by
- a point inside the *PPF*.
  - a point outside the *PPF*.
  - a change in the slope of the *PPF*.
  - the negative slope of the *PPF*.

**Answer: D****Topic: Opportunity Cost****Skill: Recognition**

- 41) When we choose a particular option, we must give up alternative options. The highest-valued alternative forgone is the
- opportunity cost of the option chosen.
  - comparative advantage of the option chosen.
  - nonmonetary cost of the option chosen.
  - absolute advantage.

**Answer: A****Topic: Opportunity Cost****Skill: Recognition**

- 42) Ted can study for his economics exam or go to a concert. He decides to study for his economics exam instead of going to the concert. The concert he will miss is Ted's \_\_\_\_ of studying for the exam.
- opportunity cost
  - explicit cost
  - implicit cost
  - discretionary cost

**Answer: A****Topic: Opportunity Cost****Skill: Analytical**

- 43) Most students attending college pay tuition and are unable to hold a full-time job. For these students, tuition is
- part of the opportunity cost of going to college. So are their forgone earnings from not holding a full-time job.
  - part of the opportunity cost of going to college. Their forgone earnings from not holding a full-time job are not.
  - not part of the opportunity cost of going to college, but their forgone earnings from not holding a full-time job are.
  - not part of the opportunity cost of going to college. Neither are their forgone earnings from not holding a full-time job.

**Answer: A****Topic: Opportunity Cost****Skill: Recognition**

- 44) Opportunity cost is
- the best choice that can be made.
  - the highest-valued alternative forgone.
  - the monetary cost.
  - the indirect cost.

**Answer: B**

**Topic: Opportunity Cost****Skill: Analytical**

- 45) On a diagram of a production possibilities frontier, opportunity cost is represented by
- a point on the horizontal axis.
  - a point on the vertical axis.
  - a ray through the origin.
  - the slope of the production possibilities frontier, which indicates that to get more of one good requires less of another.

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 46) If additional units of a good could be produced at a constant opportunity cost, the production possibilities frontier would be
- bowed outward.
  - bowed inward.
  - positively sloped.
  - a straight line.

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 47) If Sam is producing at a point on his production possibilities frontier, then he
- cannot produce any more of either good.
  - can produce more of one good only by producing less of the other.
  - will be unable to gain from trade.
  - is not subject to scarcity.

**Answer: B**

Point	Production of grain (tons)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

**Topic: Production Possibilities Frontier****Skill: Analytical\***

- 48) The table above lists six points on the production possibilities frontier for grain and cars. Given this information, which of the following combinations is unattainable?
- 6 tons of grain and 18 cars.
  - 4 tons of grain and 26 cars.
  - 2 tons of grain and 27 cars.
  - 7 tons of grain and 10 cars.

**Answer: B****Topic: Production Efficiency****Skill: Analytical\***

- 49) The table above lists six points on the production possibilities frontier for grain and cars. From this information you can conclude that production is inefficient if this economy produces
- 6 tons of grain and 18 cars
  - 4 tons of grain and 26 cars.
  - 2 tons of grain and 27 cars.
  - 8 tons of grain and 10 cars.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical\***

- 50) The table above lists six points on the production possibilities frontier for grain and cars. What is the opportunity cost of producing the 5th ton of grain?
- 16 cars
  - 6 cars.
  - 3 cars.
  - 2 cars.

**Answer: C**

**Topic: Opportunity Cost****Skill: Analytical\***

- 51) The table above lists six points on the production possibilities frontier for grain and cars. What is the opportunity cost of producing the 26th car?
- 2 tons of grain.
  - 4 tons of grain.
  - 0.25 tons of grain.
  - 0.5 tons of grain.

**Answer: D**

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

**Topic: Production Possibilities Frontier****Skill: Conceptual**

- 52) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following statements is TRUE?
- Producing 0 chocolate bars and 100 cans of cola is both attainable and efficient.
  - Producing 20 chocolate bars and 80 cans of cola is attainable, but inefficient.
  - Producing 30 chocolate bars and 38 cans of cola is only attainable with an increase in technology.
  - Producing 40 chocolate bars and 0 cans of cola is unattainable and inefficient.

**Answer: A****Topic: Production Efficiency****Skill: Conceptual**

- 53) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following is an example of a point that is inefficient?
- 0 chocolate bars and 100 cans of cola
  - 20 chocolate bars and 80 cans of cola
  - 32 chocolate bars and 40 cans of cola
  - 38 chocolate bars and 0 cans of cola.

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 54) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. What is the opportunity cost of *one* chocolate bar if Sweet-tooth Land moves from point C to point D?
- 30 cans of cola
  - 10 cans of cola
  - 3 cans of cola
  - 1/3 can of cola

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 55) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. What is the opportunity cost of *one* can of cola if Sweet-tooth Land moves from point C to point B?
- 20 chocolate bars
  - 10 chocolate bars
  - 2 chocolate bars
  - 1/2 chocolate bar

**Answer: D****Topic: Opportunity Cost****Skill: Conceptual**

- 56) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. A movement from \_\_\_\_\_ represents the greatest opportunity cost of increasing cola production.
- point E to point D
  - point D to point C
  - point C to point B
  - point B to point A

**Answer: D**

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

**Topic: Production Possibilities Frontier****Skill: Conceptual**

- 57) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a point that is unattainable?
- 0 units of good X and 40 units of good Y.
  - 6 units of good X and 28 units of good Y.
  - 10 units of good X and 16 units of good Y.
  - 3 units of good X and 35 units of good Y.

**Answer: C****Topic: Production Efficiency****Skill: Analytical**

- 58) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a production point that is inefficient?
- 0 units of good X and 40 units of good Y.
  - 6 units of good X and 28 units of good Y.
  - 10 units of good X and 16 units of good Y.
  - 3 units of good X and 35 units of good Y.

**Answer: D****Topic: Production Efficiency****Skill: Analytical**

- 59) The above table shows production combinations on a country's production possibilities frontier. Which of the following points signifies efficient production?
- 0 units of good X and 40 units of good Y.
  - 3 units of good X and 25 units of good Y.
  - 10 units of good X and 16 units of good Y.
  - 12 units of good X and 1 unit of good Y.

**Answer: A****Topic: Opportunity Cost****Skill: Analytical**

- 60) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of increasing the production of Y from 16 to 28 units?
- 12 units of good X.
  - 6 units of good X.
  - 3 units of good X.
  - There is no opportunity cost when moving from one point to another along a production possibilities frontier.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 61) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of *one* unit of Y when the production of good Y increases from 16 to 28 units?
- 4 units of good X.
  - 3 units of good X.
  - 1/4 unit of good X.
  - There is no opportunity cost when moving from one point to another along a production possibilities frontier.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 62) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of increasing the production of X from 0 to 3 units?
- 40 units of good Y
  - 3 units of good Y.
  - 4/3 units of good Y for every one unit of good X.
  - 0 units of good Y.

**Answer: C**

**Topic: Opportunity Cost****Skill: Analytical**

- 63) The above table shows production combinations on a country's production possibilities frontier. A movement from \_\_\_\_\_ involves the *greatest* opportunity cost of increasing the production of good Y.
- point E to point D.
  - point D to point C.
  - point C to point B.
  - point B to point A.

**Answer: D**

Point	Production of cheese (tons)	Production of wine (gallons)
A	0	1,000
B	250	900
C	500	700
D	750	400
E	1,000	0

**Topic: Opportunity Cost****Skill: Analytical**

- 64) The above table shows the production possibilities frontier for the economy of Arkadia. The opportunity cost of increasing cheese production from 500 (tons of) cheese to 750 (tons of) cheese is
- 100 gallons of wine.
  - 250 tons of cheese.
  - 300 gallons of wine.
  - 700 gallons of wine.

**Answer: C**

Point	Production of soda	Production of pizza
A	40	0
B	28	3
C	20	5
D	12	7
E	0	10

**Topic: Production Possibilities Frontier****Skill: Analytical**

- 65) Suppose that, for given resources and production technology, the above table is an accurate description of the production relationship between soda and pizza. For the sake of simplicity we assume the relationship is linear. Which of the following production possibilities is not attainable?

- 15 sodas, 5 pizzas
- 40 sodas, 0 pizzas
- 5 sodas, 10 pizzas
- All of the above possibilities are attainable.

**Answer: C****Topic: Production Efficiency****Skill: Analytical**

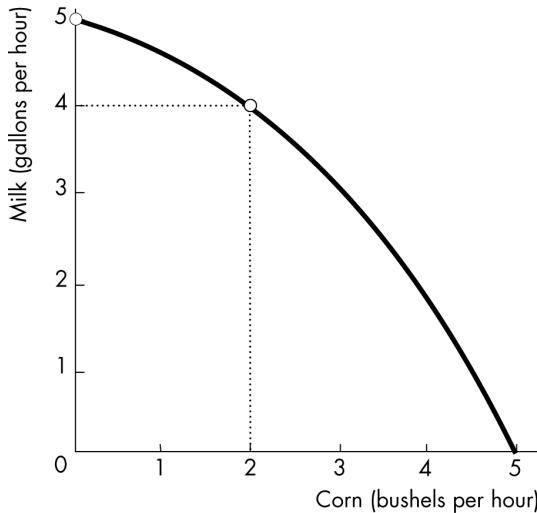
- 66) Suppose that, for given resources and production technology, the above table is an accurate description of the production relationship between soda and pizza. For the sake of simplicity we assume the relationship is linear. Based on what you know about production possibilities frontier, which of the following production possibilities is not efficient?

- 28 sodas and 3 pizzas.
- 15 sodas and 5 pizzas.
- 12 sodas and 10 pizzas.
- 20 sodas and 5 pizzas.

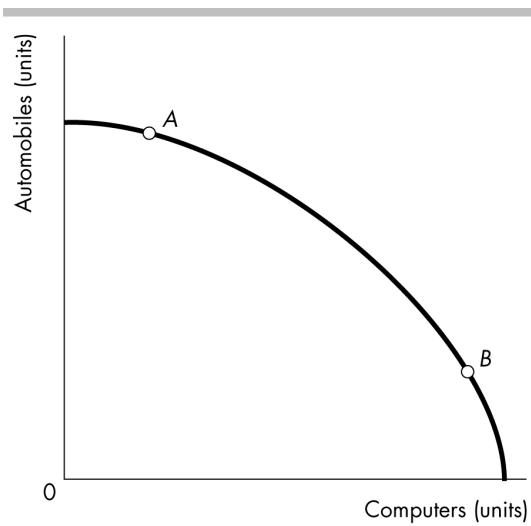
**Answer: B**

**Topic: Opportunity Cost****Skill: Analytical**

- 67) Suppose that, for given resources and production technology, the above table is an accurate description of the production relationship between soda and pizza. For the sake of simplicity we assume the relationship is linear. What is the opportunity cost of producing an additional unit of pizza?
- 4 sodas.
  - 3 sodas.
  - Cannot be calculated with the information provided (the prices for both products are not given).
  - 1 pizza.

**Answer: A****Topic: Opportunity Cost****Skill: Analytical**

- 68) Consider the PPF for milk and corn in the above figure. If currently no corn is being produced, what is the total opportunity cost of producing another 2 bushels of corn?
- 2 bushels of corn.
  - 4 gallons of milk.
  - 1 gallon of milk.
  - Nothing.

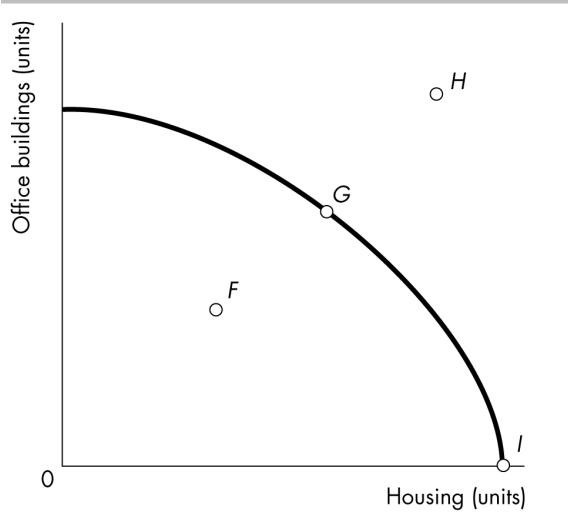
**Answer: C****Topic: Production Possibilities Frontier****Skill: Recognition**

- 69) The bowed outward shape of the production possibilities frontier in the above figure indicates that
- some resources are better suited for producing computers.
  - the opportunity cost of producing more computers decreases as more computers are produced.
  - computer technology is subject to the principle of decreasing costs.
  - All of the above answers are correct.

**Answer: A****Topic: Opportunity Cost****Skill: Conceptual**

- 70) According to the figure above, the opportunity cost of producing another computer is
- higher at A.
  - higher at B.
  - the same at every point along the frontier.
  - different at most points along the frontier but equal at points A and B because they are equally distant from the axes.

**Answer: B**

**Topic: Production Efficiency****Skill: Conceptual**

- 71) Consider the *PPF* for office buildings and housing shown in the figure above. Which point in the diagram shows that resources to produce office buildings and housing are being misallocated, unused, or both?
- Point *F*.
  - Point *G*.
  - Point *H*.
  - Point *I*.

**Answer: A****Topic: Opportunity Cost****Skill: Conceptual**

- 72) Opportunity cost is represented on the production possibilities frontier by
- attainable and unattainable points.
  - efficient and inefficient points.
  - the amount of good Y forgone when more of good X is produced.
  - technological progress.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 73) At one point along a *PPF*, 50 tons of coffee and 100 tons of bananas are produced. At another point along the same *PPF*, 30 tons of coffee and 140 tons of bananas are produced. The opportunity cost of a ton of coffee between these points is
- $\frac{7}{5}$  of a ton of bananas.
  - $\frac{1}{2}$  of a ton of bananas.
  - $\frac{5}{7}$  of a ton of bananas.
  - 2 tons of bananas.

**Answer: D****Topic: Production Possibilities Frontier****Skill: Analytical**

- 74) In the production possibilities frontier depicted in the figure above, which of the following combinations of hats and bananas is unattainable?
- 4 million pounds of bananas and 4 million hats
  - 2 million pounds of bananas and 5 million hats
  - 0 million pounds of bananas and 6 million hats
  - 1 million pounds of bananas and 3 million hats

**Answer: A****Topic: Production Efficiency****Skill: Analytical**

- 75) In the production possibilities frontier depicted in the figure above, which of the following combinations of hats and bananas is inefficient?
- 4 million pounds of bananas and 4 million hats
  - 2 million pounds of bananas and 5 million hats
  - 0 million pounds of bananas and 6 million hats
  - 1 million pounds of bananas and 3 million hats

**Answer: D**

**Topic: Production Efficiency****Skill: Analytical**

- 76) In the production possibilities frontier depicted in the figure above, which of the following combinations of hats and bananas is generated by an efficient allocation of resources (no misallocated resources)?
- 3 million pounds of bananas and 4 million hats
  - 2 million pounds of bananas and 5 million hats
  - 0 million pounds of bananas and 6 million hats
  - All of the above combinations are efficient.

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 77) In the production possibilities frontier depicted in the figure above, what is the opportunity cost of increasing the production of bananas from two million pounds to three million pounds?
- 1/2 million hats
  - 1 million hats
  - 2 million hats
  - 3 million hats

**Answer: B****Topic: Opportunity Cost is a Ratio****Skill: Analytical**

- 78) Jane produces only corn, measured in tons, and cloth, measured in bolts. For her, the opportunity cost of one more ton of corn is
- the same as the opportunity cost of one more bolt of cloth.
  - the inverse of the opportunity cost of one more bolt of cloth.
  - the ratio of all the bolts of cloth she produces to all the tons of corn she produces.
  - the ratio of the acres of land she uses to graze sheep to the acres she uses to grow corn.

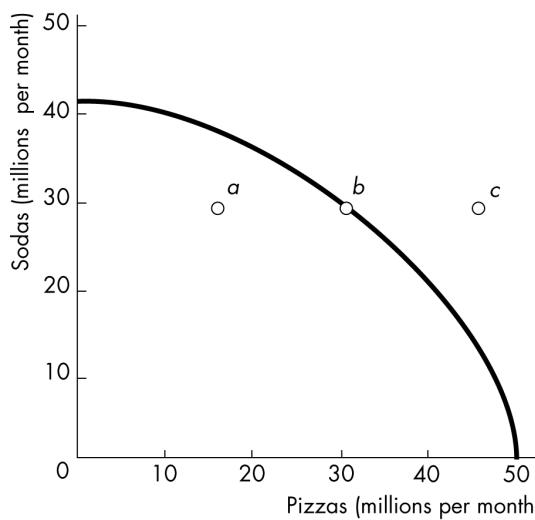
**Answer: B****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 79) The principle of increasing opportunity cost leads to
- a production possibilities frontier (*PPF*) that is bowed inward from the origin.
  - a production possibilities frontier (*PPF*) that is bowed outward from the origin.
  - an inward shift of the production possibilities frontier (*PPF*).
  - an outward shift of the production possibilities frontier (*PPF*).

**Answer: B****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 80) A *PPF* bows outward because
- not all resources are equally productive in all activities.
  - consumers prefer about equal amounts of the different goods.
  - entrepreneurial talent is more abundant than human capital.
  - resources are used inefficiently.

**Answer: A**

**Topic: Increasing Opportunity Cost****Skill: Analytical**

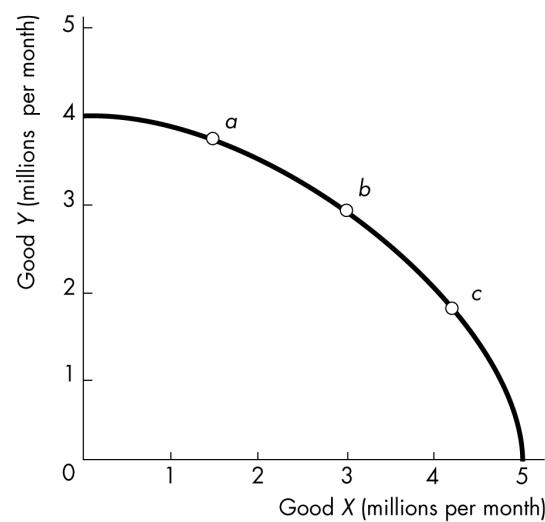
- 81) A PPF, such as the one above, that bows outward illustrates
- decreasing opportunity cost.
  - increasing opportunity cost.
  - that technology is improving.
  - that productivity is falling.

**Answer: B****Topic: Production Efficiency****Skill: Analytical**

- 82) In the figure above,
- moving from point *a* to point *b* would require new technology.
  - production at point *b* is efficient whereas production at point *a* is not efficient.
  - some resources must be unemployed at point *c*.
  - opportunity costs are decreasing.

**Answer: B****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 83) As we increase the production of computers, we find that we must give up larger and larger amounts of DVD players per computer.
- This situation illustrates increasing opportunity cost.
  - As a result, we should specialize in the production of DVD players.
  - The production possibilities frontier for computers and DVD players is a straight line.
  - DVD players will be more highly regarded by consumers than computers.

**Answer: A****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 84) As output moves from point *a* to point *b* to point *c* along the PPF in the above figure, the opportunity cost of one more unit of good *X*
- rises. The opportunity cost of one more unit of good *Y* also rises.
  - rises. The opportunity cost of one more unit of good *Y* falls.
  - falls. The opportunity cost of one more unit of good *Y* rises.
  - falls. The opportunity cost of one more unit of good *Y* also falls.

**Answer: B**

**Topic: Increasing Opportunity Cost****Skill: Analytical**

- 85) Refer to the production possibilities frontier in the figure above. More of good  $X$  must be given up per unit of good  $Y$  gained when moving from point  $b$  to point  $a$  than when moving from point  $c$  to point  $b$ . This fact
- illustrates decreasing opportunity cost.
  - illustrates increasing opportunity cost.
  - indicates that good  $X$  is more capital intensive than good  $Y$ .
  - indicates that good  $Y$  is more capital intensive than good  $X$ .

**Answer: B****Topic: Increasing Opportunity Cost****Skill: Analytical**

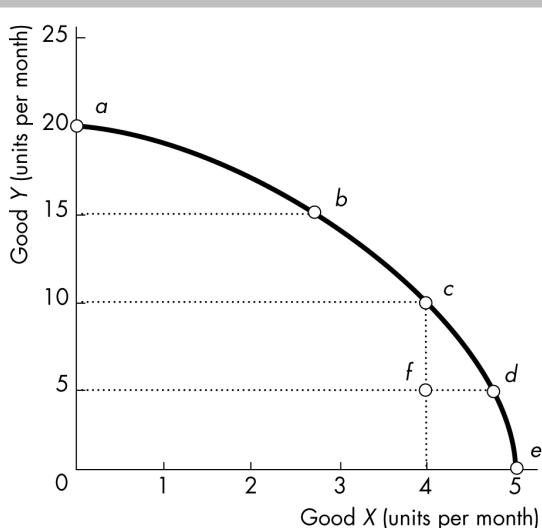
- 86) When the production possibilities frontier bows outward from the origin,
- some of society's resources are unemployed.
  - opportunity costs are constant.
  - opportunity costs are increasing.
  - opportunity costs are decreasing.

**Answer: C****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 87) The slope of a production possibilities frontier that displays increasing opportunity cost is
- positive and constant.
  - negative and constant.
  - steeper near the horizontal intercept than near the vertical intercept.
  - steeper near the vertical intercept than near the horizontal intercept.

**Answer: C****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 88) The fact that individual productive resources are NOT equally useful in all activities
- implies that a production possibilities frontier will be bowed outward.
  - implies that gain from specialization and trade is unlikely.
  - follows from the law of demand.
  - implies a linear production possibilities frontier.

**Answer: A****Topic: Opportunity Cost****Skill: Analytical**

- 89) The figure above illustrates Mary's production possibilities frontier. If Mary wants to move from point  $b$  to point  $c$ , she must
- improve technology.
  - increase the accumulation of capital.
  - give up some of good  $Y$  in order to obtain more of good  $X$ .
  - give up some of good  $X$  in order to obtain more of good  $Y$ .

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 90) The above figure illustrates Mary's production possibilities frontier. If Mary wants to move from point  $d$  to point  $c$ , she must
- improve technology.
  - increase her accumulation of capital.
  - give up some of good  $X$  in order to obtain more of good  $Y$ .
  - give up some of good  $Y$  in order to obtain more of good  $X$ .

**Answer: C**

**Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 91) The above figure illustrates Mary's production possibilities frontier. Which of the following movements show opportunity costs increasing?
- point *a* to point *b* to point *c*.
  - point *a* to point *f*.
  - point *f* to point *a*.
  - point *c* to point *f* to point *d*.

**Answer: A****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 92) Refer to the production possibilities frontier figure above. Which of the following movements requires the largest opportunity cost, in terms of good *X* forgone, per extra unit of good *Y*?
- From point *e* to point *d*.
  - From point *d* to point *c*.
  - From point *c* to point *b*.
  - From point *b* to point *a*.

**Answer: D****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 93) Refer to the production possibilities frontier in the figure above. Which of the following movements requires the largest opportunity cost, in terms of good *Y* forgone, per extra unit of good *X*?
- From point *a* to point *b*.
  - From point *b* to point *c*.
  - From point *c* to point *d*.
  - From point *d* to point *e*.

**Answer: D**

Point	Production of <i>X</i>	Production of <i>Y</i>
<i>a</i>	0	40
<i>b</i>	4	36
<i>c</i>	8	28
<i>d</i>	12	16
<i>e</i>	16	0

**Topic: Production Possibilities Frontier****Skill: Analytical**

- 94) Refer to the table above, which gives five points on a nation's *PPF*. The production of 7 units of *X* and 28 units of *Y* is
- impossible given the available resources.
  - possible but leaves some resources less than fully used or misallocated.
  - on the production possibilities frontier between points *c* and *d*.
  - on the production possibilities frontier between points *b* and *c*.

**Answer: B****Topic: Production Possibilities Frontier****Skill: Analytical**

- 95) Refer to the table above, which describes a nation's *PPF*. What does point *c* mean?
- If 8 units of *X* are produced, then 28 or more units of *Y* can be produced.
  - If 8 units of *X* are produced, then at most 28 units of *Y* can be produced.
  - The opportunity cost of one more unit of *X* is 3.5 units of *Y*.
  - The opportunity cost of one less unit of *X* is 3.5 units of *Y*.

**Answer: B****Topic: Opportunity Cost****Skill: Analytical**

- 96) Refer to the table above, which gives five points on a nation's *PPF*. The opportunity cost of increasing the production of *X* from 8 to 12 units is a total of
- 1.33 units of *Y*.
  - 3.5 units of *Y*.
  - 8 units of *Y*.
  - 12 units of *Y*.

**Answer: D**

**Topic: Opportunity Cost****Skill: Analytical**

- 97) Refer to the table above, which gives five points on a nation's *PPF*. The opportunity cost of increasing the production of *Y* from 16 to 36 units is a total of
- 4 units of *X*.
  - 8 units of *X*.
  - 10 units of *X*.
  - 12 units of *X*.

**Answer: B****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 98) Refer to the table above, which gives five points on a nation's *PPF*. As we increase the production of *X*,
- the output of *Y* increases.
  - unemployment increases.
  - the opportunity cost of each new unit of *X* increases.
  - the opportunity cost of each new unit of *X* decreases.

**Answer: C****Topic: Increasing Opportunity Cost****Skill: Analytical**

- 99) Refer to the table above, which gives five points on a nation's *PPF*. The numbers in the table demonstrate that
- the economy illustrated has a comparative advantage in *Y*.
  - the economy illustrated has a comparative advantage in *X*.
  - the opportunity cost of producing an additional unit of *Y* increases as the production of *Y* increases.
  - the opportunity cost of producing an additional unit of *Y* decreases as the production of *Y* increases.

**Answer: C****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 100) Tom Petty excels at producing rock videos. Tom Clancy excels at writing military novels. The difference in their skills is one reason why the production possibilities frontier for videos and novels
- has a positive slope.
  - has a constant slope.
  - is shallower to the right.
  - is steeper to the right.

**Answer: D****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 101) Generally, opportunity costs increase and the production possibilities frontier bows outward. Why?
- Unemployment is inevitable.
  - Resources are not equally useful in all activities.
  - Technology is slow to change.
  - Labor is scarcer than capital.

**Answer: B****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 102) When the production possibilities frontier is bowed outwards, the opportunity cost of producing more of one good
- increases in terms of the amount foregone of the other good.
  - decreases in terms of the amount foregone of the other good.
  - remains constant.
  - cannot be determined.

**Answer: A****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 103) Consider a *PPF* for tapes and soda. If the opportunity cost of a tape increases as the quantity of tapes produced increases and also the opportunity cost of a soda increases as the quantity of soda produced increases, then the *PPF* between the two goods will be
- a straight, downward-sloping line.
  - a straight, upward-sloping line.
  - bowed outward.
  - All of the above are possible and more information is needed to determine which answer is correct.

**Answer: C**

**Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 104) Increasing opportunity cost occurs along a production possibilities frontier because
- resources are not equally productive in all activities.
  - increasing wants need to be satisfied.
  - in order to produce more of one good decreasing amounts of another good must be sacrificed.
  - production takes time.

**Answer: A****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 105) Increasing opportunity cost is due to
- firms' needs to earn more and more profits.
  - ever increasing taxes.
  - the fact that it is more difficult to use resources efficiently the more society produces.
  - the fact that resources are not equally suited for different types of production.

**Answer: D****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 106) Which of the following causes the production possibilities frontier to have a bowed out, curved shape?
- The assumption that resources are specialized.
  - The assumption that resources are not specialized.
  - The scarcity of resources.
  - The point that moving along the *PPF* technology is held constant.

**Answer: A****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 107) The fact that opportunity costs increase while moving along a production possibilities frontier suggests that a production possibilities frontier for any economy will
- reach a minimum and then rapidly increase.
  - be a straight line with a constant and positive slope.
  - be bowed out, away from the origin.
  - be bowed in, toward the origin

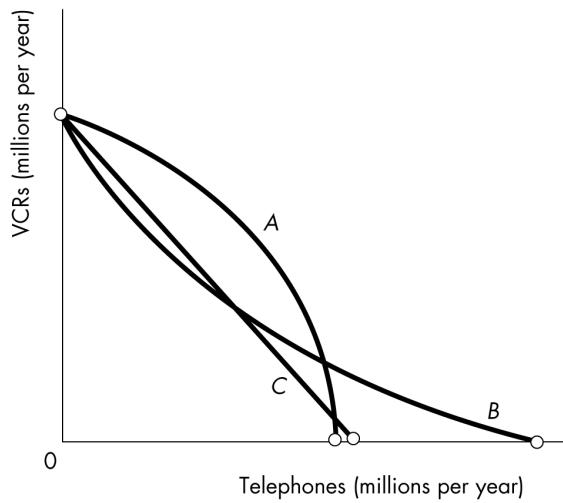
**Answer: C****Topic: Increasing Opportunity Cost****Skill: Conceptual**

- 108) The principle of increasing opportunity cost occurs because
- scarcity exists.
  - resources are being used inefficiently.
  - resources are not equally suited to all activities.
  - we must give up something to get something else.

**Answer: C****Topic: Increasing Opportunity Cost****Skill: Conceptual/Analytical**

- 109) One point on a *PPF* shows production levels at 50 tons of coffee and 100 tons of bananas. Remaining on the *PPF*, an increase of banana production to 140 tons shows coffee production at 30 tons. Still remaining on the *PPF*, we see that coffee production at 10 tons allows banana production at 160 tons. The opportunity cost of a ton of bananas is
- constant because coffee production decreased by the same amount each time.
  - decreasing, since the increase in banana production is less at each point considered.
  - 16 to 1, that is every 1 ton of coffee given up will result in 16 more tons of bananas.
  - increasing from 1/2 ton of coffee to 1 ton of coffee per ton of bananas.

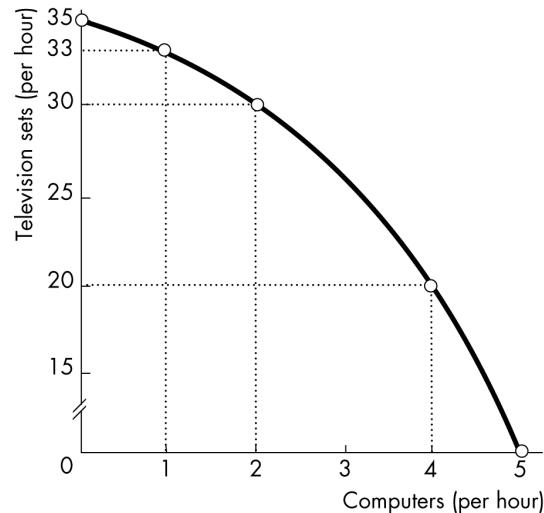
**Answer: D**

**Topic: Increasing Opportunity Cost****Skill: Analytical**

- 110) In the figure above, which of the curves shows a production possibilities frontier with increasing opportunity cost in the production of VCRs and telephones?
- A
  - B
  - C
  - All of the curves illustrate a production possibilities frontier with increasing opportunity cost in the production of VCRs and telephones.

**Answer: A****Using Resources Efficiently****Topic: Marginal Cost****Skill: Recognition**

- 111) Marginal cost is the opportunity cost
- that your activity imposes on someone else.
  - that arises from producing one more unit of a good or service.
  - of a good or service that exceeds its benefit.
  - of a good or service divided by the number of units produced.

**Answer: B****Topic: Marginal Cost****Skill: Analytical**

- 112) In the figure above, the marginal cost of producing a computer
- rises as more computers are produced.
  - stays the same as more computers are produced.
  - falls as more computers are produced.
  - is the same as the marginal cost of producing a television set.

**Answer: A****Topic: Marginal Cost****Skill: Recognition**

- 113) In the figure above, the marginal cost of the second computer is
- 2 television sets.
  - 3 television sets.
  - 5 television sets.
  - 30 television sets.

**Answer: B****Topic: Marginal Cost****Skill: Analytical**

- 114) In the figure above, the marginal cost of the fifth computer is
- 0 television sets.
  - 4 television sets.
  - 20 television sets.
  - 35 television sets.

**Answer: C**

**Topic: Marginal Cost****Skill: Recognition**

- 115) Marginal cost curves generally slope
- upward because of increasing opportunity cost.
  - upward because of decreasing opportunity cost.
  - downward because of increasing opportunity cost.
  - downward because of decreasing opportunity cost.

**Answer: A****Topic: Marginal Benefit****Skill: Recognition**

- 116) Marginal benefit is the benefit
- that your activity provides to someone else.
  - of producing a good or service when the total benefit from the good or service exceeds its total cost.
  - that is received from consuming one more unit of a good or service.
  - of consuming another good or service divided by the total number of goods or services produced.

**Answer: C****Topic: Marginal Benefit****Skill: Recognition**

- 117) The marginal benefit from a good is the maximum amount a person is willing to pay for
- all of the good the person consumes.
  - one more unit of the good.
  - all of the units of the good the person consumes divided by the number of units he or she purchases.
  - one more unit of the good divided by the number of units purchased.

**Answer: B****Topic: Marginal Benefit****Skill: Recognition**

- 118) The marginal benefit of a good or service is measured by
- willingness to pay for an additional unit of it.
  - the consumers' ability to pay for it.
  - the cost of producing an additional unit of it.
  - the average social benefit received from consuming it.

**Answer: A****Topic: Marginal Benefit****Skill: Recognition**

- 119) The marginal benefit of a good or service usually
- increases as we consume more of it.
  - decreases as we consume more of it.
  - stays constant as we consume more of it.
  - decreases as we consume less of it.

**Answer: B****Topic: Marginal Benefit****Skill: Conceptual**

- 120) Marginal benefit curves generally slope
- upward because of increasing opportunity cost.
  - upward, but not because of increasing opportunity cost.
  - downward because of increasing opportunity cost.
  - downward, but not because of increasing opportunity cost.

**Answer: D****Topic: Marginal Benefit****Skill: Recognition**

- 121) Marginal benefit curves slope
- upward and so do marginal cost curves.
  - upward, but marginal cost curves slope downward.
  - downward and so do marginal cost curves.
  - downward, but marginal cost curves slope upward.

**Answer: D**

Television sets (millions per year)	Willingness to pay (computers per television set)
1	2.5
2	2.0
3	1.5
4	1.0
5	0.5

**Topic: Marginal Benefit****Skill: Analytical**

- 122) In the table above, the marginal benefit of the 4 millionth television set is
- negative 0.5 computers per television set.
  - 0.25 computers per television set.
  - 0.5 computers per television set.
  - 1.0 computer per television set.

**Answer: D**

**Topic: Efficient Use of Resources****Skill: Recognition**

123) Resource use is efficient when

- A) we produce the goods with the highest opportunity cost.
- B) we produce the goods with the lowest opportunity cost.
- C) we cannot produce more goods and services.
- D) we produce the goods we value most highly.

**Answer: D**

**Topic: Efficient Use of Resources****Skill: Recognition**

124) When we cannot produce more of any good without giving up some other good that we value more highly, we have achieved

- A) production.
- B) equity.
- C) allocative efficiency.
- D) economic growth.

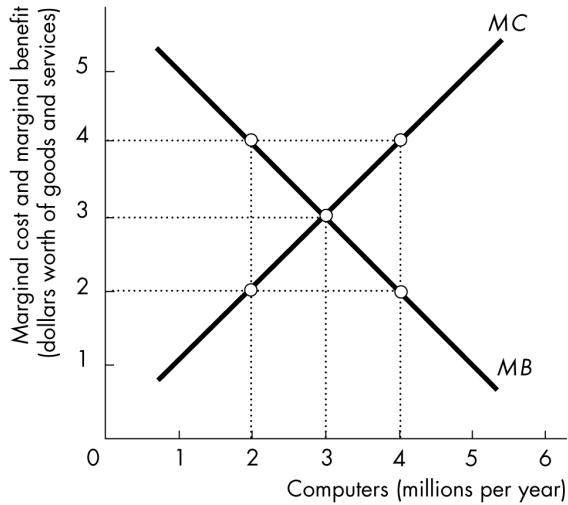
**Answer: C**

**Topic: Efficient Use of Resources****Skill: Conceptual**

125) If the marginal benefit of a good exceeds its marginal cost

- A) we've achieved efficient resource use.
- B) we should produce more.
- C) we should produce less.
- D) we cannot tell if more or less should be produced.

**Answer: B**

**Topic: Efficient Use of Resources****Skill: Analytical**

126) In the above figure, if 2 million computers are produced per year then the

- A) marginal cost of a computer exceeds the marginal benefit of a computer, so more computers should be produced.
- B) marginal cost of a computer exceeds the marginal benefit of a computer, so fewer computers should be produced.
- C) marginal benefit of a computer exceeds the marginal cost of a computer, so more computers should be produced.
- D) marginal benefit of a computer exceeds the marginal cost of a computer, so fewer computers should be produced.

**Answer: C**

**Topic: Efficient Use of Resources****Skill: Analytical**

- 127) In the figure above, if 4 million computers are produced per year then the
- marginal cost of a computer exceeds the marginal benefit of a computer, so more computers should be produced.
  - marginal cost of a computer exceeds the marginal benefit of a computer, so fewer computers should be produced.
  - marginal benefit of a computer exceeds the marginal cost of a computer, so more computers should be produced.
  - marginal benefit of a computer exceeds the marginal cost of a computer, so fewer computers should be produced.

**Answer: B****Topic: Efficient Use of Resources****Skill: Analytical**

- 128) In the figure above, the efficient output of computers is
- 2 million per year.
  - 3 million per year.
  - 4 million per year.
  - the largest amount possible.

**Answer: B****Topic: Efficient Use of Resources****Skill: Analytical**

- 129) In the figure above, at the efficient level of computer production consumers are willing to give up
- 0 televisions per computer.
  - between 0 and 3 televisions per computer.
  - 3 televisions per computer.
  - more than 3 televisions per computer.

**Answer: C****Topic: Efficient Use of Resources****Skill: Analytical**

- 130) In the figure above, at the efficient level of computer production the marginal cost of producing a computer is
- 0 televisions per computer.
  - between 0 and 3 televisions per computer.
  - 3 televisions per computer.
  - more than 3 televisions per computer.

**Answer: C****Economic Growth****Topic: Economic Growth****Skill: Recognition**

- 131) An expansion of the production possibilities frontier is
- called economic growth.
  - proof that scarcity is not a binding constraint.
  - a free gift of nature.
  - something that has occurred only rarely in history.

**Answer: A****Topic: Economic Growth****Skill: Analytical**

- 132) After Hurricane Mitch devastated part of Central America in October 1998, we can be reasonably sure that the production possibilities frontier for that area temporarily

- shifted inward, toward the origin.
- shifted outward, away from the origin.
- became flatter.
- became steeper.

**Answer: A****Topic: Economic Growth****Skill: Recognition**

- 133) Economic growth is the result of all of the following EXCEPT

- technological change.
- capital accumulation.
- opportunity cost.
- investment in human capital.

**Answer: C****Topic: Economic Growth****Skill: Recognition\***

- 134) A key factor that leads to economic growth is

- human capital accumulation.
- increasing current consumption.
- avoiding the opportunity cost of investment.
- both answers A and B are correct.

**Answer: A**

**Topic: Economic Growth****Skill: Recognition**

- 135) Technological progress makes the production possibilities frontier
- shift inward toward the origin.
  - become more linear and less bowed.
  - shift outward from the origin.
  - become less linear and more bowed.

**Answer: C****Topic: Economic Growth****Skill: Analytical**

- 136) Consider a production possibilities frontier with corn on the vertical axis and cars on the horizontal. Unusually good weather for growing corn shifts
- the horizontal intercept rightward and the vertical intercept upward.
  - the horizontal intercept rightward but does not shift the vertical intercept.
  - the vertical intercept upward but does not shift the horizontal intercept.
  - neither the horizontal intercept nor the vertical intercept.

**Answer: C****Topic: Economic Growth****Skill: Analytical**

- 137) Capital accumulation
- has no impact on the production possibilities frontier.
  - shifts the production possibilities frontier inward.
  - makes the production possibilities frontier steeper.
  - shifts the production possibilities frontier outward.

**Answer: D****Topic: Economic Growth****Skill: Conceptual**

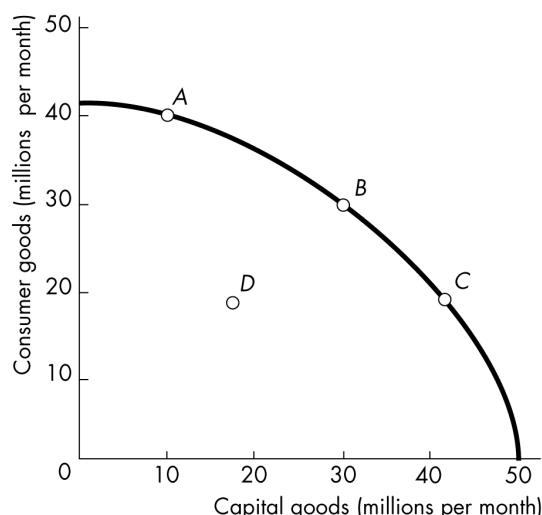
- 138) The production possibilities frontier shifts as
- tastes and preferences change.
  - the money supply grows or shrinks.
  - technology changes.
  - the unemployment rate changes.

**Answer: C****Topic: The Cost of Economic Growth****Skill: Conceptual\***

- 139) The opportunity cost of economic growth is
- future consumption that a nation gets if it gives up some present consumption.
  - future consumption that a nation gives up to consume more today
  - present consumption that a nation gives up to accumulate capital
  - investment that a nation gives up to increase its economic growth.

**Answer: C****Topic: The Cost of Economic Growth****Skill: Conceptual\***

- 140) Economic growth
- leads to less consumption in the present but can increase consumption in the future.
  - is free.
  - is the major reason we face scarcity.
  - allows us to increase our consumption in the present and in the future.

**Answer: A****Topic: The Cost of Economic Growth****Skill: Analytical**

- 141) The production possibilities frontier in illustrated in the figure above will shift outward the most rapidly if point

- A* is selected.
- B* is selected.
- C* is selected.
- D* is selected.

**Answer: C**

**Topic: The Cost of Economic Growth****Skill: Analytical**

- 142) The figure above shows the production possibilities frontiers for four nations that have identical production possibilities frontiers in the present. The one that will grow most rapidly in the future is most likely to be at point
- A.
  - B.
  - C.
  - D.

**Answer: C****Gains from Trade****Topic: Comparative Advantage****Skill: Recognition**

- 143) Because of the existence of comparative advantage, the total output of goods is higher when each producer
- produces several different goods.
  - produces at the midpoint of its PPF.
  - specializes in the production of a particular good.
  - makes both intermediate and final goods.

**Answer: C****Topic: Comparative Advantage****Skill: Recognition**

- 144) A person has a comparative advantage in producing a particular good if that person
- has higher productivity in producing it than anyone else has.
  - can produce it at lower opportunity cost than anyone else can.
  - has less desire to consume that good than anyone else has.
  - has more human capital related to that good than anyone else has.

**Answer: B****Topic: Comparative Advantage****Skill: Analytical**

- 145) Possessing a comparative advantage in the production of a particular good
- tends to discourage specialization.
  - encourages self-sufficiency.
  - means that its opportunity cost is higher than that of other goods.
  - permits gains from trade.

**Answer: D****Topic: Comparative Advantage****Skill: Recognition**

- 146) Individuals A and B both produce good X. We say that A has a comparative advantage in the production of good X if A
- has a lower opportunity cost of producing good X than has B.
  - has a lower opportunity cost of producing good X than of producing good Y.
  - can produce more units of X in a given time period than can B.
  - can produce X using newer technology than can B.

**Answer: A****Topic: Comparative Advantage****Skill: Analytical**

- 147) In an eight-hour day, Andy can produce either 24 loaves of bread or 8 pounds of butter. In an eight-hour day, Bob can produce either 8 loaves of bread or 8 pounds of butter. We know that Andy has a comparative advantage in the production of
- bread, while Bob has a comparative advantage in the production of butter.
  - butter, while Bob has a comparative advantage in the production of bread.
  - bread and neither has a comparative advantage in the production of butter.
  - both bread and butter.

**Answer: A**

Country A		Country B	
Good X (units of X)	Good Y (units of Y)	Good X (units of X)	Good Y (units of Y)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

**Topic: Comparative Advantage****Skill: Analytical**

- 148) In the table above, country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. The opportunity cost of producing more of
- good X is the same for both countries.
  - good Y is the same for both countries.
  - good X is lower in country A.
  - good Y is lower in country A.

**Answer: D**

**Topic: Comparative Advantage****Skill: Analytical**

- 149) In the table above, country A is producing 4 units of  $X$  and 8 units of  $Y$  and country B is producing 4 units of  $X$  and 6 units of  $Y$ . Regarding the production of good  $X$
- country A has an absolute advantage.
  - country B has an absolute advantage.
  - country A has a comparative advantage.
  - country B has a comparative advantage.

**Answer: D****Topic: Comparative Advantage****Skill: Analytical**

- 150) In the table above, country B is producing 4 units of  $X$  and 6 units of  $Y$ . For country B, the opportunity cost of producing an additional unit of  $X$  is
- 4 units of  $Y$ .
  - 2 units of  $Y$ .
  - $3/2$  units of  $Y$ .
  - 1 unit of  $Y$ .

**Answer: C****Topic: Comparative Advantage****Skill: Analytical**

- 151) In the table above, country B is producing 4 units of  $X$  and 6 units of  $Y$ . For country B, the opportunity cost of producing an additional unit of  $Y$  is
- $1/2$  unit of  $X$ .
  - $2/3$  unit of  $X$ .
  - 2 units of  $X$ .
  - 3 units of  $X$ .

**Answer: B****Topic: Comparative Advantage****Skill: Recognition**

- 152) Both Mergatroid and the Geebocks produce only gizmos and widgets. It is possible for Mergatroid to have
- an absolute and a comparative advantage in both products.
  - an absolute but not a comparative advantage in both products.
  - a comparative but not an absolute advantage in both products.
  - neither a comparative nor an absolute advantage in both products.

**Answer: B****Topic: Achieving the Gains From Trade****Skill: Conceptual**

- 153) One of the largest categories of exports from the United States is now pop culture: movies, music, TV programming, and videos. A direct conclusion from this information is that, compared to other countries, the United States has
- lower wages for producers of pop culture.
  - higher wages for producers of pop culture.
  - an absolute advantage in producing pop culture.
  - a comparative advantage in producing pop culture.

**Answer: D****Topic: Achieving the Gains From Trade****Skill: Conceptual**

- 154) One of the largest categories of exports from the United States is now pop culture: movies, music, TV programming, and videos. A direct conclusion from this information is that, compared to other countries, the United States has
- lower wages for producers of pop culture.
  - higher wages for producers of pop culture.
  - a higher opportunity cost of producing pop culture.
  - a lower opportunity cost of producing pop culture.

**Answer: D****Topic: Achieving the Gains From Trade****Skill: Analytical**

- 155) George and Michael can gain from exchange
- unless one has an absolute advantage in all goods.
  - if each specializes in the production of the good for which he has the higher opportunity cost.
  - if each specializes in the production of the good for which he has the lower opportunity cost.
  - unless they have different opportunity costs.

**Answer: C****Topic: Achieving the Gains From Trade****Skill: Analytical**

- 156) To obtain the gains available from comparative advantage, individuals or countries must do more than specialize; they must also
- save.
  - invest.
  - engage in research and development.
  - trade.

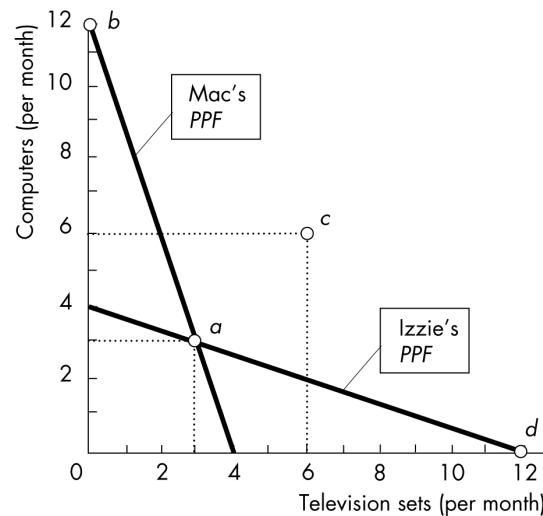
**Answer: D**

**Topic: Achieving the Gains From Trade****Skill: Analytical**

- 157) By specialization and trade, two individuals can
- consume at a point beyond their individual production possibilities frontiers.
  - increase their comparative advantage.
  - increase their absolute advantage.
  - shift their individual production possibilities frontiers outward.

**Answer: A****Topic: Achieving the Gains From Trade****Skill: Conceptual**

- 158) Jane produces only corn and cloth. The land that she allocates to corn
- may have a comparative advantage for cloth, but nonetheless has an absolute advantage for corn.
  - may have an absolute advantage for cloth, but nonetheless has a comparative advantage for corn.
  - must have both an absolute and a comparative advantage for corn.
  - may have neither an absolute nor a comparative advantage for corn.

**Answer: B****Topic: Gains From Trade****Skill: Conceptual**

- 159) In the figure above, suppose that Mac and Izzie trade and reach point c. Then
- Mac produces outside his production possibilities frontier.
  - Izzie produces outside her production possibilities frontier.
  - Mac and Izzie both produce outside their production possibilities frontiers.
  - neither Mac nor Izzie produce outside their production possibilities frontiers.

**Answer: D****Topic: Gains From Trade****Skill: Analytical**

- 160) In the figure above, suppose that Mac and Izzie trade and reach point c. Then
- Mac and Izzie should both produce at point a.
  - Mac should produce at point b and Izzie should produce at point d.
  - Mac should produce at point d and Izzie should produce at point b.
  - Mac and Izzie should both produce at point c.

**Answer: B**

**Topic: Gains From Trade****Skill: Analytical**

- 161) In the figure above, if Mac and Izzie both completely specialized and traded with one another, their joint output would be
- 3 computers and 3 TV sets per month.
  - 6 computers and 6 TV sets per month.
  - 12 computers and 12 TV sets per month.
  - 24 computers and 24 TV sets per month.

**Answer: C****Topic: Gains From Trade****Skill: Analytical**

- 162) In the figure above, suppose that Mac and Izzie specialize and trade to reach point *c*. Mac sends Izzie
- 12 computers in exchange for 12 TVs.
  - 12 computers in exchange for 6 TVs.
  - 6 computers in exchange for 12 TVs.
  - 6 computers in exchange for 6 TVs.

**Answer: D****Topic: Absolute Advantage****Skill: Recognition**

- 163) A person who has an absolute advantage in the production of all goods will
- also have a comparative advantage in the production of all goods.
  - not be able to gain from specialization and exchange.
  - have a production possibilities frontier with a constant slope.
  - have a comparative advantage only in the production of some goods but not for others.

**Answer: D****Topic: Absolute Advantage****Skill: Analytical**

- 164) Whenever a person can produce more of all goods than anyone else, that person
- should specialize in everything.
  - has a comparative advantage in everything.
  - should be self-sufficient.
  - has an absolute advantage.

**Answer: D****Topic: Absolute Advantage****Skill: Conceptual**

- 165) A person who has an absolute advantage will
- not have a comparative advantage in everything.
  - have a comparative advantage in everything.
  - not specialize.
  - not trade.

**Answer: A****Topic: Absolute Advantage****Skill: Conceptual**

- 166) If a person can produce more of all goods than anyone else, that person
- has an absolute advantage.
  - has a comparative advantage in the production of all goods.
  - will be unable to gain from specialization and exchange.
  - is no longer affected by scarcity.

**Answer: A****Topic: Comparative Advantage****Skill: Analytical**

- 167) Homer and Teddy are stranded on a desert island. To feed themselves each day they can either catch fish or pick fruit. In a day, Teddy could pick 60 pieces of fruit or catch 20 fish. Homer could pick 100 pieces of fruit or catch 150 fish. Which of the following is correct?
- Homer has a comparative advantage in catching fish and Teddy has a comparative advantage in picking fruit.
  - Homer has a comparative advantage in picking fruit and Teddy has a comparative advantage in catching fish.
  - Homer has a comparative advantage in both catching fish and picking fruit.
  - Teddy has a comparative advantage in both catching fish and picking fruit.

**Answer: A**

**Topic: Absolute Advantage****Skill: Analytical**

- 168) Homer and Teddy are stranded on a desert island. To feed themselves each day they can either catch fish or pick fruit. In a day, Teddy could pick 60 pieces of fruit or catch 20 fish. Homer could pick 100 pieces of fruit or catch 150 fish. Which of the following statements is correct?
- Homer has an absolute advantage in catching fish and Teddy has an absolute advantage in picking fruit.
  - Homer has an absolute advantage in picking fruit and Teddy has an absolute advantage in catching fish.
  - Homer has an absolute advantage in both catching fish and picking fruit.
  - Teddy has an absolute advantage in both catching fish and picking fruit.

**Answer: C****Topic: Comparative Advantage****Skill: Analytical**

- 169) Agnes can produce either 1 unit of  $X$  or 1 unit of  $Y$  in an hour, while Brenda can produce either 2 units of  $X$  or 4 units of  $Y$  in an hour. The opportunity cost of producing a unit of  $X$  is
- 1 unit of  $Y$  for Agnes and 2 units of  $Y$  for Brenda.
  - 1 unit of  $Y$  for Agnes and 1/2 unit of  $Y$  for Brenda.
  - 1 hour for Agnes and 1/2 hour for Brenda.
  - 1 hour for Agnes and 2 hours for Brenda.

**Answer: A****Topic: Comparative Advantage****Skill: Analytical**

- 170) Agnes can produce either 1 unit of  $X$  or 1 unit of  $Y$  in an hour, while Brenda can produce either 2 units of  $X$  or 4 units of  $Y$  in an hour. The opportunity cost of producing a unit of  $Y$  is
- 1 unit of  $X$  for Agnes and 2 units of  $X$  for Brenda.
  - 1 unit of  $X$  for Agnes and 1/2 unit of  $X$  for Brenda.
  - 1 hour for Agnes and 1/2 hour for Brenda.
  - 1 hour for Agnes and 2 hours for Brenda.

**Answer: B****Topic: Achieving the Gains From Trade****Skill: Analytical**

- 171) Agnes can produce either 1 unit of  $X$  or 1 unit of  $Y$  in an hour, while Brenda can produce either 2 units of  $X$  or 4 units of  $Y$  in an hour. There can be gains from exchange
- if Agnes specializes in the production of  $X$  and Brenda in  $Y$ .
  - if Agnes specializes in the production of  $Y$  and Brenda in  $X$ .
  - only if Agnes becomes faster at producing  $X$ .
  - only if Brenda becomes faster at producing  $X$  or  $Y$ .

**Answer: A****Topic: Absolute Advantage****Skill: Analytical**

- 172) Agnes can produce either 1 unit of  $X$  or 1 unit of  $Y$  in an hour, while Brenda can produce either 2 units of  $X$  or 4 units of  $Y$  in an hour.
- Brenda has an absolute advantage over Agnes.
  - Agnes has a comparative advantage in the production of  $Y$ .
  - Brenda has a comparative advantage in the production of  $X$ .
  - Brenda cannot gain from trade.

**Answer: A****Topic: Dynamic Comparative Advantage****Skill: Recognition**

- 173) Dynamic comparative advantage arises from
- absolute advantage.
  - learning-by-doing.
  - increasing opportunity cost.
  - decreasing marginal benefit.

**Answer: B****Topic: Dynamic Comparative Advantage****Skill: Recognition**

- 174) Learning-by-doing is a basis for
- absolute comparative advantage.
  - eliminating opportunity cost.
  - reducing the gains from trade over time.
  - dynamic comparative advantage.

**Answer: D**

## ■ Economic Coordination

**Topic: Property Rights**

**Skill: Analytical**

- 175) The social arrangements that govern the ownership, use, and disposal of property are referred to as
- the double coincidence of wants.
  - capitalism.
  - private enterprise.
  - property rights.

**Answer: D**

**Topic: Property Rights**

**Skill: Recognition**

- 176) Intellectual property

- is protected by common law rather than by written laws.
- is protected by people's sense of decency rather than by written laws.
- belongs to everyone with the necessary human capital to use it.
- is often protected by copyrights and patents.

**Answer: D**

**Topic: Property Rights**

**Skill: Recognition**

- 177) In a world lacking property rights, it would be

- easier to realize the gains from trade and there would be less specialization.
- easier to realize the gains from trade and there would be more specialization.
- harder to realize the gains from trade and there would be less specialization.
- harder to realize the gains from trade and there would be more specialization.

**Answer: C**

**Topic: Property Rights**

**Skill: Analytical**

- 178) A computer software program is most strongly an example of
- real property.
  - flat property.
  - intellectual property.
  - vicarious property.

**Answer: C**

**Topic: Markets**

**Skill: Recognition**

- 179) The term "market" refers to

- physical structures only.
- locations where buyers and sellers physically meet.
- any arrangement that enables buyers and sellers to get information and trade with one another.
- trading arrangements that have been approved by the government.

**Answer: C**

**Topic: Circular Flows**

**Skill: Recognition**

- 180) In goods markets

- households sell to firms. In factor markets firms sell to households.
- firms sell to households. In factor markets households sell to firms.
- and in factor markets households sell to firms.
- and in factor markets firms sell to households.

**Answer: B**

**Topic: Coordinating Decisions**

**Skill: Recognition**

- 181) Individual economic decisions are coordinated by

- markets through adjustments in sales levels.
- markets through adjustments in prices.
- government through adjustments in sales taxes.
- government through adjustments in income taxes.

**Answer: B**

## ■ Study Guide Questions

**Topic: Study Guide Question, Production Possibilities Frontier**

**Skill: Analytical**

- 182) If the United States can increase its production of automobiles without decreasing its production of any other good, the United States must have been producing at a point

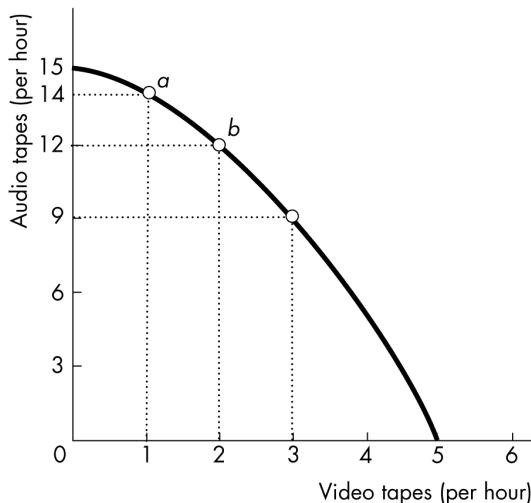
- within its PPF.
- on its PPF.
- beyond its PPF.
- None of the above are correct because increasing the production of one good without decreasing the production of another good is impossible.

**Answer: A**

**Topic: Study Guide Question, Production Possibilities Frontier**  
**Skill: Analytical**

- 183) Production points inside the *PPF* are
- efficient but not attainable.
  - efficient and attainable.
  - inefficient and not attainable.
  - inefficient and attainable.

**Answer: D**



**Topic: Study Guide Question, Opportunity Cost**  
**Skill: Analytical**

- 184) In the above figure, at point *a* what is the opportunity cost of producing one more audio tape?
- 1 video tape.
  - 2 video tapes.
  - 14 video tapes.
  - There is no opportunity cost.

**Answer: A**

**Topic: Study Guide Question, Opportunity Cost**  
**Skill: Analytical**

- 185) In the above figure, at point *b* what is the opportunity cost of producing 2 more audio tapes?
- 1 video tape.
  - 2 video tapes.
  - 12 video tapes.
  - There is no opportunity cost.

**Answer: A**

**Topic: Study Guide Question, Production Efficiency**  
**Skill: Conceptual**

- 186) Production efficiency means that
- scarcity is no longer a problem.
  - producing more of one good is possible only if the production of some other good is decreased.
  - as few resources as possible are being used in production.
  - producing another unit of the good has no opportunity cost.

**Answer: B**

**Topic: Study Guide Question, Tradeoff**  
**Skill: Conceptual**

- 187) The existence of the tradeoff along the *PPF* means that the *PPF* is
- bowed outward.
  - linear.
  - negatively sloped.
  - positively sloped

**Answer: C**

**Topic: Study Guide Question, Opportunity Cost**  
**Skill: Conceptual**

- 188) The bowed-outward shape of a *PPF*
- is due to capital accumulation.
  - reflects the unequal application of technology in production.
  - illustrates the fact that no opportunity cost is incurred for increasing the production of the good measured on the horizontal axis but it is incurred to increase production of the good measured along the vertical axis.
  - is due to the existence of increasing opportunity cost.

**Answer: D**

**Topic: Study Guide Question, Increasing Opportunity Cost**  
**Skill: Analytical**

- 189) Moving along a bowed-out *PPF* between milk and cotton, as more milk is produced the marginal cost of an additional gallon of milk
- rises.
  - does not change.
  - falls.
  - probably changes, but in an ambiguous direction.

**Answer: A**

**Topic: Study Guide Question, Marginal Benefit****Skill: Analytical**

- 190) The most anyone is willing to pay for another purse is \$30. Currently the price of a purse is \$40, and the cost of producing another purse is \$50. The marginal benefit of a purse is
- \$50.
  - \$40.
  - \$30.
  - An amount not given in the answers above.

**Answer: C****Topic: Study Guide Question, Efficient Use of Resources****Skill: Analytical**

- 191) If the marginal benefit from another computer exceeds the marginal cost of the computer, then to use resources efficiently,
- more resources should be used to produce computers.
  - fewer resources should be used to produce computers.
  - if the marginal benefit exceeds the marginal cost by as much as possible, the efficient amount of resources are being used to produce computers.
  - none of the above is correct because marginal benefit and marginal cost have nothing to do with using resources efficiently

**Answer: A****Topic: Study Guide Question, Economic Growth****Skill: Conceptual**

- 192) Economic growth
- creates unemployment.
  - has no opportunity cost.
  - shifts the *PPF* outward.
  - makes it more difficult for a nation to produce on its *PPF*.

**Answer: C****Topic: Study Guide Question, Economic Growth****Skill: Conceptual**

- 193) The *PPF* shifts if
- the unemployment rate falls.
  - people decide they want more of one good and less of another.
  - the prices of the goods and services produced rise.
  - the resources available to the nation change

**Answer: D****Topic: Study Guide Question, Economic Growth****Skill: Conceptual**

- 194) An increase in the nation's capital stock will
- shift the *PPF* outward.
  - cause a movement along the *PPF* upward and leftward.
  - cause a movement along the *PPF* downward and rightward.
  - move the nation from producing within the *PPF* to producing at a point closer to the *PPF*.

**Answer: A****Topic: Study Guide Question, Economic Growth****Skill: Conceptual**

- 195) One of the opportunity costs of economic growth is
- capital accumulation.
  - technological change.
  - reduced current consumption.
  - the gain in future consumption.

**Answer: C****Topic: Study Guide Question, Economic Growth****Skill: Conceptual**

- 196) In general, the more resources that are devoted to technological research, the
- greater is current consumption.
  - higher is the unemployment rate.
  - faster the *PPF* shifts outward.
  - more the *PPF* will bow outward

**Answer: C****Topic: Study Guide Question, Gains From Trade****Skill: Analytical**

- 197) In order to achieve the maximum gains from trade, people should specialize according to
- property rights.
  - PPF*.
  - absolute advantage.
  - comparative advantage

**Answer: D**

**Topic: Study Guide Question, Comparative Advantage****Skill: Analytical**

- 198) In one day, Brandon can either plow 10 acres or plant 20 acres. In one day, Christopher can either plow 14 acres or plant 14 acres. Which of the following statements about comparative advantage is correct?
- Brandon has a comparative advantage in both plowing and planting.
  - Brandon has a comparative advantage only in plowing.
  - Brandon has a comparative advantage only in planting.
  - Christopher has a comparative advantage in both plowing and planting.

**Answer: C****Topic: Study Guide Question, Comparative Advantage****Skill: Analytical**

- 199) In one day, Brandon can either plow 10 acres or plant 20 acres. In one day, Christopher can either plow 14 acres or plant 14 acres. Brandon and Christopher can
- gain from exchange if Brandon specializes in planting and Christopher in plowing.
  - gain from exchange if Brandon specializes in plowing and Christopher in planting.
  - exchange, but only Brandon will gain from the exchange.
  - exchange, but only Christopher will gain from the exchange.

**Answer: A****Topic: Study Guide Question, Economic Growth****Skill: Analytical**

- 200) An increase in the nation's capital stock will
- shift the *PPF* outward.
  - cause a movement along the *PPF* up and to the left.
  - cause a movement along the *PPF* down and to the right.
  - move the nation from producing within the *PPF* to producing at a point closer to the *PPF*.

**Answer: A****Topic: Study Guide Question, Production Possibilities Frontier****Skill: Analytical**

- 201) A nation can *produce* at a point outside its *PPF*
- when it trades with other nations.
  - when it produces inefficiently.
  - when its *PPF* is bowed out.
  - never.

**Answer: D****Topic: Study Guide Question, Production Possibilities Frontier****Skill: Analytical**

- 202) A nation can *consume* at a point outside its *PPF*
- when it trades with other nations.
  - when it produces inefficiently.
  - when its *PPF* is bowed out.
  - never.

**Answer: A****Topic: Study Guide Question, Coordinating Decisions****Skill: Recognition**

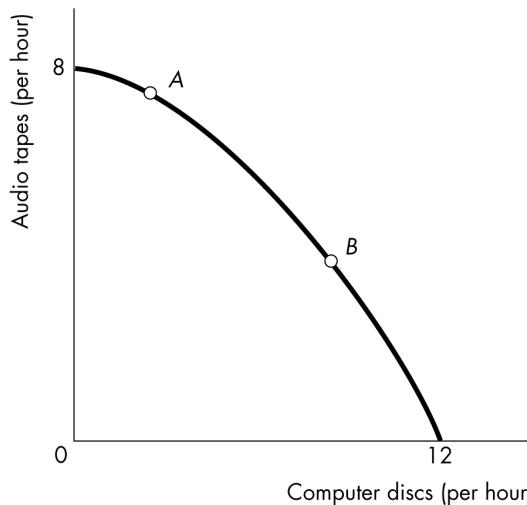
- 203) Which of the following does NOT help organize trade?
- Property rights
  - Markets
  - The production possibilities frontier
  - None of the above because all these answers given help organize trade.

**Answer: A****Topic: Study Guide Question, Coordinating Decisions****Skill: Recognition**

- 204) In markets, people's decisions are coordinated by
- specialization according to absolute advantage.
  - changes in property rights.
  - learning-by-doing.
  - adjustments in prices.

**Answer: D**

## ■ MyEconLab Questions



**Topic: Parallel MyEconLab Questions, Production Possibilities Frontier**

**Skill: Analytical**

- 205) In the above figure, point A is \_\_\_\_\_, and point B is \_\_\_\_\_.

- A) attainable, attainable
- B) attainable, unattainable
- C) unattainable, attainable
- D) unattainable, unattainable

**Answer: A**

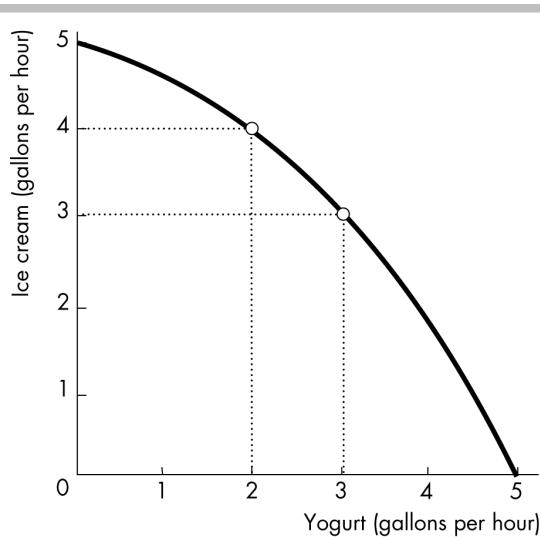
**Topic: Parallel MyEconLab Questions, Opportunity Cost**

**Skill: Analytical**

- 206) Abe can catch 15 pounds of fish an hour or pick 30 pounds of fruit an hour. He works an 8-hour day, spending 5 hours picking fruit and 3 hours catching fish. Calculate Abe's opportunity cost of a pound of fruit.

- A) 6 minutes.
- B) 3 hours a day.
- C) 2 pounds of fish.
- D) 0.5 pounds of fish.

**Answer: D**



**Topic: Parallel MyEconLab Questions, Opportunity Cost**

**Skill: Analytical**

- 207) In the figure above, if the quantity of yogurt produced increases from 2 gallons an hour to 3 gallons an hour, the opportunity cost of a gallon of yogurt in terms of ice cream is

- A) half a gallon.
- B) 1 gallon.
- C) 3 gallons.
- D) 4 gallons.

**Answer: B**

**Topic: Parallel MyEconLab Questions, Opportunity Cost**

**Skill: Analytical**

- 208) Claire and Dag are farmers who produce beef and corn. In a year, Claire can produce 16 tons of beef or 40 bushels of corn, while Dag can produce 5 tons of beef or 25 bushels of corn. The opportunity cost of producing a ton of beef is

- A) 10 bushels of corn for Dag and 8 bushels of corn for Claire.
- B) 5 bushels of corn for Dag and 2.5 bushels of corn for Claire.
- C) 20 bushels of corn for Dag and 50 bushels of corn for Claire.
- D) 36.5 days for Dag and 45.6 days for Claire.

**Answer: B**

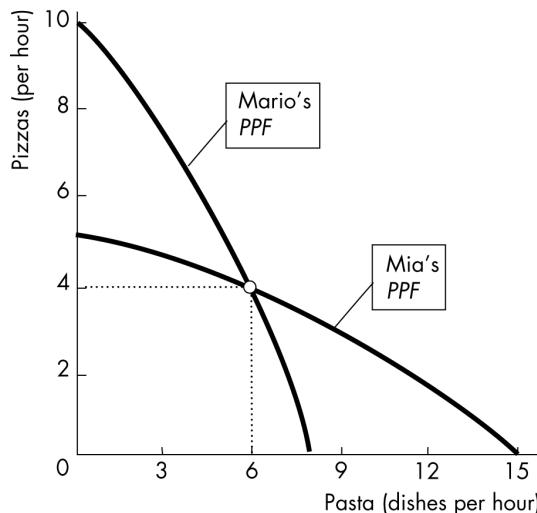
**Topic: Parallel MyEconLab Questions, Opportunity Cost**

**Skill: Analytical**

209) Abe can catch 10 pounds of fish an hour or pick 10 pounds of fruit. Zeb can catch 30 pounds of fish an hour or pick 20 pounds of fruit. The opportunity cost of fish is \_\_\_\_ for Abe than for Zeb, and the opportunity cost of fruit is \_\_\_\_ for Abe than for Zeb.

- A) higher, lower
- B) lower, higher
- C) higher, higher
- D) lower, lower

**Answer: A**



**Topic: Parallel MyEconLab Questions, Achieving the Gains from Trade**

**Skill: Analytical**

210) Refer to the above figure. Mario is self-sufficient and so is Mia. Each produces 6 dishes of pasta and 4 pizzas. Mario and Mia decide to specialize and trade. After they have specialized and traded, compared to the initial situation, Mia's opportunity cost of pasta has \_\_\_\_ and Mario's opportunity cost of a pizza has \_\_\_\_.

- A) decreased, decreased
- B) decreased, increased
- C) increased, increased
- D) increased, decreased

**Answer: C**

**■ MyEconLab Questions**

**Topic: Production Possibilities Frontier**

**Level I: Definitions and Concepts**

211) The production possibilities frontier separates \_\_\_\_\_.

- A) the goods and services that people want from those that they do not want
- B) the types of goods that can be attained from those that can't be unattained
- C) the quantities of goods and services that can be produced from those that cannot be produced
- D) the combinations of goods that people value and those that they don't

**Answer: C**

**Topic: Production Efficiency**

**Level I: Definitions and Concepts**

212) When production is efficient, \_\_\_\_.

- A) our choice of the goods can be either on or within the production possibilities frontier
- B) we can satisfy our all wants
- C) the opportunity cost is as low as possible
- D) we face a tradeoff and incur an opportunity cost

**Answer: D**

**Topic: Opportunity Cost**

**Level I: Definitions and Concepts**

213) As we move along a bowed-out production possibility frontier, producing more tacos and less pizza, the opportunity cost of a pizza \_\_\_\_.

- A) increases
- B) remains the same
- C) decreases
- D) increases and then decreases

**Answer: C**

**Topic: Opportunity Cost and Tradeoff**

**Level I: Definitions and Concepts**

214) Moving from one point on the production possibilities frontier to another \_\_\_\_.

- A) involves a tradeoff but does not incur an opportunity cost
- B) involves an opportunity cost but no tradeoff
- C) involves a tradeoff and incurs an opportunity cost
- D) involves no tradeoff but it does incur an opportunity cost

**Answer: C**

**Topic: Marginal Cost****Level I: Definitions and Concepts**

- 215) Microsoft's marginal cost of the 100th copy of Windows 2002 is \_\_\_\_.
- opportunity cost of producing the 100th copy of Windows 2002
  - the maximum amount that someone is willing to pay for the 100th copy of Windows 2002
  - maximum amount that she is willing to pay for 100 copies of Windows 2002
  - opportunity cost of producing 100 copies of Windows 2002

**Answer: A****Topic: Marginal Benefit****Level I: Definitions and Concepts**

- 216) Beth reads two magazines this afternoon. The marginal benefit that Beth gets from the second magazine is the \_\_\_\_.
- opportunity cost of producing the second magazine
  - maximum amount that she is willing to pay for the second magazine
  - maximum amount that she is willing to pay for the first magazine plus the maximum amount she is willing to pay for the second magazine
  - opportunity cost of producing both magazines

**Answer: B****Topic: Economic Growth****Level I: Definitions and Concepts**

- 217) Economic growth comes from \_\_\_\_.
- people willing to increase their skills in which case, economic growth is free
  - producing more goods than people want to consume
  - capital accumulation and the avoidance of opportunity cost
  - capital accumulation and technological advance

**Answer: D****Topic: Comparative Advantage****Level I: Definitions and Concepts**

- 218) Tom and Di grow tomatoes and turnips. Tom has a comparative advantage in growing tomatoes if \_\_\_\_.
- Tom can grow more tomatoes than Di can
  - his opportunity cost of tomatoes is less than Di's opportunity cost of tomatoes
  - his opportunity cost of tomatoes is less than his opportunity cost of turnips
  - his marginal benefit from tomatoes is greater than Di's

**Answer: B****Topic: Comparative Advantage****Level I: Definitions and Concepts**

- 219) If Tom and Di specialize in producing the goods in which he and she have a comparative advantage and they exchange goods, then \_\_\_\_.
- each will produce a combination of goods that is within her/his production possibility frontier
  - they will lose because they are no longer able to produce and consume both goods.
  - each will gain because each can consume a combination of goods that is outside her/his production possibility frontier
  - one of them will gain and the other will lose

**Answer: C****Topic: Markets****Level I: Definitions and Concepts**

- 220) Two social institutions that are essential for trade to be organized are \_\_\_\_.
- property rights and laws
  - markets and banks
  - businesses and banks
  - markets and property rights

**Answer: D****Topic: Production Possibilities Frontier****Level 2: Using Definitions and Concepts**

- 221) Harry produces 2 balloon rides and 4 boat rides an hour. Harry could produce more balloon rides but to do so he must produce fewer boat rides. Harry is \_\_\_\_ his production possibilities frontier.
- moving along
  - producing on
  - producing outside
  - producing inside

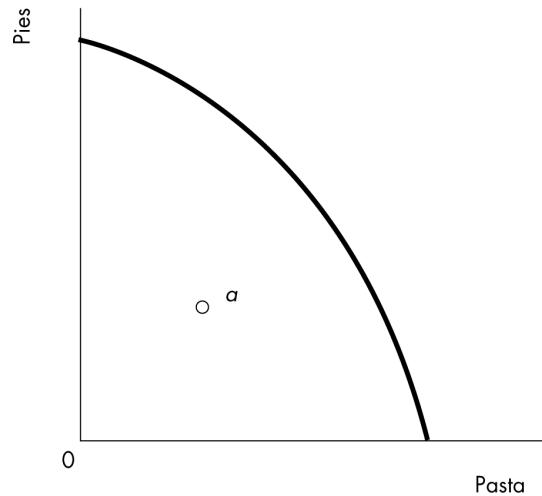
**Answer: B**

**Topic: Production Efficiency****Level 2: Using Definitions and Concepts**

222) Production efficiency occurs when production \_\_\_\_\_.

- A) is at a point beyond the production possibilities frontier
- B) is on the production possibilities frontier or inside it
- C) is at any attainable point
- D) is on the production possibilities frontier

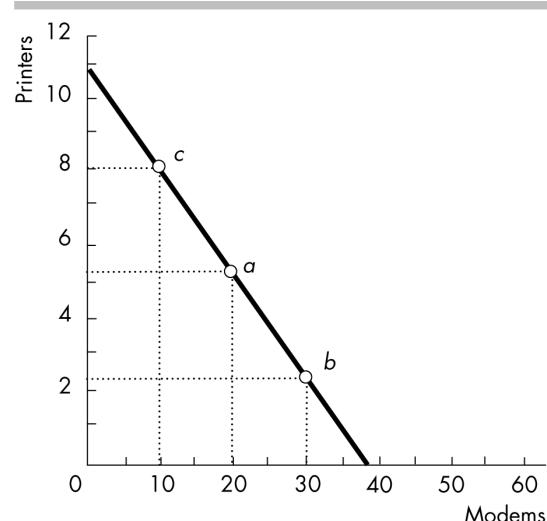
**Answer: D**

**Topic: Production Possibilities Frontier****Level 2: Using Definitions and Concepts**

223) The figure above shows Roger's production possibilities frontier. Point *a* is an \_\_\_\_\_ point and production is \_\_\_\_\_.

- A) attainable; efficient
- B) attainable; inefficient
- C) unattainable; inefficient
- D) unattainable; efficient

**Answer: B**

**Topic: Opportunity Cost****Level 2: Using Definitions and Concepts**

224) Vicky currently produces at point *a* in the figure above. If Vicky moves from point *a* to point *b* to point *c*, her opportunity cost of a modem \_\_\_\_\_.

- A) decreases
- B) increases
- C) is zero
- D) remains the same

**Answer: D**

**Topic: Efficiency****Level 2: Using Definitions and Concepts**

225) A country produces only pencils and erasers. Pencil production is efficient if the marginal \_\_\_\_\_ of a pencil equals the marginal \_\_\_\_\_ of \_\_\_\_\_.

- A) cost; benefit; an eraser
- B) cost; cost; an eraser
- C) benefit; benefit; an eraser
- D) benefit; cost; a pencil

**Answer: D**

**Topic: Economic Growth****Level 2: Using Definitions and Concepts**

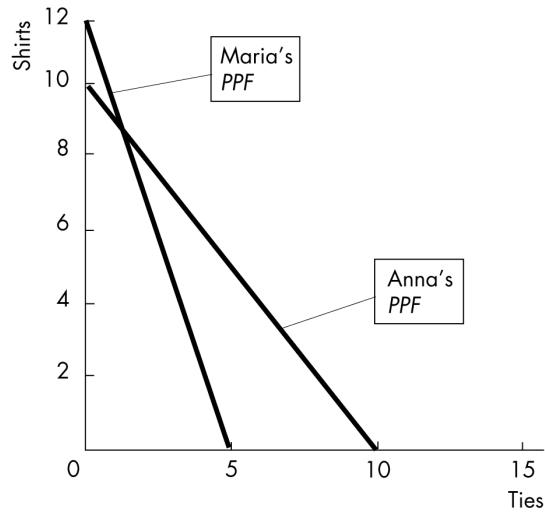
226) When economic growth occurs, the

- A) economy moves along its production possibilities frontier
- B) production possibilities frontier shifts outward
- C) the production possibilities frontier becomes steeper
- D) production possibilities frontier shifts outward but no longer limits the amount that can be produced.

**Answer: B**

**Topic: Comparative Advantage****Level 2: Using Definitions and Concepts**

- 227) In an hour, Andy can make either 5 pizzas or 12 pies and Chris can make either 6 pizzas or 18 pies. \_\_\_\_ advantage in making pizzas.
- Andy has an absolute
  - Andy has a comparative
  - Chris has a comparative
  - None of the above answers is correct.

**Answer: B****Topic: Gains From Trade****Level 2: Using Definitions and Concepts**

- 228) Anna and Maria produce shirts and ties. The figure above shows Anna's PPF and Maria's PPF. Anna and Maria can achieve the gains from trade if Anna produces \_\_\_\_ and Maria produces \_\_\_\_.
- ties; shirts
  - shirts and ties; only ties
  - only ties; shirts and ties
  - shirts; ties

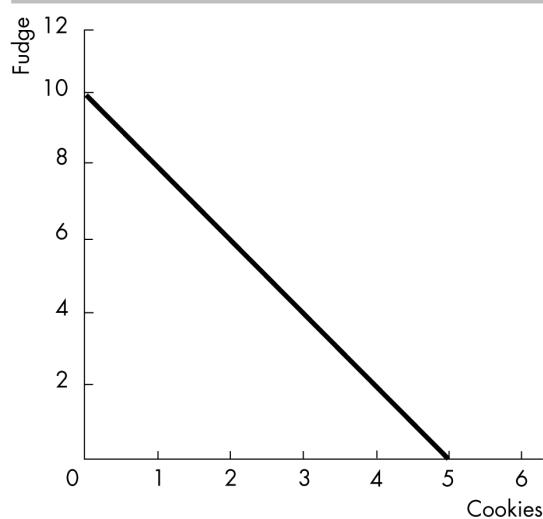
**Answer: A****Topic: Comparative Advantage****Level 2: Using Definitions and Concepts**

- 229) Big Lobster sells lobster and fish, and so too does H Salt. If Big Lobster's opportunity cost of preparing lobster exceeds H Salt's opportunity cost, then all the following are true EXCEPT \_\_\_\_.
- H Salt doesn't have a comparative advantage in cooking fish.
  - Big Lobster has a comparative advantage in lobster.
  - They will both gain if Big Lobster sells fish and H Salt sells lobster.
  - H Salt has a comparative advantage in lobster.

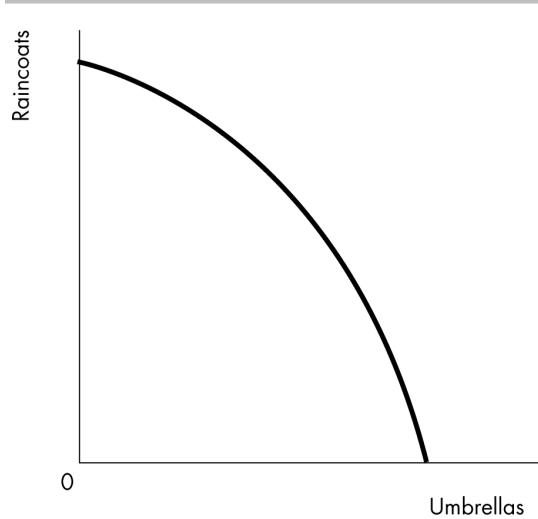
**Answer: B****Topic: Gains From Trade****Level 2: Using Definitions and Concepts**

- 230) Suppose that the United States and Cuba decide to open up trade. If each country specializes in the good in which it has a comparative advantage, \_\_\_\_ will gain from that trade because \_\_\_\_.
- both countries; consumption possibilities in both Cuba and the United States will lie outside their PPFs.
  - neither country; their consumption possibilities will not change.
  - only the United States; consumption possibilities in Cuba will lie outside its PPF and U.S. consumption possibilities will not change.
  - only Cuba; consumption possibilities in Cuba will lie outside its PPF and U.S. consumption possibilities will not change.

**Answer: A**

**Topic: Opportunity Cost****Level 3: Calculations and Predictions**

- 231) The figure above shows Freda's *PPF*. Freda currently produces 10 packets of fudge and no cookies. If Freda decides to produce 1 packet of cookies, her opportunity cost of the packet of cookies is \_\_\_\_ of fudge.
- 1 packet
  - 1/2 packet
  - 2 packets
  - 0 packets

**Answer: C****Topic: Opportunity Cost****Level 3: Calculations and Predictions**

- 233) As Rainclouds Inc. moves downward along its production possibilities frontier, illustrated in the figure above, the opportunity cost of a raincoat \_\_\_\_.
- decreases
  - depends on the initial quantity produced
  - increases
  - remains the same

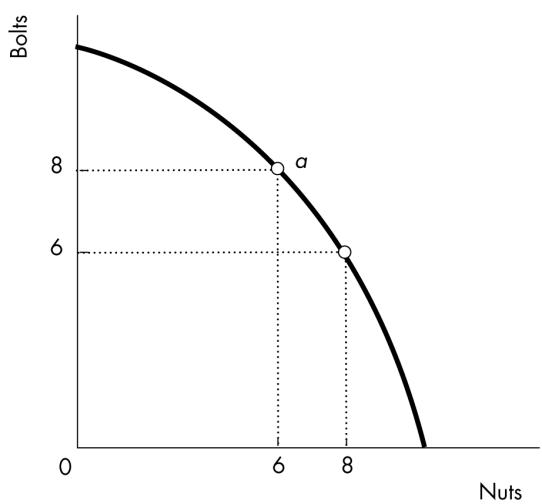
**Answer: A**

Hot dogs (number per hour)	and	Hamburgers (number per hour)
60	and	0
40	and	20
20	and	40
0	and	60

**Topic: Opportunity Cost****Level 3: Calculations and Predictions**

- 232) Joe's hot dog stand can produce hot dogs and hamburgers. The table gives Joe's production possibilities. The opportunity cost of \_\_\_\_.
- the 20th hot dog is 0 hamburgers.
  - the 40th hamburger is 20 hot dogs
  - 1 hamburger is 10 hot dogs
  - the first 20 hot dogs is 20 hamburgers

**Answer: D**

**Topic: Marginal Cost****Level 3: Calculations and Predictions**

234) Victor currently produces nuts and bolts at point *a* in the figure. Victor's marginal cost of producing an additional nut is \_\_\_\_.

- A) 1 bolt
- B) 1/2 bolt
- C) 8/6 bolts
- D) 8 bolts

**Answer: A**

Quantity (pizzas per day)	Marginal benefit (cans per day)	Marginal cost (cans per day)
10	26	14
20	24	16
30	22	18
40	20	20
50	18	22
60	16	24
70	14	26

**Topic: Efficiency****Level 3: Calculations and Predictions**

235) The table above shows the marginal benefit from pizza and the marginal cost of pizza in cans of soda forgone. If \_\_\_ pizzas are produced, the quantity of soda that people are willing to give up to get an additional pizza is more than the quantity of soda that they must give up to get that additional pizza.

- A) any quantity other than 40
- B) 40
- C) more than 40
- D) fewer than 40

**Answer: D**

**Topic: Economic Growth****Level 3: Calculations and Predictions**

236) An economy that uses new technology \_\_\_\_.

- A) moves along its *PPF* and incurs an opportunity cost
- B) experiences economic growth but incurs an opportunity cost
- C) has its *PPF* shift inward because more unemployment is created
- D) does not incur an opportunity cost because everyone can use new technology

**Answer: B**

**Topic: Economic Growth****Level 3: Calculations and Predictions**

237) In March 2002, a factory used new technology to produce its output. Then in August 2002, a fire destroys half the factory. The new technology shifted the factory's *PPF* \_\_\_ and the fire shifted it \_\_\_.

- A) inward; outward
- B) outward; inward
- C) outward; outward
- D) inward; inward

**Answer: B**

**Topic: Gains From Trade, Opportunity Cost****Level 3: Calculations and Predictions**

238) In one day, Sue can change the oil on 20 cars or the tires on 20 cars. In one day, Fred can change the oil on 20 cars or the tires on 10 cars. Sue's opportunity cost of changing oil is \_\_\_\_ than Fred's and her opportunity cost for changing tires is \_\_\_\_ than Fred's.

- A) greater; less
- B) less; greater
- C) less; less
- D) greater; greater

**Answer: A****Topic: Gains From Trade****Level 3: Calculations and Predictions**

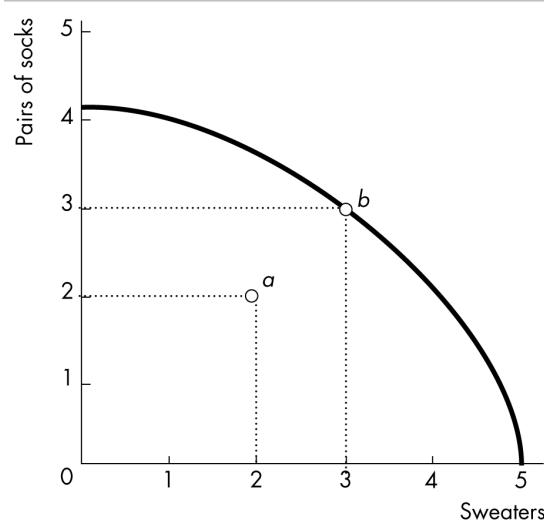
239) In one day, Sue can change the oil on 20 cars or the tires on 20 cars. In one day, Fred can change the oil on 20 cars or the tires on 10 cars. Sue and Fred can gain from trade if Sue changes the \_\_\_\_ and Fred changes the \_\_\_\_.

- A) tires; oil
- B) oil; oil
- C) oil; tires
- D) tires; tires

**Answer: A****Topic: Comparative Advantage****Level 3: Calculations and Predictions**

240) A country that has an absolute advantage in producing all goods will usually \_\_\_\_.

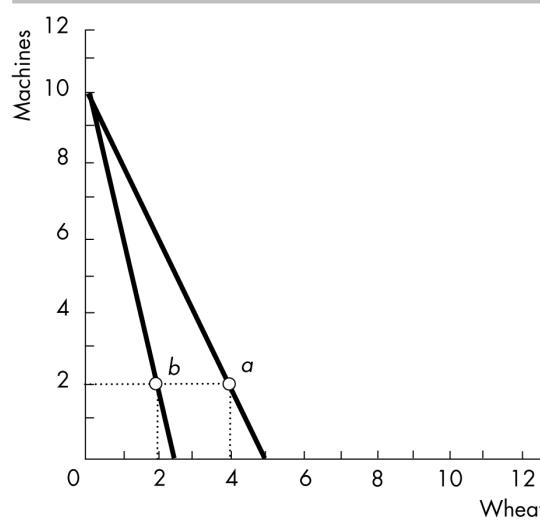
- A) have a comparative advantage in some goods but not all
- B) produce all goods at lowest opportunity cost
- C) have a comparative advantage in all goods
- D) not gain from specialization and trade

**Answer: A****Topic: Opportunity Cost****Level 4: Advanced Calculations and Predictions**

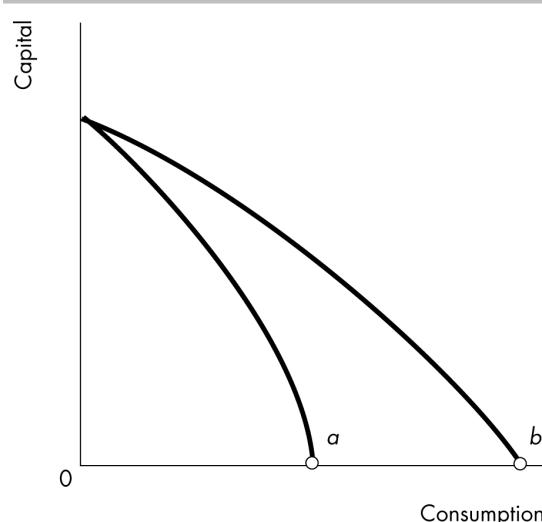
241) The opportunity cost of moving from point *a* to point *b* in the above figure is \_\_\_\_.

- A) zero
- B) 3/2 pairs of socks per sweater
- C) 3 pairs of socks
- D) 2 sweaters

**Answer: A**

**Topic: Opportunity Cost****Level 4: Advanced Calculations and Predictions**

- 242) An economy produces at point *a* on the *PPF* shown in the above figure. A drought reduces the amount of wheat produced and the economy produces at point *b*. The opportunity cost of a unit of wheat \_\_\_\_.
- remains the same
  - increases
  - is impossible to calculate without numbers on the axes
  - decreases

**Answer: B****Topic: Opportunity Cost****Level 4: Advanced Calculations and Predictions**

- 243) The opportunity cost of producing a unit of consumption at point *b* in the figure \_\_\_\_ point *a*.
- is greater than at
  - is less than at
  - cannot be compared with
  - is the same as

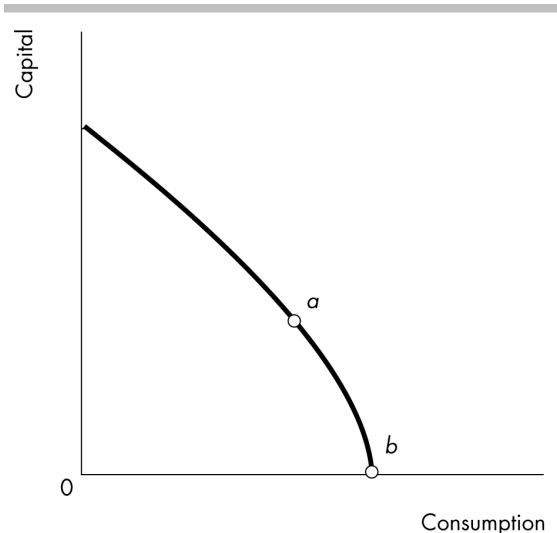
**Answer: B**

Camel rides (per day)	Marginal benefit (tubes of sunscreen)	Marginal cost (tubes of sunscreen)
1	20	11
2	18	12
3	16	13
4	14	14
5	12	15
6	10	16

**Topic: Efficiency****Level 4: Advanced Calculations and Predictions**

244) Leisure Land produces only sun screen and camel rides. The table shows the marginal benefit and marginal cost schedules for sun screen and camel rides. The efficient number of camel rides is \_\_\_\_\_.

- A) 1 ride per day because the marginal benefit exceeds the marginal cost by as much as possible.
- B) 2 rides per day
- C) 4 rides per day
- D) 6 rides per day because that is the maximum number of rides

**Answer: C****Topic: Economic Growth****Level 4: Advanced Calculations and Predictions**

245) Two countries, Alpha and Beta, have identical production possibilities frontiers. If Alpha produces at point *a* and Beta produces at point *b*, then \_\_\_\_\_.

- A) Beta's economic growth rate will exceed Alpha's
- B) Alpha consumes less than Beta today, but it will grow faster than Beta
- C) Alpha's and Beta's economic growth rates will be the same
- D) Beta's future consumption will be greater than Alpha's

**Answer: B****Topic: Opportunity Cost****Level 4: Advanced Calculations and Predictions**

246) As a country that has a bowed-out production possibilities frontier produces more of the good in which it has a comparative advantage, the opportunity cost of a unit of that good \_\_\_\_\_.

- A) might increase or decrease
- B) remains the same
- C) increases
- D) decreases

**Answer: C**

Blue Violet's production possibilities		Orange Rose's production possibilities	
Teapots (number per week)	Coffeepots (number per week)	Teapots (number per week)	Coffeepots (number per week)
150	& 0	75	& 0
100	& 25	50	& 50
50	& 50	25	& 100
0	& 75	0	& 150

**Topic: Comparative Advantage Cost****Level 4: Advanced Calculations and Predictions**

247) Two countries, Blue Violet and Orange Rose, produce only two goods: teapots and coffeepots. The table above gives their production possibilities. \_\_\_\_\_ has a comparative advantage in teapots and \_\_\_\_\_ has a comparative advantage in coffee-pots.

- A) Orange Rose; Blue Violet
- B) Blue Violet; Orange Rose
- C) Blue Violet; Blue Violet
- D) Orange Rose; Orange Rose

**Answer: B**

Blue Violet's production possibilities		Sweet Pansy's production possibilities	
Teapots (number per week)	Coffeepots (number per week)	Teapots (number per week)	Coffeepots (number per week)
150	& 0	150	& 0
100	& 25	100	& 50
50	& 50	50	& 100
0	& 75	0	& 150

**Topic: Comparative Advantage Cost****Level 4: Advanced Calculations and Predictions**

248) Two countries, Blue Violet and Sweet Pansy, produce only two goods: teapots and coffeepots. The table above gives their production possibilities.

- A) Blue Violet has a comparative advantage in tea-pots.
- B) Sweet Pansy has a comparative advantage in tea-pots.
- C) Both have a comparative advantage in teapots.
- D) Sweet Pansy has an absolute advantage in tea-pots.

**Answer: A****Topic: Comparative Advantage Cost****Level 4: Advanced Calculations and Predictions**

249) Two countries, Blue Violet and Sweet Pansy, produce only two goods: teapots and coffeepots. The table above gives their production possibilities. With specialization and trade, Sweet Pansy produces \_\_\_\_\_ and Blue Violet produces \_\_\_\_\_.

- A) 150 coffeepots, 150 teapots
- B) 150 teapots, 75 coffeepots
- C) 150 teapots and 150 coffeepots, nothing
- D) 100 teapots and 25 coffeepots, 100 teapots and 50 coffeepots

**Answer: A****Topic: Comparative Advantage Cost****Level 4: Advanced Calculations and Predictions**

250) A country that has a comparative advantage in producing capital goods will \_\_\_\_\_ a country that has a comparative advantage in consumption goods.

- A) reap all of the gains from trade with
- B) grow slower than
- C) reap fewer of the gains from trade with
- D) specialize in producing capital goods and trade with

**Answer: D**

**■ Markets and Prices****Topic: Price and Opportunity Cost****Skill: Conceptual**

- 1) A relative price is
  - A) the slope of the demand curve.
  - B) the difference between one price and another.
  - C) the slope of the supply curve.
  - D) the ratio of one price to another.

**Answer: D****Topic: Price and Opportunity Cost****Skill: Conceptual**

- 2) If the price of a candy bar is \$1 and the price of a fast food meal is \$5,
  - A) the relative price of a candy bar is 5 fast food meals.
  - B) the money price of a candy bar is  $1/5$  of a fast food meal.
  - C) the relative price of a fast food meal is 5 candy bars.
  - D) the money price of a fast food meal is  $1/5$  of a candy bar.

**Answer: C****Topic: Price and Opportunity Cost****Skill: Conceptual**

- 3) If the price of a hot dog is \$2 and the price of a hamburger is \$4,
  - A) the relative price of a hot dog is  $1/2$  of a hamburger.
  - B) the money price of a hot dog is 2 hamburgers.
  - C) the relative price of a hamburger is  $1/2$  of a hot dog.
  - D) the money price of a hamburger is 2 hot dogs.

**Answer: A****Topic: Price and Opportunity Cost****Skill: Analytical**

- 4) The opportunity cost of good A in terms of good B is equal to the
  - A) price of good A minus the price of good B.
  - B) price of good B minus the price of good A.
  - C) ratio of the price of good A to the price of good B.
  - D) ratio of the price of good B to the price of good A.

**Answer: C****Topic: Price and Opportunity Cost****Skill: Analytical**

- 5) The opportunity cost of a hot dog in terms of hamburgers is
  - A) the ratio of the slope of the demand curve for hot dogs to the slope of the demand curve for hamburgers.
  - B) the ratio of the slope of the supply curve for hot dogs to the slope of the supply curve for hamburgers.
  - C) the price of a hot dog minus the price of a hamburger.
  - D) the ratio of the price of a hot dog to the price of a hamburger.

**Answer: D****■ Demand****Topic: Demand****Skill: Recognition**

- 6) Wants, as opposed to demands,
  - A) are the unlimited desires of the consumer
  - B) are the goods the consumer plans to acquire.
  - C) are the goods the consumer has acquired.
  - D) depend on the price.

**Answer: A**

**Topic: Demand****Skill: Conceptual**

- 7) Demands differ from wants in that
- demands are unlimited, whereas wants are limited by income.
  - wants require a plan to acquire a good but demands require no such plan.
  - wants imply a decision about which demands to satisfy, while demands involve no specific plan to acquire the good.
  - demands reflect a decision about which wants to satisfy and a plan to buy the good, while wants are unlimited and involve no specific plan to acquire the good.

**Answer: D****Topic: Demand****Skill: Conceptual**

- 8) Scarcity guarantees that
- demands will exceed wants.
  - wants will exceed demands.
  - demands will be equal to wants.
  - most demands will be satisfied.

**Answer: B****Topic: Demand****Skill: Recognition**

- 9) The quantity demanded is
- always equal to the equilibrium quantity.
  - independent of the price of the good.
  - the amount of a good that consumers plan to purchase at a particular price.
  - independent of consumers' buying plans.

**Answer: C****Topic: Law of Demand****Skill: Conceptual**

- 10) The law of demand states that, other things remaining the same, the higher the price of a good, the
- smaller is the demand for the good.
  - larger is the demand for the good.
  - smaller is the quantity of the good demanded.
  - larger is the quantity of the good demanded..

**Answer: C****Topic: Law of Demand****Skill: Conceptual**

- 11) The law of demand implies that, other things remaining the same,
- as the price of a cheeseburger rises, the quantity of cheeseburgers demanded will increase.
  - as the price of a cheeseburger rises, the quantity of cheeseburgers demanded will decrease.
  - as income increases, the quantity of cheeseburgers demanded will increase.
  - as the demand for cheeseburgers increases, the price of a cheeseburger will fall.

**Answer: B****Topic: Law of Demand****Skill: Conceptual**

- 12) The law of demand states that the quantity of a good demanded varies
- inversely with its price.
  - inversely with the price of substitute goods.
  - directly with income.
  - directly with population.

**Answer: A****Topic: Law of Demand****Skill: Conceptual**

- 13) Which of the following is consistent with the law of demand?
- An increase in the price of a tape causes an increase in the quantity of tapes demanded.
  - An increase in the price of a soda causes a decrease in the quantity of soda demanded.
  - A decrease in the price of a gallon of milk causes a decrease in the quantity of milk demanded.
  - A decrease in the price of juice causes no change in the quantity of juice demanded.

**Answer: B****Topic: Law of Demand****Skill: Analytical**

- 14) The law of demand implies that if nothing else changes, there is
- a positive relationship between the price of a good and the quantity demanded.
  - a negative relationship between the price of a good and the quantity demanded.
  - a linear relationship between price of a good and the quantity demanded.
  - an exponential relationship between price of a good and the quantity demanded.

**Answer: B**

**Topic: Demand Curve and Demand Schedule****Skill: Recognition**

- 15) Which of the following influences people's buying plans *and* varies moving along a demand curve?
- The price of the good.
  - The prices of related goods.
  - Income.
  - Preferences.

**Answer: A****Topic: Demand Curve and Demand Schedule****Skill: Recognition**

- 16) The law of demand states that
- an increase in the price of a good shifts the demand curve leftward.
  - a decrease in the price of a good shifts the demand curve leftward.
  - other thing remaining the same, the higher the price of a good, the larger is the quantity demanded.
  - other things remaining the same, the higher the price of a good, the smaller is the quantity demanded.

**Answer: D****Topic: Demand Curve and Demand Schedule****Skill: Conceptual**

- 17) The law of demand implies that demand curves
- slope down.
  - slope up.
  - shift rightward whenever the price rises.
  - shift leftward whenever the price rises.

**Answer: A****Topic: Willingness and Ability To Pay****Skill: Conceptual**

- 18) Each point on the demand curve reflects
- all the wants of a given household.
  - the highest price consumers are willing and able to pay for that particular unit of a good.
  - the highest price sellers will accept for all units they are producing.
  - the lowest-cost technology available to produce a good.

**Answer: B****Topic: Change in Demand, Prices of Related Goods****Skill: Analytical**

- 19) A drop in the price of a compact disc shifts the demand curve for prerecorded tapes leftward. From that you know compact discs and prerecorded tapes are
- complements.
  - substitutes.
  - inferior goods.
  - normal goods.

**Answer: B****Topic: Change in Demand, Prices of Related Goods****Skill: Recognition**

- 20) A substitute is a good
- that can be used in place of another good.
  - that is not used in place of another good.
  - of lower quality than another good.
  - of higher quality than another good.

**Answer: A****Topic: Change in Demand, Prices of Related Goods****Skill: Conceptual**

- 21) People buy more of good 1 when the price of good 2 rises. These goods are
- complements.
  - substitutes.
  - normal goods.
  - inferior goods.

**Answer: B****Topic: Change in Demand, Prices of Related Goods****Skill: Recognition**

- 22) Which of the following pairs of goods are most likely substitutes?
- Compact discs and compact disc players.
  - Cola and lemon lime soda.
  - Lettuce and salad dressing.
  - Peanut butter and gasoline.

**Answer: B****Topic: Change in Demand, Prices of Related Goods****Skill: Analytical**

- 23) The demand for a good increases when the price of a substitute \_\_\_\_ and also increases when the price of a complement \_\_\_\_.
- rises; rises
  - rises; falls
  - falls; rises
  - falls; falls

**Answer: B**

**Topic: Change in Demand, Prices of Related Goods****Skill: Recognition**

- 24) A complement is a good
- of lower quality than another good.
  - used in conjunction with another good.
  - used instead of another good.
  - of higher quality than another good.

**Answer: B****Topic: Change in Demand, Prices of Related Goods****Skill: Conceptual**

- 25) Suppose people buy more of good 1 when the price of good 2 falls. These goods are
- complements.
  - substitutes.
  - normal.
  - inferior.

**Answer: A****Topic: Change in Demand, Prices of Related Goods****Skill: Analytical**

- 26) As the opportunity cost of a good decreases, people buy
- less of that good and also less of its complements.
  - less of that good but more of its complements.
  - more of that good but less of its complements.
  - more of that good and also more of its complements.

**Answer: D****Topic: Change in Demand, Expected Future Prices****Skill: Conceptual**

- 27) People come to expect that the price of a gallon of gasoline will rise next week. As a result,
- today's supply of gasoline increases.
  - today's demand for gasoline increases.
  - the price of a gallon of gasoline falls today.
  - next week's supply of gasoline decreases.

**Answer: B****Topic: Change in Demand****Skill: Analytical**

- 28) The demand curve for a normal good shifts leftward if income \_\_\_\_\_ or the expected future price \_\_\_\_\_.
- decreases; falls
  - decreases; rises
  - increases; falls
  - increases; rises

**Answer: A****Topic: Change in Demand****Skill: Analytical**

- 29) If income increases or the price of a complement falls,
- the demand curve for a normal good shifts leftward.
  - the demand curve for a normal good shifts rightward.
  - the supply curve of a normal good shifts leftward.
  - the supply curve of a normal good shifts rightward.

**Answer: B****Topic: Change in Demand****Skill: Analytical**

- 30) If income decreases or the price of a complement rises,
- the demand curve for a normal good shifts leftward.
  - the demand curve for a normal good shifts rightward.
  - there is an upward movement along the demand curve for the good.
  - there is a downward movement along the demand curve for the good.

**Answer: A****Topic: Change in Demand, Prices of Related Goods****Skill: Conceptual**

- 31) A consumer might consider in-line skates and elbow-pads to be
- products with upward sloping demand curves.
  - unrelated goods.
  - complements.
  - substitutes.

**Answer: C****Topic: Change in Demand, Prices of Related Goods****Skill: Analytical**

- 32) A decrease in the price of a game of bowling shifts the
- demand curve for bowling balls leftward.
  - demand curve for bowling balls rightward.
  - supply curve of bowling balls leftward.
  - supply curve of bowling balls rightward.

**Answer: B**

**Topic: Change in Demand, Income****Skill: Conceptual**

- 33) Normal goods are those for which demand decreases as
- the price of a complement falls.
  - the price of a substitute falls.
  - income decreases.
  - the good's own price rises.

**Answer: C****Topic: Change in Demand, Income****Skill: Recognition**

- 34) A normal good is a good for which
- there are very few complements.
  - demand increases when income increases.
  - there are few substitutes.
  - demand decreases when income increases.

**Answer: B****Topic: Change in Demand, Income****Skill: Recognition**

- 35) Most goods
- are complements to each other.
  - are normal goods.
  - have vertical demand curves.
  - have vertical supply curves.

**Answer: B****Topic: Change in Demand, Income****Skill: Recognition**

- 36) A normal good is a good for which demand
- decreases when income increases.
  - increases when income increases.
  - decreases when population increases.
  - increases when population increases.

**Answer: B****Topic: Change in Demand, Income****Skill: Conceptual**

- 37) Inferior goods are those for which demand increases as
- the price of a substitute falls.
  - the price of a substitute rises.
  - income decreases.
  - income increases.

**Answer: C****Topic: Change in Demand, Income****Skill: Recognition**

- 38) By definition, an inferior good is a
- want that is not expressed by demand.
  - normal substitute good.
  - good for which demand decreases when its price rises.
  - good for which demand decreases when income increases.

**Answer: D****Topic: Change in Demand, Income****Skill: Conceptual**

- 39) If a good is an inferior good, then purchases of that good will decrease when
- income increases.
  - the price of a substitute rises.
  - population increases.
  - the demand for it increases.

**Answer: A****Topic: Change in Demand, Income****Skill: Conceptual**

- 40) An inferior good is a good for which demand
- decreases when income increases.
  - increases when income increases.
  - decreases when population increases.
  - increases when population increases.

**Answer: A****Topic: Change in Demand, Income****Skill: Recognition**

- 41) Gruel is an inferior good. Hence, a decrease in people's incomes
- shifts the supply curve of gruel leftward.
  - decreases the quantity of gruel supplied.
  - shifts the demand curve for gruel rightward.
  - shifts the demand curve for gruel leftward.

**Answer: C****Topic: Change in Demand, Preferences****Skill: Conceptual**

- 42) When economists speak of preferences as influencing demand, they are referring to
- directly observable changes in prices and income.
  - an individual's attitudes toward goods and services.
  - the excess of wants over the available supplies.
  - the availability of a good to all income classes.

**Answer: B**

**Topic: Change in Demand, Preferences****Skill: Analytical**

- 43) An unusually warm winter
- shifts the supply curve of gloves rightward.
  - shifts the supply curve of gloves leftward.
  - shifts the demand curve for gloves rightward.
  - shifts the demand curve for gloves leftward.

**Answer: D****Topic: A Change in the Quantity Demanded****Versus a Change in Demand****Skill: Conceptual**

- 44) In 2000 there were 200,000 gas grills demanded at a price of \$500. In 2001 there were more than 200,000 gas grills demanded at the same price. This increase could be the result any of the following EXCEPT

- an increase in the supply of gas grills.
- an increase in income if gas grills are a normal good.
- a fall in the price of natural gas, a complement for a gas grill.
- an increase in population.

**Answer: A****Topic: A Change in the Quantity Demanded****Versus a Change in Demand****Skill: Recognition**

- 45) A change in the price of a good
- shifts the good's demand curve and also causes a movement along it.
  - shifts the good's demand curve but does not cause a movement along it.
  - does not shift the good's demand curve but does cause a movement along it.
  - neither shifts the good's demand curve nor causes a movement along it.

**Answer: C****Topic: A Change in the Quantity Demanded****Versus a Change in Demand****Skill: Analytical**

- 46) A reduction in the price of a good
- shifts the good's demand curve leftward and also decreases the quantity demanded.
  - shifts the good's demand curve leftward but does not decrease the quantity demanded.
  - does not shift the good's demand curve leftward but does decrease the quantity demanded.
  - neither shifts the good's demand curve leftward nor decreases the quantity demanded.

**Answer: C****Topic: A Change in the Quantity Demanded****Versus a Change in Demand****Skill: Conceptual**

- 47) A decrease in quantity demanded caused by an increase in price is represented by a
- rightward shift of the demand curve.
  - leftward shift of the demand curve.
  - movement up and to the left along the demand curve.
  - movement down and to the right along the demand curve.

**Answer: C****Topic: A Change in the Quantity Demanded****Versus a Change in Demand****Skill: Analytical**

- 48) A change in which of the following alters buying plans for cars but does NOT shift the demand curve for cars?
- A 5 percent increase in people's income.
  - A 10 percent decrease in the price of car insurance.
  - A 20 percent increase in the price of a car.
  - An increased preference for walking rather than driving.

**Answer: C****Topic: A Change in the Quantity Demanded****Versus a Change in Demand****Skill: Conceptual**

- 49) Which of the following would NOT shift the demand curve for turkey?
- An increase in income.
  - A decrease in the price of ham.
  - A change in tastes for turkey.
  - A change in the price of a turkey.

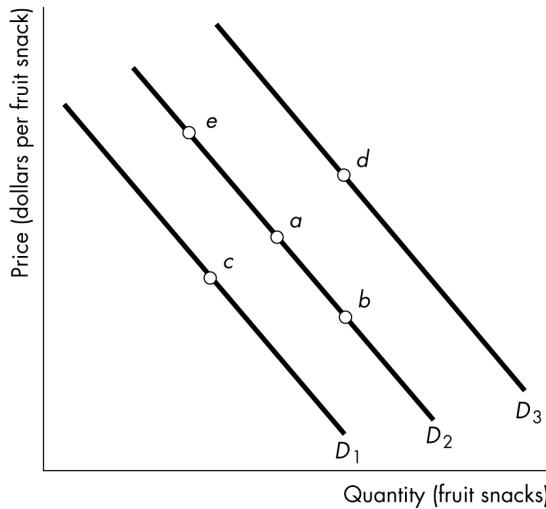
**Answer: D**

**Topic: A Change in the Quantity Demanded Versus a Change in Demand**

**Skill: Analytical**

- 50) When we say demand increases, we mean that there is a
- movement to the right along a demand curve.
  - movement to the left along a demand curve.
  - rightward shift of the demand curve.
  - leftward shift of the demand curve.

**Answer: C**



**Topic: A Change in the Quantity Demanded Versus a Change in Demand**

**Skill: Conceptual**

- 51) In the figure above, which movement reflects an increase in demand?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: D**

**Topic: A Change in the Quantity Demanded Versus a Change in Demand**

**Skill: Conceptual**

- 52) In the figure above, which movement reflects a decrease in demand?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: C**

**Topic: A Change in the Quantity Demanded Versus a Change in Demand**

**Skill: Conceptual**

- 53) In the figure above, which movement reflects a decrease in quantity demanded but NOT a decrease in demand?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: A**

**Topic: Change in Demand, Prices of Related Goods**

**Skill: Analytical**

- 54) In the figure above, which movement reflects how consumers would react to an increase in the price of a non-fruit snack?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: D**

**Topic: Change in Demand, Prices of Related Goods**

**Skill: Analytical**

- 55) In the figure above, which movement reflects an increase in the price of a substitute for fruit snacks?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: D**

**Topic: Change in Demand, Prices of Related Goods**

**Skill: Analytical**

- 56) In the figure above, which movement reflects an increase in the price of a complement for fruit snacks?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: C**

**Topic: Change in Demand, Expected Future Prices****Skill: Conceptual**

- 57) In the figure above, which movement reflects how consumers would react to an increase in the price of a fruit snack that is expected to occur in the future?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: D****Topic: Change in Demand, Income****Skill: Analytical**

- 58) In the figure above, which movement reflects an increase in income if fruit snacks are an inferior good?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: C****Topic: Change in Demand, Income****Skill: Analytical**

- 59) In the figure above, which movement reflects an increase in income if fruit snacks are a normal good?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: D****Topic: Change in Demand, Population****Skill: Analytical**

- 60) In the figure above, which movement reflects a decrease in population?
- From point *a* to point *e*.
  - From point *a* to point *b*.
  - From point *a* to point *c*.
  - From point *a* to point *d*.

**Answer: C****■ Supply****Topic: What Determines Selling Plans?****Skill: Recognition**

- 61) Which of the following is NOT one of the factors that influences the supply of a product?
- technology
  - income
  - number of suppliers
  - expected future prices

**Answer: B****Topic: The Law of Supply****Skill: Conceptual**

- 62) The “law of supply” is illustrated when
- the demand curve shifts along a stationary supply curve.
  - the supply curve and demand curve both shift in the same direction.
  - the supply curve shifts along a stationary demand curve.
  - the demand curve and supply curve are both stationary.

**Answer: A****Topic: The Law of Supply****Skill: Conceptual**

- 63) Which of the following explains why supply curves slope upward?
- Prices and income
  - Increasing marginal cost
  - Resources and technology
  - Substitutes in production and complements in production

**Answer: B****Topic: The Law of Supply****Skill: Recognition**

- 64) The supply curve slopes upward when graphed against \_\_\_, because of \_\_\_.
- the price of the good; increasing marginal cost
  - the price of the good; decreasing marginal cost
  - income; increasing marginal cost
  - income; decreasing marginal cost

**Answer: A**

**Topic: Supply****Skill: Recognition**

- 65) The quantity supplied of a good is
- the same thing as the quantity demanded at each price.
  - the amount that the producers are planning to sell at a particular price during a given time period.
  - equal to the difference between the quantity available and the quantity desired by all consumers and producers.
  - the amount the firm would sell if it faced no resource constraints.

**Answer: B****Topic: Supply****Skill: Recognition**

- 66) The quantity supplied of a good or service is the quantity that a producer
- is willing to sell at a particular price during a given time period.
  - actually sells at a particular price during a given time period.
  - needs to sell at a particular price during a given time period.
  - should sell at a particular price during a given time period.

**Answer: A****Topic: The Law of Supply****Skill: Conceptual**

- 67) A fall in the price of a good causes producers to reduce the quantity of the good they are willing to produce. This fact illustrates
- the law of supply.
  - the law of demand.
  - a change in supply.
  - the nature of an inferior good.

**Answer: A****Topic: Minimum Supply Price****Skill: Analytical**

- 68) Each point on a supply curve represents
- the highest price buyers will pay for the good.
  - the lowest price for which a supplier can profitably sell another unit.
  - the lowest price buyers will accept per unit of the good.
  - the highest price sellers can get for each unit over time.

**Answer: B****Topic: Supply Curve and Supply Schedule****Skill: Analytical**

- 69) Because of increasing marginal cost, most supply curves
- are horizontal.
  - are vertical.
  - have a negative slope.
  - have a positive slope.

**Answer: D****Topic: Supply Curve and Supply Schedule****Skill: Conceptual**

- 70) A supply curve shows the relation between the quantity of a good supplied and
- income. Usually a supply curve has negative slope.
  - income. Usually a supply curve has positive slope.
  - the price of the good. Usually a supply curve has negative slope.
  - the price of the good. Usually a supply curve has positive slope.

**Answer: D****Topic: Supply Curve and Supply Schedule****Skill: Recognition**

- 71) A supply curve differs from a supply schedule because a supply curve
- holds the number of suppliers constant, whereas the supply schedule allows the number to vary.
  - holds resource prices constant, whereas the supply schedule allows them to vary.
  - is a graph and the supply schedule is a table.
  - represents one firm, whereas the supply schedule represents all firms in the market.

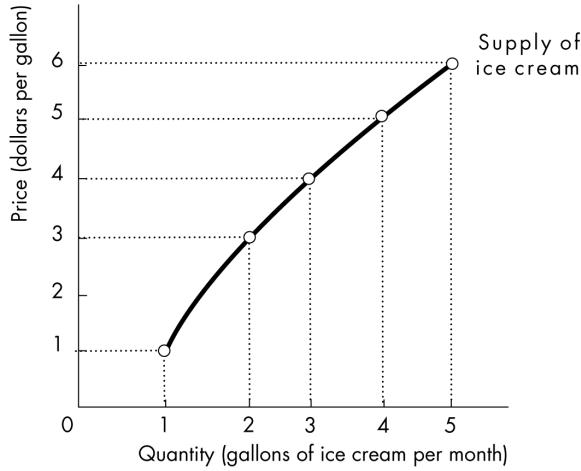
**Answer: C****Topic: Supply Curve and Supply Schedule****Skill: Recognition**

- 72) Which of the following is NOT held constant while moving along a supply curve?
- Expected future prices.
  - The number of sellers.
  - The price of the good itself.
  - Prices of resources used in production.

**Answer: C**

**Topic: Supply Curve and Supply Schedule****Skill: Recognition**

- 73) The supply curve is graphed with
- the quantity of one good on the vertical axis and the quantity of another good on the horizontal axis.
  - the quantity of one good on the vertical axis and the price of another good on the horizontal axis.
  - the quantity of a good on the vertical axis and its price on the horizontal axis.
  - the quantity of a good on the horizontal axis and its price on the vertical axis.

**Answer: D****Topic: Minimum Supply Price****Skill: Conceptual**

- 74) In the above figure, what is the minimum supply price for the fourth gallon of ice cream?
- \$2.00
  - \$3.00
  - \$4.00
  - \$5.00

**Answer: D****Topic: Change in Supply, Prices of Resources****Skill: Conceptual**

- 75) Which of the following shifts the supply curve for gasoline rightward?
- A situation where the quantity demanded exceeds the quantity supplied.
  - An increase in the price of gasoline.
  - A decrease in the price of a resource used to produce gasoline, such as crude oil.
  - An increase in the demand for gas-guzzling, sport utility vehicles.

**Answer: C****Topic: Change in Supply, Prices of Resources****Skill: Recognition**

- 76) Which of the following shifts the supply curve rightward?
- An increase in the population.
  - A positive change in preferences for the good.
  - A decrease in the price of the good.
  - A decrease in the price of the resources used to produce the good.

**Answer: D****Topic: Change in Supply, Prices of Resources****Skill: Analytical**

- 77) Autoworkers negotiate a wage increase; how does this change affect the supply of cars?
- It decreases the supply.
  - It increases the supply.
  - It causes no change.
  - There is not enough information to tell if the change increases, decreases, or has no effect on the supply of cars.

**Answer: A****Topic: Change in Supply, Prices of Related Goods Produced****Skill: Recognition**

- 78) If a producer can use resources to produce either good A or good B, then A and B are
- complements in production.
  - substitutes in production.
  - substitutes in consumption.
  - complements in consumption.

**Answer: B**

**Topic: Change in Supply, Prices of Related Goods Produced****Skill: Conceptual**

- 79) Good A and good B are substitutes in production. The demand for good A increases so that the price of good A rises. The increase in the price of good A shifts the
- demand curve for good B leftward.
  - demand curve for good B rightward.
  - supply curve of good B leftward.
  - supply curve of good B rightward.

**Answer: C****Topic: Change in Supply, Prices of Related Goods Produced****Skill: Conceptual**

- 80) Blank tapes and prerecorded tapes are substitutes in production. An increase in the price of a blank tape will cause
- an increase in the supply of prerecorded tapes.
  - a decrease in the supply of prerecorded tapes.
  - an increase in the quantity supplied of prerecorded tapes but not in the supply.
  - a decrease in the quantity supplied of prerecorded tapes but not in the supply.

**Answer: B****Topic: Change in Supply, Prices of Related Goods Produced****Skill: Conceptual**

- 81) Good A and good B are substitutes in production. The demand for good A decreases, which lowers the price of good A. The decrease in the price of good A
- decreases the supply of good B.
  - increases the supply of good B.
  - decreases the demand for good B.
  - increases the demand for good B.

**Answer: B****Topic: Change in Supply, Expected Future Price****Skill: Conceptual**

- 82) It is expected that the price of a bushel of wheat will increase in one month. This belief will result in
- an increase in current supply of wheat.
  - a decrease in current supply of wheat.
  - a decrease in future supply of wheat.
  - no change in current or future supply of wheat.

**Answer: B****Topic: Change in Supply, Number of Suppliers****Skill: Conceptual**

- 83) An increase in the number of fast-food restaurants
- raises the price of fast-food meals.
  - increases the demand for fast-food meals.
  - increases the supply of fast-food meals.
  - increases the demand for substitutes for fast-food meals.

**Answer: C****Topic: Change in Supply, Number of Suppliers****Skill: Conceptual**

- 84) Which of the following increases the supply of a product?
- A drop in the price of the product.
  - A smaller number of sellers producing the product.
  - An increase in foreign imports of the product.
  - Higher taxes imposed upon producers of the product.

**Answer: C****Topic: Change in Supply, Number of Suppliers****Skill: Conceptual**

- 85) Which of the following decreases the supply of popcorn?
- A decrease in the price of popcorn.
  - An increase in the price of popcorn.
  - A technological development in the production of popcorn.
  - A decrease in the number of popcorn suppliers.

**Answer: D****Topic: Change in Supply, Technology****Skill: Conceptual**

- 86) Over the past decade technological improvements that have lowered the cost of producing an automobile have increased
- both the supply and the demand for automobiles.
  - the supply but not the demand for automobiles.
  - the demand but not the supply of automobiles.
  - neither the supply nor the demand for automobiles.

**Answer: B**

**Topic: Change in Supply, Technology****Skill: Recognition**

- 87) An increase in technology for producing personal computers leads to
- an increase in the demand for personal computers.
  - a decrease in the demand for personal computers.
  - an increase in the supply of personal computers.
  - a decrease in the supply of personal computers.

**Answer: C****Topic: Change in Supply****Skill: Conceptual**

- 88) Which of the following will shift the supply curve for good X leftward?
- A situation in which quantity demanded exceeds quantity supplied.
  - An increase in the cost of the machinery used to produce X.
  - A technological improvement in the production of X.
  - A decrease in the wages of workers employed to produce X.

**Answer: B****Topic: A Change in the Quantity Supplied Versus a Change in Supply****Skill: Recognition**

- 89) Which of the following does NOT shift the supply curve?
- A technological advance.
  - A decrease in the wages of labor used in production of the good.
  - A fall in the price of a substitute in production.
  - An increase in the price of the good.

**Answer: D****Topic: A Change in the Quantity Supplied Versus a Change in Supply****Skill: Analytical**

- 90) If the price of a good changes but everything else influencing suppliers' planned sales remains constant, there is a
- new supply curve that is to the right of the initial supply curve.
  - new supply curve that is to the left of the initial supply curve.
  - movement along the supply curve.
  - rotation of the initial supply curve around the initial price.

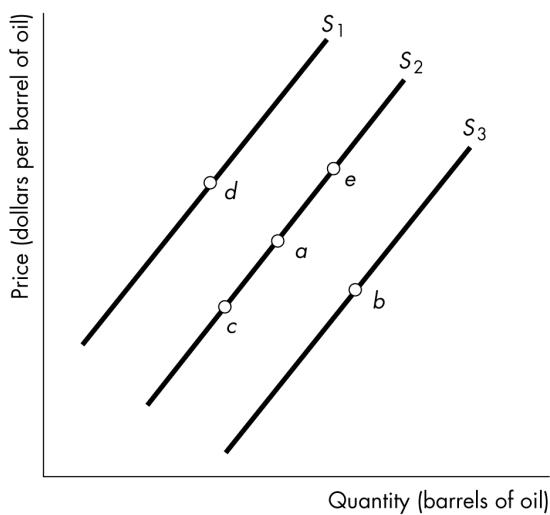
**Answer: C****Topic: A Change in the Quantity Supplied Versus a Change in Supply****Skill: Recognition**

- 91) A decrease in the quantity supplied is represented by a
- movement down the supply curve.
  - movement up the supply curve.
  - rightward shift in the supply curve.
  - leftward shift in the supply curve.

**Answer: A****Topic: A Change in the Quantity Supplied Versus a Change in Supply****Skill: Recognition**

- 92) Which of the following causes an increase in the quantity supplied of good X but NOT in the supply of good X?
- A reduction in the price of resources used to produce X.
  - An improvement in the technology for producing X.
  - An increase in the price of good Y, a complement in the production of X.
  - An increase in the price of X.

**Answer: D**



**Topic: A Change in the Quantity Supplied Versus a Change in Supply**

**Skill: Conceptual**

- 93) In the figure above, an increase in the supply of oil would result in a movement from  
 A) point *a* to point *e*.  
 B) point *a* to point *b*.  
 C) point *a* to point *c*.  
 D) point *a* to point *d*.

**Answer: B**

**Topic: A Change in the Quantity Supplied Versus a Change in Supply**

**Skill: Conceptual**

- 94) In the figure above, an increase in the quantity of oil supplied but NOT in the supply of oil is shown by a movement from  
 A) point *a* to point *e*.  
 B) point *a* to point *b*.  
 C) point *a* to point *c*.  
 D) point *a* to point *d*.

**Answer: A**

**Topic: A Change in the Quantity Supplied Versus a Change in Supply**

**Skill: Conceptual**

- 95) In the figure above, a decrease in the quantity of oil supplied but NOT in the supply of oil is shown by a movement from  
 A) point *a* to point *e*.  
 B) point *a* to point *b*.  
 C) point *a* to point *c*.  
 D) point *a* to point *d*.

**Answer: C**

**Topic: Change in Supply, Prices of Resources**

**Skill: Conceptual**

- 96) In the figure above, which movement could be caused by an increase in the wages of oil workers?  
 A) point *a* to point *e*.  
 B) point *a* to point *b*.  
 C) point *a* to point *c*.  
 D) point *a* to point *d*.

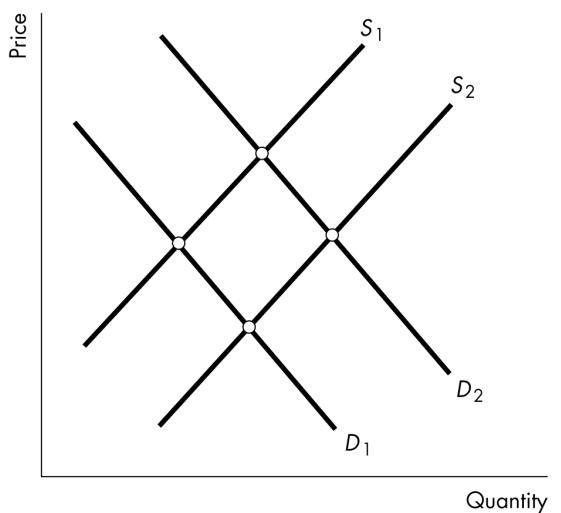
**Answer: D**

**Topic: Change in Supply, Technology**

**Skill: Conceptual**

- 97) In the figure above, which movement could be caused by the development of a new, more efficient refining technology?  
 A) point *a* to point *e*.  
 B) point *a* to point *b*.  
 C) point *a* to point *c*.  
 D) point *a* to point *d*.

**Answer: B**

**Topic: Changes in Demand, Preferences****Skill: Conceptual**

- 98) The figure above represents the market for candy. People become more concerned that eating candy causes them to gain weight, which they do not like. As a result, the
- demand curve shifts from  $D_2$  to  $D_1$  and the supply curve will not shift.
  - demand curve shifts from  $D_1$  to  $D_2$  and the supply curve shifts from  $S_1$  to  $S_2$ .
  - demand curve shifts from  $D_2$  to  $D_1$  and the supply curve shifts from  $S_2$  to  $S_1$ .
  - demand curve will not shift, and the supply curve shifts from  $S_1$  to  $S_2$ .

**Answer: A****Topic: Changes in Supply, Technology****Skill: Conceptual**

- 99) The above figure represents the market for oil. Because of the development of a new deep sea drilling technology the
- demand curve shifts from  $D_1$  to  $D_2$  and the supply curve will not shift.
  - demand curve shifts from  $D_1$  to  $D_2$  and the supply curve shifts from  $S_1$  to  $S_2$ .
  - demand curve will not shift, and the supply curve shifts from  $S_2$  to  $S_1$ .
  - demand curve will not shift, and the supply curve shifts from  $S_1$  to  $S_2$ .

**Answer: D****Topic: Changes in Supply****Skill: Conceptual**

- 100) The above figure represents the market for oil. When terrorists blow up a major refinery the
- demand curve for oil shifts from  $D_1$  to  $D_2$  and the supply curve for oil will not shift.
  - demand curve for oil shifts from  $D_1$  to  $D_2$  and the supply curve for oil shifts from  $S_2$  to  $S_1$ .
  - demand curve for oil will not shift, and the supply curve for oil shifts from  $S_2$  to  $S_1$ .
  - demand curve for oil will not shift, and the supply curve for oil shifts from  $S_1$  to  $S_2$ .

**Answer: C****Topic: Changes in Demand, Preferences****Skill: Conceptual**

- 101) The above figure represents the market for bicycles. When there is a physical fitness craze the
- demand curve for bicycles shifts from  $D_1$  to  $D_2$ .
  - demand curve for bicycles shifts from  $D_2$  to  $D_1$ .
  - demand curve and the supply curve of bicycles do not shift.
  - supply curve of bicycles shifts from  $S_1$  to  $S_2$ .

**Answer: A**

**Topic: Change in Demand, Preferences; Change in Supply, Prices of Resources**

**Skill: Conceptual**

- 102) The above figure represents the market for french fries at fast food joints. If the price of potatoes rises and simultaneously people become concerned that french fries can cause heart attacks
- the demand curve for french fries will shift from  $D_2$  to  $D_1$  and the supply curve of french fries will not shift.
  - the demand curve for french fries will shift from  $D_2$  to  $D_1$  and the supply curve of french fries will shift from  $S_2$  to  $S_1$ .
  - the demand curve for french fries will shift from  $D_2$  to  $D_1$  and the supply curve of french fries will shift from  $S_1$  to  $S_2$ .
  - the demand curve for french fries will not shift, and the supply curve of french fries will shift from  $S_1$  to  $S_2$ .

**Answer: B**

## ■ Market Equilibrium

**Topic: Market Equilibrium**

**Skill: Recognition**

- 103) The equilibrium price and quantity are found at the
- point where quantity supplied equals quantity demanded.
  - horizontal intercept of the demand curve.
  - vertical intercept of the supply curve.
  - horizontal intercept of the supply *and* the demand curves.

**Answer: A**

**Topic: Market Equilibrium**

**Skill: Conceptual**

- 104) The interaction of supply and demand explains
- the prices of goods and services but not their quantities.
  - the quantities of goods and services but not their prices.
  - both the prices and the quantities of goods and services.
  - neither the prices nor the quantities of goods and services.

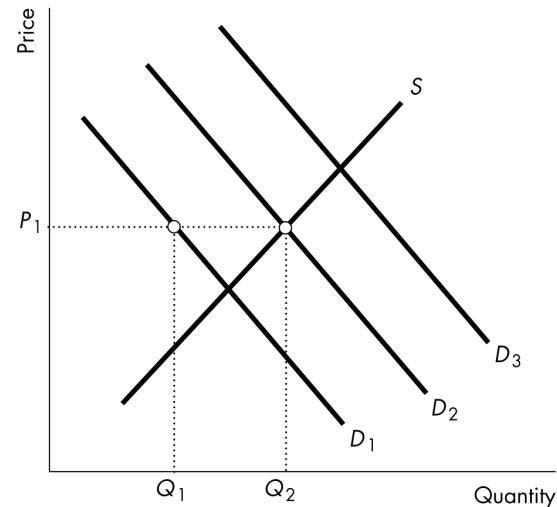
**Answer: C**

**Topic: Market Equilibrium**

**Skill: Analytical**

- 105) When the quantity demanded equals quantity supplied
- the government must be intervening in the market.
  - there is a surplus.
  - there is a shortage.
  - None of the above.

**Answer: D**



**Topic: Market Equilibrium**

**Skill: Analytical**

- 106) In the above figure, if the demand curve is  $D_2$ , then
- the equilibrium price will be  $P_1$  and the equilibrium quantity will be  $Q_2$ .
  - the equilibrium price will be  $P_1$  and the equilibrium quantity will be  $Q_1$ .
  - there will be a shortage equal to  $Q_2 - Q_1$ .
  - an increase in price will cause the demand curve to shift to  $D_3$ .

**Answer: A**

**Topic: Market Equilibrium****Skill: Analytical**

- 107) When the price is below the equilibrium price, the quantity demanded
- is less than the equilibrium quantity. So is the quantity supplied.
  - is less than the equilibrium quantity. The quantity supplied exceeds the equilibrium quantity.
  - exceeds the equilibrium quantity. So does the quantity supplied.
  - exceeds the equilibrium quantity. The quantity supplied is less than the equilibrium quantity.

**Answer: D****Topic: Price Adjustments****Skill: Conceptual**

- 108) If a market is NOT in equilibrium, then which of the following is likely to occur?
- The demand curve will shift to bring the market to equilibrium.
  - The supply curve will shift to bring the market to equilibrium.
  - The price will adjust to bring the market to equilibrium.
  - Both A and B are correct.

**Answer: C****Topic: Price Adjustment; Shortage****Skill: Conceptual**

- 109) A price below the equilibrium price results in
- a surplus.
  - a shortage.
  - excess supply.
  - a further price fall.

**Answer: B****Topic: Price Adjustment; Shortage****Skill: Conceptual**

- 110) Which of the following correctly describes how price adjustments eliminate a shortage?
- As the price rises, the quantity demanded decreases while the quantity supplied increases.
  - As the price rises, the quantity demanded increases while the quantity supplied decreases.
  - As the price falls, the quantity demanded decreases while the quantity supplied increases.
  - As the price falls, the quantity demanded increases while the quantity supplied decreases.

**Answer: A****Topic: Price Adjustment; Shortage****Skill: Recognition**

- 111) A shortage causes the
- demand curve to shift leftward.
  - supply curve to shift rightward.
  - price to fall.
  - price to rise.

**Answer: D****Topic: Price Adjustment; Shortage****Skill: Analytical**

- 112) If the quantity demanded exceeds the quantity supplied, then there is
- a shortage and the price is below the equilibrium price.
  - a shortage and the price is above the equilibrium price.
  - a surplus and the price is below the equilibrium price.
  - a surplus and the price is above the equilibrium price.

**Answer: A****Topic: Price Adjustments; Surplus****Skill: Analytical**

- 113) If the quantity supplied exceeds the quantity demanded, then there is
- a shortage and the price is below the equilibrium price.
  - a shortage and the price is above the equilibrium price.
  - a surplus and the price is below the equilibrium price.
  - a surplus and the price is above the equilibrium price.

**Answer: D****Topic: Price Adjustments; Surplus****Skill: Conceptual**

- 114) The price of a good will fall if
- there is a surplus at the current price.
  - the current price is less than the equilibrium price.
  - the quantity demanded exceeds the quantity supplied.
  - the price of a complement falls.

**Answer: A**

**Topic: Price Adjustment; Shortage****Skill: Recognition**

- 115) When the price is less than the equilibrium price,
- there will be a shortage.
  - some consumers will be willing to pay a price higher than the prevailing price.
  - the price will be forced higher.
  - All of the above answers are correct.

**Answer: D****Topic: Price Adjustments, Shortage****Skill: Conceptual**

- 116) If there exists a shortage in the market for snowmobiles, then the price of a snowmobile will
- rise.
  - fall.
  - neither rise nor fall.
  - at first fall then rise.

**Answer: A****Topic: Price Adjustment; Shortage****Skill: Conceptual**

- 117) The existence of a shortage
- means resources are being allocated efficiently
  - is impossible in a market economy
  - pushes prices up
  - pushes prices down

**Answer: C****Topic: Price Adjustments; Surplus****Skill: Recognition**

- 118) A surplus occurs when the price is
- less than the equilibrium price.
  - equal to the equilibrium price.
  - greater than the equilibrium price.
  - None of the above because the existence of a surplus is independent of the price of the good.

**Answer: C****Topic: Price Adjustments, Surplus****Skill: Recognition**

- 119) If the price is above the equilibrium price, then there is a
- surplus, and market forces will operate to lower price.
  - surplus, and market forces will operate to raise price.
  - shortage, and market forces will operate to lower price.
  - shortage, and market forces will operate to raise price.

**Answer: A****Topic: Price Adjustment; Surplus****Skill: Conceptual**

- 120) When the price of a good is
- below the equilibrium price, quantity supplied exceeds quantity demanded and price rises.
  - below the equilibrium price, quantity demanded exceeds quantity supplied and price falls.
  - above the equilibrium price, quantity supplied exceeds quantity demanded and price falls.
  - above the equilibrium price, quantity demanded exceeds quantity supplied and price rises.

**Answer: C****Topic: Price Adjustment; Surplus****Skill: Analytical**

- 121) Suppose a market begins in equilibrium. If supply increases, then at the original equilibrium price the quantity demanded is
- is less than the quantity supplied and a surplus results.
  - is less than the quantity supplied and a shortage results.
  - exceeds the quantity supplied and a surplus results.
  - exceeds the quantity supplied and a shortage results.

**Answer: A**

Price (dollars per disc)	Quantity demanded	Price (dollars per disc)	Quantity supplied
4	36,000	4	4,000
8	32,000	8	8,000
12	28,000	12	12,000
16	24,000	16	16,000
20	20,000	20	20,000
24	16,000	24	24,000
28	12,000	28	28,000
32	8,000	32	32,000
36	4,000	36	36,000

**Topic: Price Adjustment; Shortage****Skill: Conceptual**

- 122) The above table gives the demand and supply schedules for compact discs. If the price of a compact disc is \$8, there is a \_\_\_\_ and the price of a compact disc will \_\_\_\_.

- A) shortage; rise
- B) shortage; fall
- C) surplus; rise
- D) surplus; fall

**Answer: A****Topic: Predicting Changes in Price and Quantity;****Demand Changes****Skill: Analytical**

- 123) The above table gives the demand and supply schedules for compact discs. Suppose that the price of a compact disc player increases, resulting in the demand for compact discs decreasing by 8,000 units at all prices. What are the new equilibrium quantity and equilibrium price of compact discs?

- A) 8,000 and \$8
- B) 16,000 and \$16
- C) 20,000 and \$20
- D) 28,000 and \$28

**Answer: B**

Price (dollars per disc)	Quantity demanded	Price (dollars per disc)	Quantity supplied
4	36,000	4	4,000
8	32,000	8	8,000
12	28,000	12	12,000
16	24,000	16	16,000
20	20,000	20	20,000
24	16,000	24	24,000
28	12,000	28	28,000
32	8,000	32	32,000
36	4,000	36	36,000

**Topic: Price Adjustment; Surplus****Skill: Conceptual**

- 124) The above table gives the demand and supply schedules for compact discs. If the price of a compact disc is \$28, there is a \_\_\_\_ and the price of a compact disc will \_\_\_\_.

- A) shortage; rise
- B) shortage; fall
- C) surplus; rise
- D) surplus; fall

**Answer: D****Topic: Market Equilibrium****Skill: Recognition**

- 125) The above table gives the demand and supply schedules for compact discs. Based on the table, the equilibrium quantity and price of a compact disc is

- A) 28,000 and \$12.
- B) 20,000 and \$20.
- C) 16,000 and \$24.
- D) 16,000 and \$16.

**Answer: B**

Price (dollars per cellular phone)	Quantity demanded (thousands)	Quantity supplied (thousands)
100	50	100
80	55	80
50	60	60
20	100	40

**Topic: Market Equilibrium****Skill: Analytical**

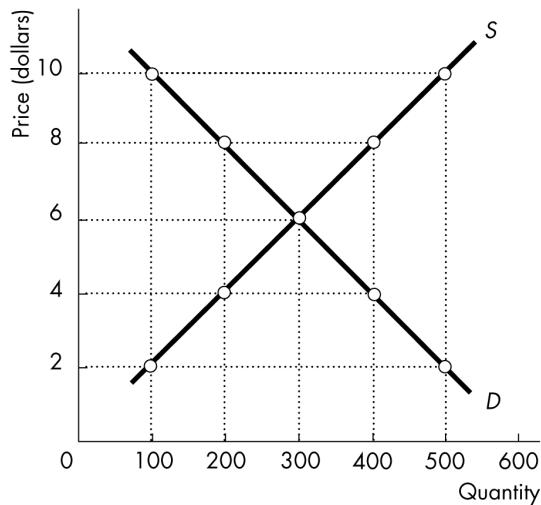
- 126) Using the data in the above table, the equilibrium quantity and equilibrium price for a cellular telephone is

- A) 50 thousand and \$100.
- B) 80 thousand and \$80.
- C) 60 thousand and \$50.
- D) 40 thousand and \$20.

**Answer: C****Topic: Price Adjustments, Surplus****Skill: Analytical**

- 127) Using the data in the above table, at the price of \$80 a phone, a

- A) shortage of 25 thousand cellular telephones occurs.
- B) surplus of 80 thousand cellular telephones occurs.
- C) surplus of 25 thousand cellular telephones occurs.
- D) shortage of 55 thousand cellular telephones occurs.

**Answer: C****Topic: Market Equilibrium****Skill: Recognition**

- 128) The equilibrium price in the above figure is

- A) \$2.
- B) \$4.
- C) \$6.
- D) \$8.

**Answer: C****Topic: Market Equilibrium****Skill: Recognition**

- 129) The equilibrium quantity in the above figure is

- A) 200 units.
- B) 300 units.
- C) 400 units.
- D) 600 units.

**Answer: B****Topic: Surplus****Skill: Analytical**

- 130) At a price of \$10 in the above figure, there is

- A) a surplus of 200 units.
- B) a shortage of 200 units.
- C) a surplus of 400 units.
- D) a shortage of 400 units.

**Answer: C**

**Topic: Shortage****Skill: Analytical**

- 131) At a price of \$4 in the above figure,
- the equilibrium quantity is 400 units.
  - there is a surplus of 200 units.
  - the quantity supplied is 400 units.
  - there is a shortage of 200 units.

**Answer: D****Topic: Predicting Changes in Price and Quantity; Demand Changes****Skill: Conceptual**

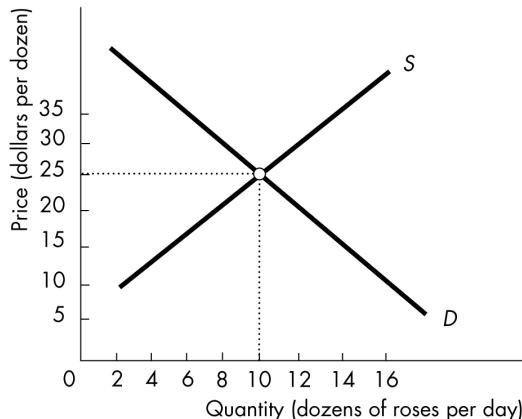
- 132) If the good in the above figure is a normal good and income rises, then the new equilibrium quantity
- is less than 300 units.
  - is 300 units.
  - is more than 300 units.
  - could be less than, equal to, or more than 300 units.

**Answer: C****Topic: Predicting Changes in Price and Quantity; Supply Changes****Skill: Conceptual**

- 133) The initial supply and demand curves for a good are illustrated in the above figure. If there are technological advances in the production of the good, then the new price for the good
- is less than \$6.
  - is \$6.
  - is more than \$6.
  - could be less than, equal to, or more than \$6.

**Answer: A****Topic: Predicting Changes in Price and Quantity; Demand Changes****Skill: Conceptual**

- 134) The initial supply and demand curves for a good are illustrated in the above figure. If there is a rise in the price of the resources used to produce the good, then the new price
- is less than \$6.
  - is \$6.
  - is more than \$6.
  - could be less than, equal to, or more than \$6.

**Answer: C****Topic: Price Adjustment****Skill: Analytical**

- 135) In the above figure, a price of \$15 per dozen for roses would result in
- equilibrium.
  - a shortage.
  - a surplus.
  - downward pressure on prices.

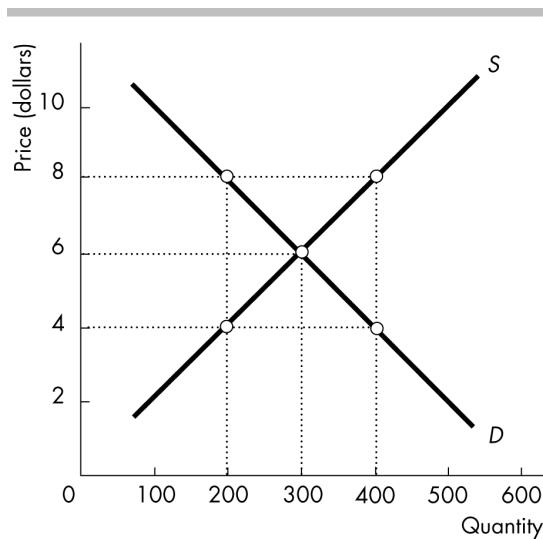
**Answer: B****Topic: Price Adjustment****Skill: Analytical**

- 136) In the above figure, a price of \$15 per dozen roses would result in a \_\_\_\_ so that the price of roses will \_\_\_\_.
- surplus; rise
  - surplus; fall
  - shortage; rise
  - shortage; fall

**Answer: C****Topic: Price Adjustment****Skill: Analytical**

- 137) In the above figure, a price of \$35 per dozen would result in
- a shortage.
  - equilibrium.
  - a surplus.
  - upward pressure on prices.

**Answer: C**

**Topic: Price Adjustments****Skill: Conceptual**

138) In the above figure, if the price is \$8 then

- A) there is a surplus of 100.
- B) there is a surplus of 200.
- C) there is a shortage of 100.
- D) there is a shortage of 200.

**Answer: B****Topic: Price Adjustments****Skill: Conceptual**

139) Based on the above figure, which of the following is true?

- A) At a price of \$6, quantity demanded is equal to quantity supplied.
- B) At a price of \$4, quantity demanded is greater than quantity supplied.
- C) At a price of \$8, quantity demanded is less than quantity supplied.
- D) All of the above answers are correct.

**Answer: D**

## ■ Predicting Changes in Price and Quantity

**Topic: Predicting Changes in Price and Quantity; Demand Changes****Skill: Conceptual**

140) When the demand for a good decreases, its equilibrium price \_\_\_\_ and equilibrium quantity \_\_\_\_.

- A) falls; decreases
- B) falls; increases
- C) rises; decreases
- D) rises; increases

**Answer: A****Topic: Predicting Changes in Price and Quantity; Demand Changes****Skill: Conceptual**

141) If good A is a normal good and income increases, the equilibrium price of A

- A) and the equilibrium quantity will increase.
- B) will rise and the equilibrium quantity will decrease.
- C) and the equilibrium quantity will decrease.
- D) will fall and the equilibrium quantity will increase.

**Answer: A****Topic: Predicting Changes in Price and Quantity; Demand Changes****Skill: Analytical**

142) The price of a gallon of milk falls. Which of the following is a possible cause?

- A) A decrease in the price of oatmeal, a complement to milk.
- B) A discovery that milk causes diabetes.
- C) An increase in the income of the average household, with milk being a normal good.
- D) A drought that reduces supplies of feed grains fed to cows that produce milk.

**Answer: B**

**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**  
**Skill: Conceptual**

- 143) Assume that beef and pork are substitutes for consumers. There is a drought in the cattle grazing areas. The drought will cause the
- supply curve for pork to shift rightward.
  - supply curve for pork to shift leftward.
  - demand curve for pork to shift rightward.
  - demand curve for pork to shift leftward.

**Answer: C**

**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**  
**Skill: Analytical**

- 144) An increase in demand combined with no change in supply causes
- the equilibrium price to rise.
  - the equilibrium price to fall.
  - a movement rightward along the demand curve.
  - a decrease in demand because the supply curve does not shift.

**Answer: A**

**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**  
**Skill: Analytical**

- 145) Goods A and B are complementary goods (in consumption). The cost of a resource used in the production of A decreases. As a result,
- the equilibrium price of B will fall and the equilibrium price of A will rise.
  - the equilibrium price of B will rise and the equilibrium price of A will fall.
  - the equilibrium prices of both A and B will rise.
  - the equilibrium prices of both A and B will fall.

**Answer: B**

**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**  
**Skill: Analytical**

- 146) When demand decreases and supply does not change, the equilibrium price
- rises and the equilibrium quantity increases.
  - falls and the equilibrium quantity decreases.
  - rises and the equilibrium quantity decreases.
  - falls and the equilibrium quantity increases.

**Answer: B**

**Topic: Predicting Changes in Price and Quantity;  
Supply Changes**  
**Skill: Analytical**

- 147) When supply decreases and demand does not change, the equilibrium quantity
- increases and the price rises.
  - decreases and the price falls.
  - increases and the price falls.
  - decreases and the price rises.

**Answer: D**

**Topic: Predicting Changes in Price and Quantity;  
Supply Changes**  
**Skill: Analytical**

- 148) Beef and leather belts are complements in production. If people's concern about health shifts the demand curve for beef leftward, the result in the market for leather belts will be a
- lower equilibrium price for a leather belt because there is an increase in the supply of leather belts.
  - lower equilibrium price for a leather belt because there is a decrease in the supply of leather belts.
  - higher equilibrium price for a leather belt because there is a decrease in the supply of leather belts.
  - higher equilibrium price for a leather belt because there is an increase in the supply of leather belts.

**Answer: C**

**Topic: Predicting Changes in Price and Quantity;  
Supply Changes**  
**Skill: Analytical**

- 149) You observe that the price of a good rises and the quantity decreases. These observations can be the result of

- the demand curve shifting rightward.
- the demand curve shifting leftward.
- the supply curve shifting rightward.
- the supply curve shifting leftward.

**Answer: D**

**Topic: Predicting Changes in Price and Quantity;  
Supply Changes**  
**Skill: Analytical**

- 150) Leather belts and leather shoes are substitutes in production. If style changes increase the demand for leather belts, the supply curve of leather shoes will shift
- leftward and the equilibrium price of leather shoes will fall.
  - leftward and the equilibrium price of leather shoes will rise.
  - rightward and the equilibrium price of leather shoes will fall.
  - rightward and the equilibrium price of leather shoes will rise.

**Answer: B**

**Topic: Predicting Changes in Price and Quantity;  
Demand/Supply Increase**  
**Skill: Analytical**

- 151) If both demand and supply increase, what will be the effect on the equilibrium price and quantity?
- Both the price and the quantity will increase.
  - The quantity will increase but the price could either rise, fall, or remain the same.
  - The price will fall but the quantity will increase.
  - The price will rise but the quantity could either increase, decrease, or remain the same.

**Answer: B**

**Topic: Predicting Changes in Price and Quantity;  
Demand/Supply Increase**  
**Skill: Conceptual**

- 152) If both the demand and supply increase, the equilibrium quantity
- increases and the price falls.
  - decreases and the effect on price is indeterminate.
  - decreases and the price rises.
  - increases and the effect on price is indeterminate.

**Answer: D**

**Topic: Predicting Changes; Demand Increases,  
Supply Decreases**  
**Skill: Analytical**

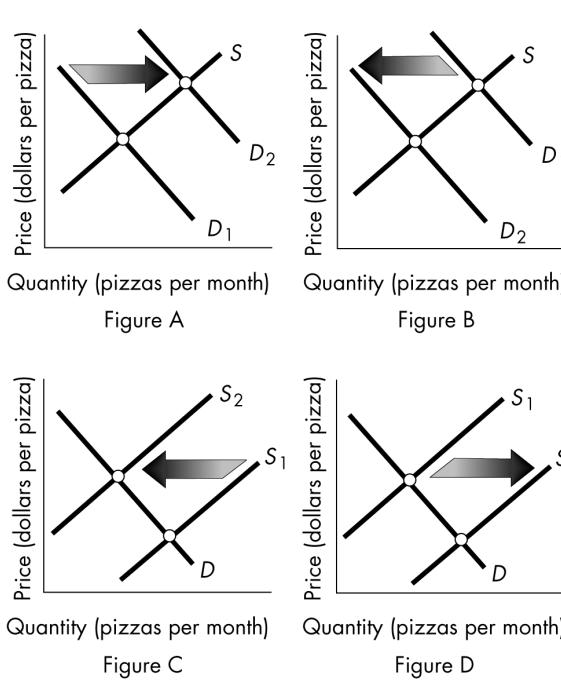
- 153) The price will rise and the equilibrium quantity might increase, decrease, or stay the same when the
- demand and the supply of a good both increase.
  - demand for a good increases and the supply of it decreases.
  - demand for a good decreases and the supply of it increases.
  - demand and the supply of a good both decrease.

**Answer: B**

**Topic: Predicting Changes; Demand Decreases,  
Supply Increases**  
**Skill: Analytical**

- 154) The price will fall and the equilibrium quantity might increase, decrease, or stay the same when the
- demand and the supply of a good both increase.
  - demand for a good increases and the supply of it decreases.
  - demand for a good decreases and the supply of it increases.
  - demand and the supply of a good both decrease.

**Answer: C**

**Topic: Predicting Changes in Price and Quantity;****Demand Changes****Skill: Recognition**

- 157) The above figure shows the market for pizza. Which figure shows the effect of an increase in the price of a substitute such as sandwiches?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: A****Topic: Predicting Changes in Price and Quantity;****Supply Changes****Skill: Recognition**

- 158) The above figure shows the market for pizza. Which figure shows the effect of an increase in the price of the tomato sauce used to produce pizza?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: C****Topic: Predicting Changes in Price and Quantity;**  
**Demand Changes****Skill: Recognition**

- 155) The above figure shows the market for pizza. Which figure shows the effect of a decrease in the price of a pizza substitute such as hamburgers?

- A) Figure A.
- B) Figure B.
- C) Figure D.
- D) Figures B and C.

**Answer: B****Topic: Predicting Changes in Price and Quantity;**  
**Demand Changes****Skill: Recognition**

- 156) The above figure shows the market for pizza. Which figure shows the effect of an increase in the price of a complement such as soda?

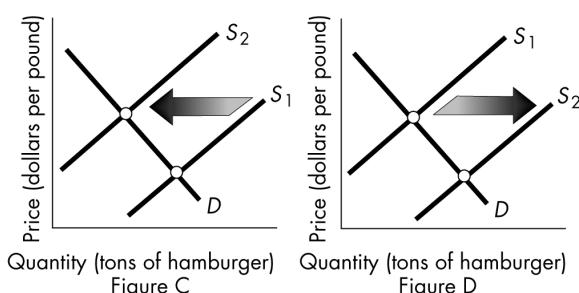
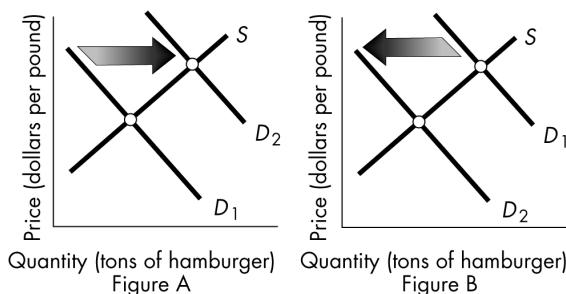
- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: B**

- 159) The above figure shows the market for pizza. Which figure shows the effect of a new report by the U.S. Surgeon General that pizza, as a part of the Mediterranean diet, contributes to lower cholesterol levels?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: A**



**Topic: Predicting Changes in Price and Quantity; Demand Changes**

**Skill: Recognition**

- 160) The above figure shows the market for hamburger. Which figure shows the effect of an announcement by the U.S. Food and Drug Administration (FDA) that eating hamburger causes early death?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: B**

**Topic: Predicting Changes in Price and Quantity; Supply Changes**

**Skill: Recognition**

- 161) The above figure shows the market for hamburger. Which panel shows the effect of a drought in “cattle country”?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: C**

**Topic: Predicting Changes in Price and Quantity; Supply Changes**

**Skill: Recognition**

- 162) The above figure shows the market for hamburger. Which panel shows the effect of a new exercise tax on all beef products?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: C**

**Topic: Predicting Changes in Price and Quantity; Demand/Supply Decrease**

**Skill: Analytical**

- 163) The equilibrium quantity will decrease and the price might rise, fall, or stay the same when the

- A) demand and the supply of a good both increase.
- B) demand for a good increases and the supply of it decreases.
- C) demand for a good decreases and the supply of it increases.
- D) demand and the supply of a good both decrease.

**Answer: D**

**Topic: Predicting Changes in Price and Quantity; Demand/Supply Increase**

**Skill: Analytical**

- 164) The equilibrium quantity of a good will increase and its equilibrium price might rise, fall, or stay the same when

- A) its demand and supply both increase.
- B) its demand increases and supply decreases.
- C) its demand decreases and supply increases.
- D) its demand and supply both decrease.

**Answer: A**

**Topic: Predicting Changes in Price and Quantity;  
Demand/Supply Increase**

**Skill: Analytical**

- 165) The price of compact disc players fell over the past decade because a combination of improving technology, rising incomes, and falling prices of compact discs caused the
- demand curve for compact disc players to shift rightward faster than the supply curve of compact disc players shifted rightward.
  - supply curve of compact disc players to shift rightward faster than the demand curve for compact disc players shifted rightward.
  - supply curve of compact disc players to shift rightward and the demand curve for compact disc players to shift leftward.
  - demand curve for compact disc players to shift leftward and the supply curve of compact disc players to shift leftward.

**Answer: B**

**Topic: Predicting Changes; Demand Increases,  
Supply Decreases**

**Skill: Analytical**

- 166) Which of the following always raises the equilibrium price?
- An increase in both demand and supply.
  - A decrease in both demand and supply.
  - An increase in demand combined with a decrease in supply.
  - A decrease in demand combined with an increase in supply.

**Answer: C**

**Topic: Predicting Changes; Demand Decreases,  
Supply Increases**

**Skill: Conceptual**

- 167) Which of the following definitely causes a fall in the equilibrium price?
- An increase in both demand and supply.
  - A decrease in both demand and supply.
  - An increase in demand combined with a decrease in supply.
  - A decrease in demand combined with an increase in supply.

**Answer: D**

The Market for Wapanzo Beans

Quantity Demanded (millions of pounds per year)			Price (dollars per pound)	Quantity Supplied (millions of pounds per year)		
Case 1	Case 2	Case 3		Case A	Case B	Case C
15	10	5	\$1	1	2	3
12	8	4	\$2	2	4	6
9	6	3	\$3	3	6	9
6	3	2	\$4	4	8	12
3	2	1	\$5	5	10	15

**Topic: Market Equilibrium**

**Skill: Analytical**

- 168) Refer to the table above. Suppose that in normal years demand is represented by Case 2 and supply is represented by Case B. In a normal year the price of wapanzo beans will be

- \$1 per pound.
- \$2 per pound.
- \$3 per pound.
- \$4 per pound.

**Answer: C**

**Topic: Market Equilibrium**

**Skill: Analytical**

- 169) Refer to the table above. Suppose that in normal years demand is represented by Case 2 and supply is represented by Case B. In a normal year the equilibrium quantity of wapanzo beans will be

- 2 million pounds.
- 4 million pounds.
- 6 million pounds.
- 8 million pounds.

**Answer: C**

**Topic: Change in Supply**

**Skill: Analytical**

- 170) Refer to the table above. Suppose that in normal years demand is represented by Case 2 and supply is represented by Case B. If there is a drought in the wapanzo bean growing region then supply will \_\_\_\_ and demand will \_\_\_\_.

- become case A; become case 1
- become case A; stay at case 2
- stay at case B; become case 3
- stay at case B; become case 1

**Answer: B**

**Topic: Change in Supply****Skill: Analytical**

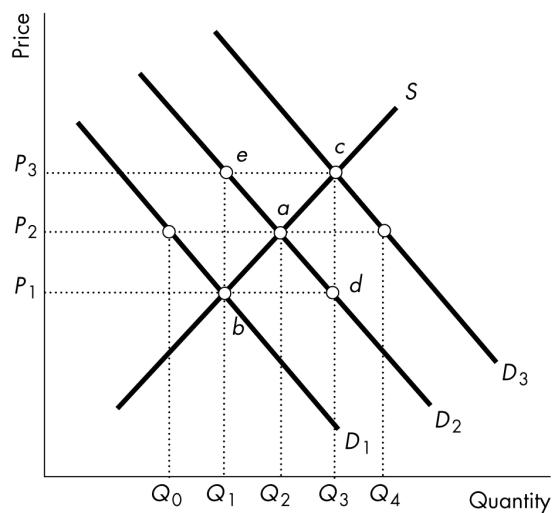
171) Refer to the table above. Suppose that in normal years demand is represented by Case 2 and supply is represented by Case B. If there is exceptionally good growing weather in the wapanzo bean growing region then supply will \_\_\_\_ and demand will \_\_\_\_.

- A) become case C; become case 1
- B) become case C; stay at case 2
- C) become case C; become case 3
- D) stay at case B; become case 1

**Answer: B****Topic: Change in Demand, Preferences****Skill: Analytical**

172) Refer to the table above. Suppose that in normal years demand is represented by Case 2 and supply is represented by Case B. If it is discovered that wapanzo beans help prevent cancer then supply will \_\_\_\_ and demand will \_\_\_\_.

- A) become case C; become case 1
- B) become case C; stay at case 2
- C) stay at case B; become case 1
- D) become case A; become case 1

**Answer: C****Topic: A Change in Quantity Demanded Versus a Change in Demand****Skill: Analytical**

173) In the above figure, a change in quantity demanded with unchanged demand is represented by a movement from

- A) point *a* to point *e*.
- B) point *a* to point *b*.
- C) point *a* to point *c*.
- D) None of the above represent a change in the quantity demanded with an unchanged demand.

**Answer: A****Topic: A Change in Quantity Supplied Versus a Change in Supply****Skill: Analytical**

174) In the above figure, a change in quantity supplied with unchanged supply is represented by a movement from

- A) point *a* to point *e*.
- B) point *b* to point *a*.
- C) point *e* to point *c*.
- D) point *b* to point *e*.

**Answer: B**

**Topic: Surplus****Skill: Conceptual**

175) In the above figure, if  $D_2$  is the demand curve, then a price of  $P_3$  would result in

- A) a shortage of  $Q_3 - Q_1$ .
- B) a shortage of  $Q_4 - Q_3$ .
- C) a surplus of  $Q_3 - Q_1$ .
- D) a surplus of  $Q_4 - Q_0$ .

**Answer: C****Topic: Predicting Changes in Price and Quantity;****Demand Changes****Skill: Analytical**

176) In the above figure, if  $D_2$  is the original demand curve for a normal good and income decreases, which price and quantity may result?

- A) Point  $a$ , with price  $P_2$  and quantity  $Q_2$ .
- B) Point  $b$ , with price  $P_1$  and quantity  $Q_1$ .
- C) Point  $c$ , with price  $P_3$  and quantity  $Q_3$ .
- D) Point  $d$ , with price  $P_1$  and quantity  $Q_3$ .

**Answer: B****Topic: Predicting Changes in Price and Quantity;****Demand Changes****Skill: Analytical**

177) In the above figure, if  $D_2$  is the original demand curve and the price of a substitute in consumption rises, which price and quantity may result?

- A) Point  $a$ , with price  $P_2$  and quantity  $Q_2$ .
- B) Point  $b$ , with price  $P_1$  and quantity  $Q_1$ .
- C) Point  $c$ , with price  $P_3$  and quantity  $Q_3$ .
- D) Point  $d$ , with price  $P_1$  and quantity  $Q_3$ .

**Answer: C****Topic: Predicting Changes in Price and Quantity;****Demand Changes****Skill: Analytical**

178) In the above figure, if  $D_2$  is the original demand curve and consumers come to expect that the price of the good will rise in the future, which price and quantity may result?

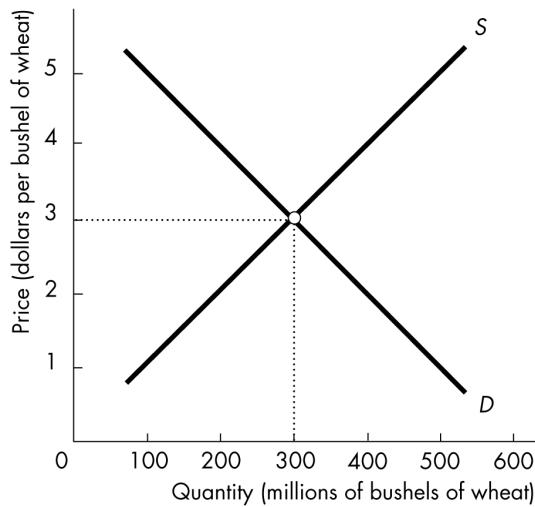
- A) Point  $a$ , with price  $P_2$  and quantity  $Q_2$ .
- B) Point  $b$ , with price  $P_1$  and quantity  $Q_1$ .
- C) Point  $c$ , with price  $P_3$  and quantity  $Q_3$ .
- D) Point  $d$ , with price  $P_1$  and quantity  $Q_3$ .

**Answer: C****Topic: Predicting Changes in Price and Quantity;****Demand Changes****Skill: Analytical**

179) In the above figure, if  $D_2$  is the original demand curve and the population falls, which price and quantity may result?

- A) Point  $a$ , with price  $P_2$  and quantity  $Q_2$ .
- B) Point  $b$ , with price  $P_1$  and quantity  $Q_1$ .
- C) Point  $c$ , with price  $P_3$  and quantity  $Q_3$ .
- D) Point  $d$ , with price  $P_1$  and quantity  $Q_3$ .

**Answer: B**



**Topic: Predicting Changes in Price and Quantity;  
Supply Changes**

**Skill: Analytical**

- 180) In the figure, the equilibrium price is initially \$3 per bushel of wheat. If suppliers come to expect that the price of a bushel of wheat will rise in the future, but buyers do not, the *current* equilibrium price will
- rise.
  - not change.
  - fall.
  - Perhaps rise, fall, or stay the same, depending on whether there are more demanders or suppliers in the market.

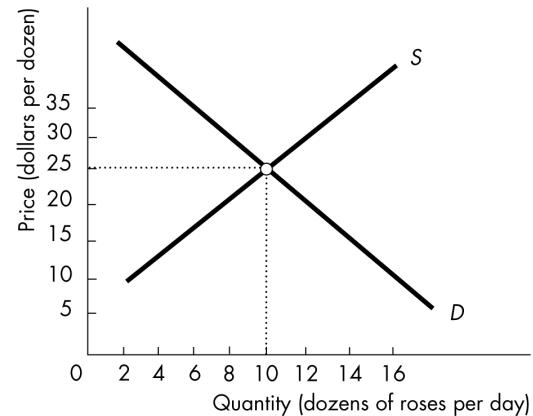
**Answer: A**

**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**

**Skill: Analytical**

- 181) In the figure, the equilibrium price is initially \$3 per bushel of wheat. If buyers come to expect that the price of a bushel of wheat will rise in the future, but sellers do not, the *current* equilibrium price will
- rise.
  - not change.
  - fall.
  - Perhaps rise, fall, or stay the same, depending on whether there are more demanders or suppliers in the market.

**Answer: A**



**Topic: Predicting Changes in Price and Quantity;  
Demand Increases**

**Skill: Analytical**

- 182) Using the above figure, suppose that roses are a normal good. If there is an increase in income, then
- the equilibrium price will rise above \$25 per dozen roses.
  - the equilibrium quantity will decrease below 10 dozen roses.
  - we cannot predict what will happen to the equilibrium price.
  - we cannot predict what will happen to the equilibrium quantity.

**Answer: A**

**Topic: Predicting Changes in Price and Quantity;  
Supply Decreases**

**Skill: Analytical**

- 183) Using the above figure, suppose there is a decrease in the number of suppliers. Then
- the equilibrium price will decrease below \$25 per dozen roses.
  - we cannot predict what will happen to equilibrium quantity.
  - the equilibrium quantity will decrease below 10 dozen roses.
  - both the equilibrium price and quantity will increase.

**Answer: C**

**Topic: Predicting Changes in Price and Quantity;  
Demand/Supply Increase**

**Skill: Analytical**

- 184) In the above figure, in order for the equilibrium price to remain constant while the equilibrium quantity increases, the
- supply and demand curves both would have to shift leftward.
  - supply curve would have to shift leftward and the demand curve would have to shift rightward.
  - supply curve would have to shift rightward and the demand curve would have to shift leftward.
  - supply and demand curves both would have to shift rightward.

**Answer: D**

**Topic: Predicting Changes in Price and Quantity;  
Demand/Supply Decrease**

**Skill: Analytical**

- 185) Using the above figure, suppose that roses are a normal good. If incomes decrease while simultaneously there is an increase in the price of the resources used to produce roses, then
- the price will definitely increase above \$25 per dozen roses.
  - the quantity will definitely decrease below 10 dozen roses.
  - the price will definitely decrease below \$25 per dozen roses.
  - we cannot tell what will happen to equilibrium quantity.

**Answer: B**

**■ Mathematical Note Questions**

**Topic: Mathematical Note to Chapter 4**

**Skill: Analytical**

- 186) Let  $Q_d$  stand for the quantity demanded,  $Q_s$  stand for the quantity supplied, and  $P$  stand for price. If  $Q_d = 20 - 2P$  and  $Q_s = 5 + 3P$ , then the equilibrium price is
- \$1.
  - \$2.
  - \$3.
  - \$4.

**Answer: C**

**Topic: Mathematical Note to Chapter 4**

**Skill: Analytical**

- 187) Let  $Q_d$  stand for the quantity demanded,  $Q_s$  stand for the quantity supplied, and  $P$  stand for price. If  $Q_d = 20 - 2P$  and  $Q_s = 5 + 3P$ , then the equilibrium quantity is
- 3.
  - 5.
  - 14.
  - 20.

**Answer: C**

**Topic: Mathematical Note**

**Skill: Analytical**

- 188) The demand for hot dogs is given by  $Q_D = 8000 - 7000P$ , where  $Q_D$  is the quantity demanded and  $P$  is the price in dollars. The supply for hot dogs is given by  $Q_S = 4000 + 1000P$ , where  $Q_S$  is the quantity supplied and  $P$  is the price in dollars. Given these supply and demand relationships,
- At the equilibrium, the price = \$0.50 and the quantity = 4500 hot dogs.
  - At a price of \$1, there is a shortage of 4000 hot dogs.
  - At a price of \$1, there is a surplus of 4000 hot dogs.
  - Both answers A and C are correct.

**Answer: D**

**■ Study Guide Questions**

**Topic: Study Guide Question, Price and Opportunity Cost**

**Skill: Conceptual**

- 189) The opportunity cost of a good is the same as its
- money price.
  - relative price.
  - price index.
  - None of the above

**Answer: B**

**Topic: Study Guide Question, Price and Opportunity Cost**  
**Skill: Analytical**

- 190) The money price of a pizza is \$12 per pizza and the money price of a taco is \$2 per taco. The relative price of a pizza is
- \$12 per pizza.
  - \$24 per pizza.
  - 6 tacos per pizza.
  - 1/6 pizza.

**Answer: C**

**Topic: Study Guide Question, Law of Demand**  
**Skill: Conceptual**

- 191) The law of demand concludes that a rise in the price of a golf ball \_\_\_\_ the quantity demanded and \_\_\_\_.
- increases; shifts the demand curve for golf balls rightward.
  - decreases; shifts the demand curve for golf balls leftward.
  - decreases; creates a movement up along the demand curve for golf balls.
  - increases; creates a movement down along the demand curve for golf balls.

**Answer: C**

**Topic: Study Guide Question, Change in Demand, Prices of Related Goods**  
**Skill: Conceptual**

- 192) If a decrease in the price of gasoline increases the demand for large cars, then
- gasoline and large cars are substitutes in consumption.
  - gasoline and large cars are complements in consumption.
  - gasoline is an inferior good.
  - large cars are an inferior good.

**Answer: B**

**Topic: Study Guide Question, Change in Demand, Income**  
**Skill: Recognition**

- 193) A normal good is one
- with a downward sloping demand curve.
  - for which demand increases when the price of a substitute rises.
  - for which demand increases when income increases.
  - None of the above.

**Answer: C**

**Topic: Study Guide Question, Change in Quantity Demanded**  
**Skill: Conceptual**

- 194) Some sales managers are talking shop. Which of the following quotations refers to a movement along the demand curve?
- "Since our competitors raised their prices our sales have doubled."
  - "It has been an unusually mild winter; our sales of wool scarves are down from last year."
  - "We decided to cut our prices, and the increase in our sales has been remarkable."
  - None of the above.

**Answer: C**

**Topic: Study Guide Question, The Law of Supply**  
**Skill: Analytical**

- 195) A rise in the price of a good causes producers to supply more of the good. This statement illustrates
- the law of supply.
  - the law of demand.
  - a change in supply.
  - the nature of an inferior good.

**Answer: A**

**Topic: Study Guide Question, Change in Supply**  
**Skill: Conceptual**

- 196) Which of the following influences does NOT shift the supply curve?
- A rise in the wages paid workers
  - Development of new technology
  - People deciding that they want to buy more of the product
  - A decrease in the number of suppliers

**Answer: C**

**Topic: Study Guide Question, Change in Supply**  
**Skill: Conceptual**

- 197) To say that "supply increases" for any reason, means there is a
- movement rightward along a supply curve.
  - movement leftward along a supply curve.
  - shift rightward in the supply curve.
  - shift leftward in the supply curve.

**Answer: C**

**Topic: Study Guide Question, Change in Supply, Prices of Resources**

**Skill: Conceptual**

- 198) The price of jet fuel falls. This fall shifts the
- demand curve for airplane trips rightward.
  - demand curve for airplane trips leftward.
  - supply curve of airplane trips rightward.
  - supply curve of airplane trips leftward.

**Answer: C**

**Topic: Study Guide Question, Change in Supply, Prices of Resources**

**Skill: Conceptual**

- 199) An increase in the cost of producing video tape shifts the supply curve of video tape \_\_\_\_ and shifts the demand curve for video tape \_\_\_\_.
- rightward; leftward
  - leftward; leftward
  - leftward; not at all
  - not at all; leftward

**Answer: C**

**Topic: Study Guide Question, Change in Supply, Number of Suppliers**

**Skill: Conceptual**

- 200) An increase in the number of producers of gruel \_\_\_\_ the supply of gruel and shifts the supply curve of gruel \_\_\_\_.
- increases; rightward
  - increases; leftward
  - decreases; rightward
  - decreases; leftward

**Answer: A**

**Topic: Study Guide Question, Equilibrium**

**Skill: Conceptual**

- 201) If the market for Twinkies is in equilibrium, then
- Twinkies must be a normal good.
  - producers would like to sell more at the current price.
  - consumers would like to buy more at the current price.
  - the quantity supplied equals the quantity demanded.

**Answer: D**

**Topic: Study Guide Question, Equilibrium**

**Skill: Conceptual**

- 202) In a market, at the equilibrium price,
- neither buyers nor sellers can do business at a better price.
  - buyers are willing to pay a higher price, but sellers do not ask for a higher price.
  - buyers are paying the minimum price they are willing to pay for any amount of output and sellers are charging the maximum price they are willing to charge for any amount of production.
  - None of the above is true.

**Answer: A**

**Topic: Study Guide Question, Price Adjustments, Surplus**

**Skill: Analytical**

- 203) If there is surplus of a good, then the quantity demanded \_\_\_\_ the quantity supplied and the price will \_\_\_\_.
- is less than; rise
  - is less than; fall
  - is greater than; rise
  - is greater than; fall

**Answer: B**

**Topic: Study Guide Question, Predicting Changes; Demand Changes**

**Skill: Conceptual**

- 204) Pizza and hamburgers are substitutes for consumers. A fall in the price of a pizza \_\_\_\_ the price of a hamburger and \_\_\_\_ the quantity of hamburgers.
- raises; increases
  - raises; decreases
  - lowers; increases
  - lowers; decreases

**Answer: D**

**Topic: Study Guide Question, Predicting Changes; Demand Changes**

**Skill: Analytical**

- 205) How does an unusually warm winter affect the equilibrium price and quantity of gloves?
- It raises both the price and the quantity.
  - It raises the price and decreases the quantity.
  - It lowers the price and increases the quantity.
  - It lowers both the price and the quantity.

**Answer: D**

**Topic: Study Guide Question, Predicting Changes; Demand Changes**

**Skill: Analytical**

- 206) You notice that the price and quantity of wheat both decrease. This observation can be the result of the
- demand curve for wheat shifting rightward.
  - demand curve for wheat shifting leftward.
  - supply curve of wheat shifting rightward.
  - supply curve of wheat shifting leftward.

**Answer: B**

**Topic: Study Guide Question, Predicting Changes; Supply Changes**

**Skill: Analytical**

- 207) The number of firms producing computer memory chips decreases. As a result, the price of a memory chip \_\_\_\_ and the quantity of memory chips \_\_\_\_.
- rises; increases
  - rises; decreases
  - falls; increases
  - falls; decreases

**Answer: C**

**Topic: Study Guide Question, Predicting Changes; Demand/Supply Increase**

**Skill: Conceptual**

- 208) A technological improvement lowers the cost of producing coffee. At the same time, consumers' preferences for coffee increase. The equilibrium price of coffee will
- rise.
  - fall.
  - remain the same.
  - rise, fall, or stay the same, depending on the relative size of the shifts in the demand and supply curves.

**Answer: D**

**■ MyEconLab Questions**

**Topic: Parallel MyEconLab Questions, Change in Demand**

**Skill: Analytical**

- 209) CD players rise in price while pre-recorded audio tapes fall in price. The combined effect of these two changes is to create
- a rightward shift of the demand curve for portable audio tape players, such as a Walkman.
  - a rightward shift of the supply curve for portable audio tape players, such as a Walkman.
  - a leftward shift of the demand curve for portable audio tape players, such as a Walkman.
  - a leftward shift of the supply curve of portable audio tape players, such as a Walkman.

**Answer: A**

**Topic: Parallel MyEconLab Questions, Change in Demand, Income**

**Skill: Analytical**

- 210) Walkman Watch expects a recession to occur. Knowing that a Walkman is a normal good, you predict that the demand for a Walkman
- will increase.
  - will decrease.
  - might increase or decrease.
  - will remain unchanged.

**Answer: B**

**Topic: Parallel MyEconLab Questions, Change in Supply, Prices of Resources**

**Skill: Analytical**

- 211) Wages for workers producing Walkmans and similar products will rise next year. Walkman Watch asks you to predict the effect of this change in next year's market for Walkmans. You predict that the major effect will be that the
- demand curve for a Walkman will shift rightward.
  - demand curve for a Walkman will shift leftward.
  - supply curve for a Walkman will shift leftward.
  - supply curve for a Walkman will shift rightward.

**Answer: C**

**Topic: Parallel MyEconLab Questions, Change in Supply, Prices of Resources****Skill: Analytical**

- 212) Producers of Walkmans are able to lower the wage rate that they pay to their workers. Walkman Watch asks you to predict the effect on the Walkmans. You predict that the
- price will rise.
  - quantity supplied will decrease.
  - supply curve will shift leftward.
  - supply curve will shift rightward.

**Answer: D****Topic: Parallel MyEconLab Questions, Change in Supply, Prices of Resources****Skill: Analytical**

- 213) The wage rate paid by Walkman producers falls and at the same time the price of raw materials used in the production of Walkmans rises. You predict that the supply curve of Walkmans will
- shift either leftward or rightward.
  - surely shift rightward.
  - surely shift leftward.
  - surely become steeper.

**Answer: A****Topic: Parallel MyEconLab Questions, Predicting Changes****Skill: Analytical**

- 214) Walkmans play cassette tapes. Producers of Walkmans expect that a new technology for producing CD players will be available next year. Walkman Watch asks you to predict the effect of the new technology on the market for Walkmans. You predict that
- the demand curve for Walkmans will shift rightward and the price will rise.
  - the demand curve for Walkmans will shift leftward and the price will fall.
  - the price will rise, and so will the quantity demanded.
  - the price will fall, and the quantity demanded will increase.

**Answer: B****Topic: Parallel MyEconLab Questions, Predicting Changes****Skill: Analytical**

- 215) Producers of Walkmans will be able to lower the wage rate that they pay to their workers. Walkman Watch asks you to predict the effects on the supply of Walkmans, and the price of a Walkman. You predict that the supply curve shifts
- rightward, and the price is constant.
  - leftward, and the price is constant.
  - rightward, and the price falls.
  - leftward, and the price rises.

**Answer: C****■ MyEconLab Questions****Topic: Price and Opportunity Cost****Level I: Definitions and Concepts**

- 216) A relative price is
- a price expressed in terms of money.
  - what you get paid for babysitting your cousin.
  - the ratio of one money price to another.
  - equal to a money price.

**Answer: C****Topic: Quantity Demanded****Level I: Definitions and Concepts**

- 217) The quantity demanded of a good or service is the amount that
- a consumer would like to buy but might not be able to afford.
  - is actually bought during a given time period at a given price.
  - consumers plan to buy during a given time period at a given price.
  - firms are willing to sell during a given time period at a given price.

**Answer: C****Topic: Demand****Level I: Definitions and Concepts**

- 218) Demand is the
- willingness to pay for a good if income is large enough.
  - entire relationship between the quantity demanded and the price of a good.
  - ability to pay for a good.
  - unlimited wants of consumers.

**Answer: B**

**Topic: Change in Demand, Income****Level I: Definitions and Concepts**

- 219) If, as people's incomes increase, the demand for a good increases, the good is called
- an inferior good.
  - a complement.
  - a substitute.
  - a normal good.

**Answer: D****Topic: Demand****Level I: Definitions and Concepts**

- 220) The quantity of Walkmans that people plan to buy this month depends on all of the following except the
- price of CD players.
  - price of a Walkman.
  - the technology firms use to produce a Walkman.
  - price of tapes.

**Answer: C****Topic: Quantity Supplied****Level I: Definitions and Concepts**

- 221) The quantity supplied of a good or service is the amount that
- producers wish they could sell at a higher price.
  - is actually bought during a given time period at a given price.
  - people are willing to buy during a given time period at a given price.
  - producers plan to sell during a given time period at a given price.

**Answer: D****Topic: Supply****Level I: Definitions and Concepts**

- 222) Supply is the
- willingness to produce a good if the technology to produce it becomes available.
  - entire relationship between the quantity supplied and the price of a good.
  - cost of producing a good.
  - limited resources available.

**Answer: B****Topic: Supply****Level I: Definitions and Concepts**

- 223) The quantity of CDs that firms plan to sell this month depends on all of the following except the
- number of producers of CDs.
  - quantity of CDs that people plan to buy.
  - wage rate of workers who produce CDs.
  - price of a CD.

**Answer: B****Topic: Shortage****Level I: Definitions and Concepts**

- 224) If the price of the Walkman is below the equilibrium price, there will be a \_\_\_\_ of Walkmans and the price will \_\_\_\_.
- surplus; rise
  - surplus; fall
  - shortage; fall
  - shortage; rise

**Answer: D****Topic: Surplus****Level I: Definitions and Concepts**

- 225) If the price of a CD is equal to the equilibrium price, there will be \_\_\_\_ of CDs and the price will \_\_\_\_.
- surplus; rise
  - surplus; fall
  - shortage; fall
  - neither a shortage nor surplus; not change

**Answer: D****Topic: Change in Demand, Prices of Related Goods****Level 2: Using Definitions and Concepts**

- 226) The price of a tomato increases and people buy more lettuce. You infer that lettuce and tomatoes are \_\_\_\_.
- complements
  - normal goods
  - substitutes
  - inferior goods

**Answer: C**

**Topic: Demand****Level 2: Using Definitions and Concepts**

227) The quantity of cars that people plan to buy this month depends on all of the following except the \_\_\_\_\_.  
 A) wages car dealers pay their sales people  
 B) expected future price of a car  
 C) population  
 D) income of consumers

**Answer: A**

**Topic: Change in Demand, Income****Level 2: Using Definitions and Concepts**

228) Kelly graduates and her income increases by \$25,000 a year. Other things remaining the same, she increases the quantity of clothes she buys. For Kelly, clothes are \_\_\_\_\_.  
 A) are an inferior good  
 B) are a normal good  
 C) a substitute good  
 D) a complement good

**Answer: B**

**Topic: Change in Demand, Prices of Related Goods****Level 2: Using Definitions and Concepts**

229) Students can rent a video at Campus Video for \$4. As the price of a VCR decreases, the  
 A) quantity supplied of videos will decrease.  
 B) demand for videos will increase.  
 C) supply of videos will decrease.  
 D) quantity demanded of videos will increase.

**Answer: B**

**Topic: Supply****Level 2: Using Definitions and Concepts**

230) In the market for books, the supply of books will decrease if any of the following occur except  
 A) an increase in the future expected price of a book.  
 B) a decrease in the number of book publishers.  
 C) a decrease in the price of a book.  
 D) an increase in the price of paper.

**Answer: B**

**Topic: Shortage and Surplus****Level 2: Using Definitions and Concepts**

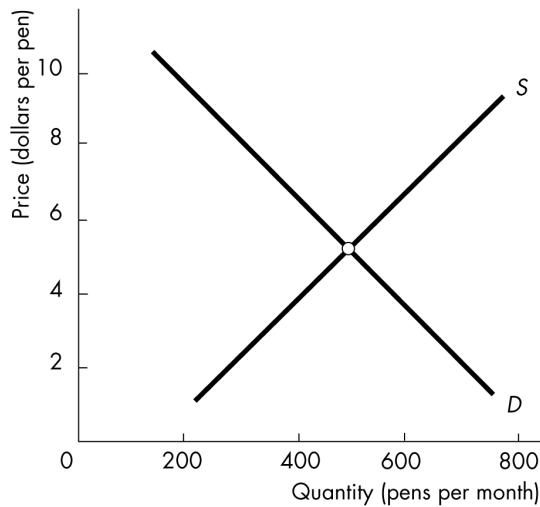
231) If the price of a video rental is below its equilibrium price, the quantity supplied is \_\_\_\_ than the quantity demanded. If the price of video rentals is above the equilibrium price, the quantity supplied is \_\_\_\_ than the quantity demanded.  
 A) less; greater  
 B) greater; less  
 C) less; less  
 D) greater; greater

**Answer: A**

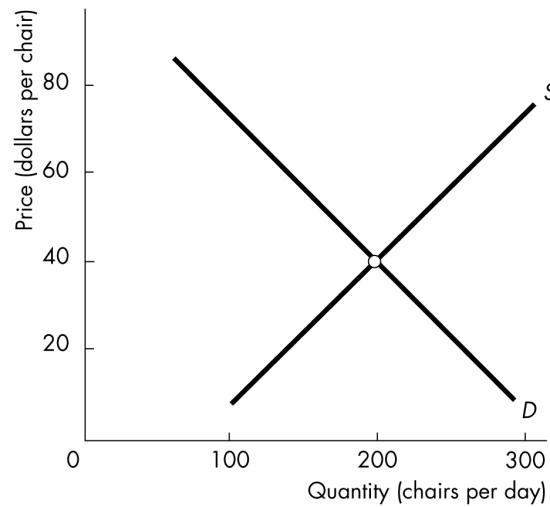
**Topic: Predicting Changes in Price and Quantity;****Demand Changes****Level 2: Using Definitions and Concepts**

232) A typewriter is an inferior good. As people's incomes increase and other things remain the same, you predict that the  
 A) price of a typewriter will fall and the demand for typewriters will increase.  
 B) price of a typewriter will decrease.  
 C) demand for typewriters will decrease and the price will rise.  
 D) demand for typewriters will increase as the price of a typewriter falls.

**Answer: B**

**Topic: Equilibrium****Level 2: Using Definitions and Concepts**

- 233) The figure illustrates the market for pens. The equilibrium quantity is
- between 400 and 600 pens, but it is impossible to be precise.
  - 5 pens a month.
  - 2 pens a month.
  - 500 pens a month.

**Answer: D****Topic: Predicting Changes in Price and Quantity;****Supply Changes****Level 2: Using Definitions and Concepts**

- 235) The figure illustrates the market for chairs. If the supply of chairs increases, the price of a chair \_\_\_\_\_ \$40 and the quantity \_\_\_\_\_.
- will rise above; demanded will decrease
  - will rise above; supplied will increase
  - will fall below; demanded will increase
  - will fall below; supplied will decrease

**Answer: C****Topic: Price and Opportunity Cost****Level 3: Calculations and Predictions**

- 236) An ice cream cone costs \$1.50. A can of soda costs 75¢. The relative price of an ice cream cone is
- 1/2 can of soda, the opportunity cost of an ice cream cone.
  - \$1.50, the opportunity cost of a can of soda.
  - 2 cans of soda, the opportunity cost of an ice cream cone.
  - 75¢, the opportunity cost of a can of soda.

**Answer: C**

**Topic: Change in Demand, Prices of Related Goods****Level 3: Calculations and Predictions**

- 237) Ham and eggs are complements. If the price of ham rises, the demand for eggs will
- increase or decrease but the demand curve for ham will not change.
  - decrease and the demand curve for ham will shift rightward.
  - not change but there will be a movement along the demand curve for eggs.
  - decrease and the demand curve for eggs will shift leftward.

**Answer: D****Topic: Change in Demand, Prices of Related Goods****Level 3: Calculations and Predictions**

- 238) An increase in the number of sellers of bikes will increase the
- demand for inline skates, a substitute for bikes.
  - price of a bike.
  - demand for bikes.
  - demand for knee pads, a complement for bikes.

**Answer: D****Topic: Change in Supply, Technology****Level 3: Calculations and Predictions**

- 239) In the market for fertilizer, a
- decrease in the cost of equipment will increase the supply of fertilizer.
  - increase in the wage rate will increase the demand for fertilizer.
  - increase in the wage rate will increase the supply of fertilizer.
  - Increase in income will increase the supply of fertilizer if fertilizer is a normal good.

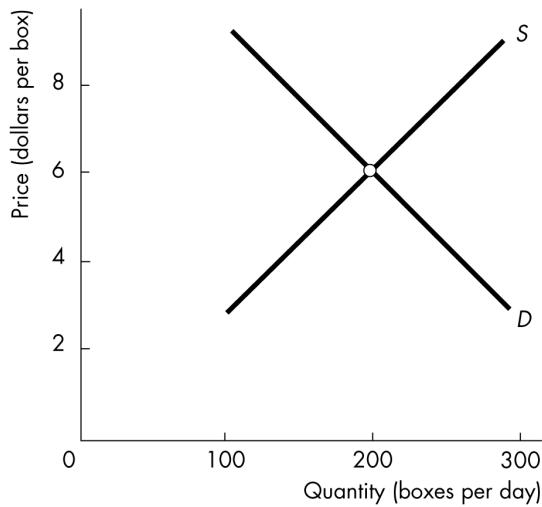
**Answer: A**

Price (dollars per pair)	Quantity demanded (pairs per week)	Quantity supplied (pairs per week)
30	130	70
40	120	80
50	110	90
60	100	100
70	90	110
80	80	120
90	70	130

**Topic: Price Adjustments, Surplus****Level 3: Calculations and Predictions**

- 240) The table shows the demand and supply schedules for jeans:
- At \$60 a pair, there is a shortage of jeans and the price will fall.
  - At \$60 a pair, there is a surplus of jeans and the price will rise.
  - At \$40 a pair, there is a shortage of jeans and the price will rise.
  - At \$40 a pair, there is a shortage of jeans and the price will fall.

**Answer: C**

**Topic: Price Adjustments, Surplus****Level 3: Calculations and Predictions**

- 241) The figure illustrates the market for chocolates. At \$4 a box, there is a
- surplus of chocolates and the price will rise.
  - surplus of chocolates and the price will fall.
  - shortage of chocolates and the price will rise.
  - shortage of chocolates and the price will fall.

**Answer: C****Topic: Predicting Changes in Price and Quantity; Demand Changes****Level 3: Calculations and Predictions**

- 242) You observe that in the market for coffee that both the equilibrium price of coffee and the equilibrium quantity have increased. You predict that the demand for coffee
- has increased with no change in the supply of coffee.
  - has increased but it is not as large as the increase in supply.
  - has not changed but that the supply of coffee has decreased.
  - has increased less than supply of coffee has decreased.

**Answer: A****Topic: Predicting Changes in Price and Quantity;****Demand Changes****Level 3: Calculations and Predictions**

- 243) Jelly beans and popcorn are substitutes. A fall in the price of a bag of jelly beans will \_\_\_\_ the demand for popcorn and the price of popcorn will \_\_\_\_.

- increase; rise
- increase; fall
- decrease; fall
- decrease; rise

**Answer: C****Topic: Predicting Changes in Price and Quantity; Supply Changes****Level 3: Calculations and Predictions**

- 244) An increase in the price of jet fuel will \_\_\_\_ air flights and the equilibrium quantity of air flights will \_\_\_\_.

- decrease the supply of; decrease
- increase the demand for; increase
- decrease the supply of; increase
- decrease the demand for; decrease

**Answer: A****Topic: Predicting Changes; Demand Increases, Supply Decreases****Level 3: Calculations and Predictions**

- 245) If the supply of spring water decreases and at the same time the demand for spring water increases, the equilibrium price \_\_\_\_ and the equilibrium quantity \_\_\_\_.

- might rise, fall, or stay the same; decreases
- might rise, fall, or stay the same; increases
- falls; increases
- rises; might increase, decrease, or stay the same

**Answer: D****Topic: Predicting Changes in Price and Quantity; Demand Changes****Level 4: Advanced Calculations and Predictions**

- 246) If the price of a DVD player falls, the price of a DVD will \_\_\_\_ and the quantity of DVDs bought will \_\_\_\_.

- fall; increase
- rise; will not change
- rise; decrease
- rise; increase

**Answer: D**

Price (dollars per ride)	Quantity demanded (rides per day)	Quantity supplied (rides per day)
2	100	40
4	90	50
6	80	60
8	70	70
10	60	80
12	50	90

**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**

**Level 4: Advanced Calculations and Predictions**

- 247) The table gives the demand and supply schedules for boat rides. If the supply of boat rides increases by 20 rides a day, the price will \_\_\_\_.

- A) remain unchanged
- B) fall to \$6 a ride
- C) rise to \$6 a ride
- D) rise to \$10 a ride

**Answer: B**

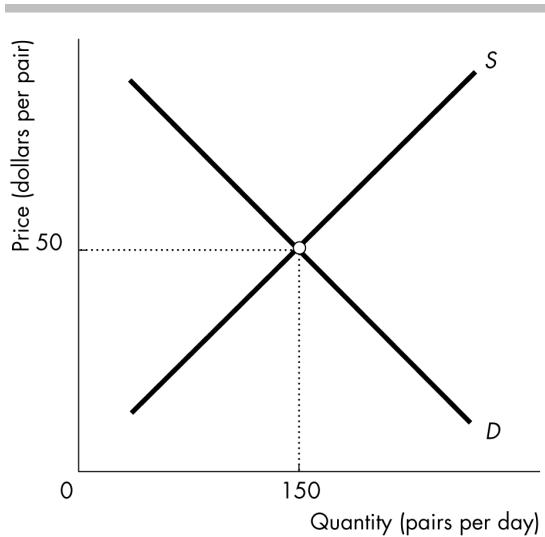
**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**

**Level 4: Advanced Calculations and Predictions**

- 248) A processor of alligator hides can produce either purses or shoes. If the demand for alligator shoes increases, then the \_\_\_\_ purses will \_\_\_\_.

- A) supply of; increase
- B) supply of; decrease
- C) demand for; decrease
- D) demand for; increase

**Answer: B**



**Topic: Predicting Changes in Price and Quantity;  
Supply Changes**

**Level 4: Advanced Calculations and Predictions**

- 249) The figure illustrates the demand for and supply for jeans. Suppose jeans are a normal good and people's incomes increase. At the initial price of \$50 for a pair of jeans, after the increase in income the quantity demanded is \_\_\_\_ than the equilibrium quantity and there is a \_\_\_\_ of jeans.

- A) greater; surplus
- B) greater; shortage
- C) less; surplus
- D) less; shortage

**Answer: D**

**Topic: Predicting Changes in Price and Quantity;  
Demand Changes**

**Level 4: Advanced Calculations and Predictions**

- 250) During an unusually hot summer, the demand for soft drinks increases while the supply of soft drinks remains the same. The price of a soft drink

- A) falls and the supply of soft drinks decreases.
- B) rises and the supply of soft drinks increases.
- C) rises and the quantity supplied increases.
- D) rises and the quantity supplied decreases.

**Answer: C**

**Topic: Predicting Changes in Price and Quantity;  
Demand/Supply Increase****Level 4: Advanced Calculations and Predictions**

- 251) In the market for oranges, the demand and supply of oranges decrease by the same amount. The equilibrium quantity will \_\_\_\_ and the equilibrium price will \_\_\_\_.
- A) decrease; not change
  - B) decrease; fall
  - C) remain the same; either rise or fall
  - D) remain the same; rise

**Answer: A****Topic: Predicting Changes in Price and Quantity****Level 4: Advanced Calculations and Predictions**

- 252) Apple juice and orange juice are substitutes in consumption. Apple juice and apple sauce are substitutes in production. If the price of orange juice \_\_\_\_ or the price of apple sauce \_\_\_\_, then the price of apple juice will \_\_\_\_.
- A) rises; rises; rise
  - B) falls; rises; fall
  - C) falls; falls; rise
  - D) rises; falls; rise

**Answer: A****Topic: Predicting Changes in Price and Quantity;  
Demand Changes****Level 4: Advanced Calculations and Predictions**

- 253) In the market for bananas, the price is \$2.00 a bunch. An increase in the supply of bananas decreases the price of bananas and \_\_\_\_.
- A) the quantity supplied increases because the price falls
  - B) and increases the demand for bananas
  - C) and increases the quantity of bananas demanded
  - D) and creates a shortage of bananas

**Answer: C****Topic: Predicting Changes in Price and Quantity;  
Demand/Supply Increase****Level 4: Advanced Calculations and Predictions**

- 254) An increase in the demand for computers and a decrease in the number of sellers of computers will \_\_\_\_.
- A) increase the number of computers bought
  - B) increase the price of a computer
  - C) increase the price and the number of computers bought
  - D) not change the price but increase the number of computers bought

**Answer: B****Topic: Predicting Changes in Price and Quantity;****Demand/Supply Increase****Level 4: Advanced Calculations and Predictions**

- 255) If good growing conditions increase the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought \_\_\_\_.
- A) increases and the price might rise, fall or not change
  - B) increases and the price rises
  - C) doesn't change but the price falls
  - D) doesn't change but the price rises

**Answer: A**



## ■ Origins and Issues of Macroeconomics

**Topic: Origins and Issues of Macroeconomics**

**Skill: Recognition\***

- 1) Modern macroeconomics emerged
  - A) in the 1750s.
  - B) with the Great Depression.
  - C) after World War II.
  - D) during the Industrial Revolution.

**Answer: B**

**Topic: Origins and Issues of Macroeconomics**

**Skill: Recognition\***

- 2) The science of macroeconomics
  - A) solved the Great Depression.
  - B) did not solve the Great Depression but kept the U.S. economy from suffering.
  - C) emerged during the decade of the Great Depression.
  - D) did not evolve until after World War II and so had no connection to the Great Depression.

**Answer: C**

**Topic: Origins and Issues of Macroeconomics**

**Skill: Recognition**

- 3) The years of the Great Depression was a time when the unemployment rate was
  - A) low and the amount output was growing rapidly.
  - B) low and the amount of output was falling.
  - C) high and the amount of output was falling.
  - D) high and the amount of output was growing rapidly.

**Answer: C**

**Topic: Origins and Issues of Macroeconomics**

**Skill: Recognition**

- 4) In 1933, the worst year of the Great Depression, the unemployment rate was
  - A) 5 percent of the labor force.
  - B) 10 percent of the labor force.
  - C) 25 percent of the labor force.
  - D) 70 percent of the labor force.

**Answer: C**

**Topic: Origins and Issues of Macroeconomics**

**Skill: Recognition**

- 5) In 1933, the worst year of the Great Depression, total production in the United States was
  - A) identical to its 1929 level.
  - B) half of its 1929 level.
  - C) 70 percent of its 1929 level.
  - D) 20 percent of its 1929 level.

**Answer: C**

**Topic: Origins and Issues of Macroeconomics**

**Skill: Recognition**

- 6) In 1933, the worst year of the Great Depression, total production in the United States was
  - A) 70 percent of its 1929 level, and 25 percent of the labor force was unemployed.
  - B) 25 percent of its 1929 level, and 70 percent of the labor force was unemployed.
  - C) 50 percent of its 1929 level, and 5 percent of the labor force was unemployed.
  - D) 90 percent of its 1929 level, and 5 percent of the labor force was unemployed.

**Answer: A**

**Topic: Origins and Issues of Macroeconomics****Skill: Recognition\***

- 7) During the Great Depression
- at one time the United States had an unemployment rate of 25 percent.
  - the United States avoided any economic damage thanks to macroeconomics.
  - John Maynard Keynes served as Vice President of the United States.
  - only the United States suffered.

**Answer: A****Topic: Origins and Issues of Macroeconomics****Skill: Recognition\***

- 8) The year 1933 was
- the best year for the United States during the Great Depression.
  - an average year for the United States with 2.5 percent unemployment.
  - the end of the Great Depression as the United States' economy grew by 7 percent.
  - the worst year for the United States during the Great Depression with an unemployment rate of 25 percent.

**Answer: D****Topic: Origins and Issues of Macroeconomics****Skill: Recognition**

- 9) In *The General Theory of Employment, Interest, and Money*, John Maynard Keynes argued that to eliminate a depression governments should spend
- more to offset insufficient private spending.
  - more to offset excessive private spending.
  - less to offset excessive private spending.
  - less to offset insufficient private spending.

**Answer: A****Topic: Origins and Issues of Macroeconomics****Skill: Recognition**

- 10) Keynes' prescription for eliminating the Great Depression required a policy action of
- additional taxes by government to decrease excessive spending in the economy.
  - additional spending by government to increase total spending in the economy.
  - decreased spending by government to decrease excessive total spending in the economy.
  - decreased spending by government to increase private spending in the economy.

**Answer: B****Topic: Origins and Issues of Macroeconomics****Skill: Recognition\***

- 11) John Maynard Keynes
- served as the U.S. Vice President during the Great Depression.
  - wrote *The General Theory of Employment, Interest and Money*.
  - opposed the development of macroeconomics.
  - was the Prime Minister of Great Britain during the Great Depression.

**Answer: B****Topic: Origins and Issues of Macroeconomics****Skill: Recognition\***

- 12) John Maynard Keynes
- focused on the short term in attempting to solve the Great Depression..
  - focused on the long term in attempting to solve the Great Depression.
  - worried mostly about long term consequences of any governmental action.
  - warned against the use of any short term governmental action.

**Answer: A****Topic: Short-Term Versus Long-Term Goals****Skill: Recognition**

- 13) In *The General Theory of Employment, Interest, and Money*, John Maynard Keynes argued for government policies that would eliminate
- the Great Depression and Keynes focused primarily on the economy's long-term problems.
  - the Great Depression and Keynes focused primarily on the economy's short-term problems.
  - inflation and Keynes focused primarily on the economy's long-term problems.
  - inflation and Keynes focused primarily on the economy's short-term problems.

**Answer: B****Topic: Short-Term Versus Long-Term Goals****Skill: Recognition**

- 14) During the 1960s and 1970s, the main economic problems of concern to policymakers were inflation, \_\_\_\_ economic growth, and \_\_\_\_ unemployment rates.
- slow; high
  - slow; low
  - high; high
  - high; low

**Answer: A**

**Topic: Short-Term Versus Long-Term Goals****Skill: Recognition**

- 15) Which of the following are examples of long-term economic policy issues?
- Inflation and recessions.
  - Inflation and slow economic growth.
  - Persistent unemployment and curing a depression.
  - Slow economic growth and recessions.

**Answer: B****Topic: Short-Term Versus Long-Term Goals****Skill: Recognition**

- 16) Which of the following is a long-run macroeconomic policy goal?
- reduce unemployment
  - increase inflation
  - promote steady growth
  - eliminate recession

**Answer: C****Economic Growth****Topic: Real GDP****Skill: Recognition\***

- 17) Real GDP is defined as
- an increase in the average level of prices.
  - the value of total production when the unemployment rate is 6 percent.
  - the value of total production of all the nation's farms, factories, shops and offices measured in the prices of a single year.
  - the value of total production of all the nation's farms, factories, shops and offices measured at the prices of the year it was produced.

**Answer: C****Topic: Real GDP****Skill: Recognition\***

- 18) Real GDP is
- the best measure we have for total production, though it does have some flaws.
  - the worst measure we have of total production because it misses much of what is produced.
  - the best measure we have for total production because it doesn't miss anything.
  - ignored as a measure of total production because it does not take account of inflation.

**Answer: A****Topic: Potential GDP****Skill: Recognition**

- 19) Potential GDP is\*
- another name for real GDP.
  - always different from real GDP.
  - the level of GDP not adjusted for price changes.
  - achieved when all factors of production are fully employed.

**Answer: D****Topic: Potential GDP****Skill: Recognition**

- 20) Potential GDP is
- the maximum GDP that an economy actually achieves throughout its entire history.
  - the level of GDP achieved during periods when 100 percent of the labor force is employed.
  - a goal that can never be achieved by the economy.
  - the value of production when all the nation's resources are fully employed.

**Answer: D****Topic: Potential GDP****Skill: Recognition**

- 21) Potential GDP is the
- the value of production with fully employed resources.
  - current value of production in the economy.
  - value of production when the economy is in a recession.
  - value of production when the economy is at a peak.

**Answer: A****Topic: Real and Potential GDP****Skill: Recognition\***

- 22) Real GDP
- fluctuates from year to year but is always below potential GDP.
  - fluctuates around potential GDP.
  - grows at a constant 3 to 4 percent per year.
  - can be called potential GDP when it is adjusted for price changes.

**Answer: B**

**Topic: Economic Growth****Skill: Recognition\***

- 23) Economic growth is best defined as
- the rate of growth of employment.
  - the long-run expansion of the nation's production possibilities.
  - the rate of increase in economic productivity.
  - the business-cycle changes in total output.

**Answer: B****Topic: Economic Growth****Skill: Recognition**

- 24) Economic growth can be described as
- an increase in the inflation rate.
  - an increase in employment in the manufacturing sector.
  - an outward shift in the economy's production possibility frontier.
  - an undesirable goal because it is accompanied by severe inflation.

**Answer: C****Topic: Economic Growth****Skill: Recognition**

- 25) Economic growth in the United States can be characterized by
- movements along its *PPF*.
  - increases in potential GDP.
  - the productivity growth slowdown in the 1990s.
  - high rates of inflation.

**Answer: B****Topic: Economic Growth****Skill: Recognition**

- 26) Economic growth is measured by
- changes in real GDP.
  - changes in nominal GDP.
  - changes in the employment rate.
  - All of the above are used to measure economic growth.

**Answer: A****Topic: Economic Growth****Skill: Recognition**

- 27) Long-term economic growth is most closely associated with
- getting unemployment as low as possible.
  - increasing potential GDP.
  - bringing about deflation.
  - reducing the number of job changes in the economy.

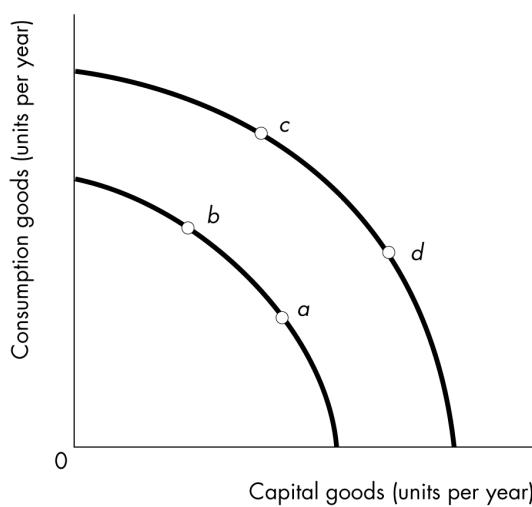
**Answer: B****Topic: Real GDP Growth Rates****Skill: Recognition\***

- 28) Looking back over the past 40 years we see that the United States experienced
- growth consistently above 4 percent during each decade.
  - better growth during the 1990s than during the 1960s.
  - its best decade of growth during the 1960s.
  - its best decade of growth during the 1970s.

**Answer: C****Topic: Economic Growth****Skill: Conceptual**

- 29) Using a production possibility frontier, economic growth is represented by an
- inward shift in the production possibility frontier so that less of each good can be produced.
  - outward shift in the production possibility frontier so that more of each good can be produced.
  - inward shift in the production possibility frontier so that more of each good can be produced.
  - outward shift in the production possibility frontier so that less of each good can be produced.

**Answer: B**

**Topic: Economic Growth****Skill: Analytical**

- 30) In the above figure, economic growth can be represented as the movement from
- point *a* to point *b*.
  - point *b* to point *c*.
  - point *c* to point *d*.
  - point *d* to point *a*.

**Answer: B****Topic: Economic Growth****Skill: Conceptual**

- 31) Which of the following apply to economic growth?
- Economic growth allows people to buy more goods and services in the future.
  - Economic growth is the expansion of the economy's production possibilities.
  - Economic growth is represented by the fluctuations of real GDP around potential GDP.
- I.
  - I and II.
  - I and III.
  - I, II, and III.

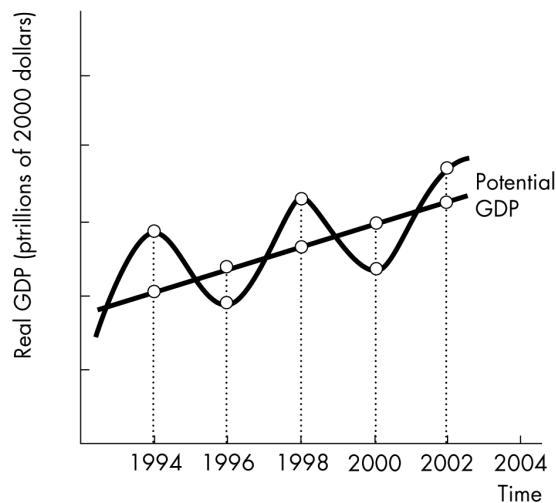
**Answer: B****Topic: Economic Growth****Skill: Recognition**

- 32) Economic growth is measured using the increase in \_\_\_\_.
- real gross domestic product
  - the Lucas wedge
  - the consumer price index
  - the unemployment rate

**Answer: A****Topic: Real GDP****Skill: Recognition**

- 33) All of the following statements are true about real GDP EXCEPT
- it has a trend component and a fluctuating component.
  - it measures changes in output and prices.
  - in the United States, it shows a general upward drift.
  - All of the above are false statements about real GDP.

**Answer: B**

**Topic: Economic Growth****Skill: Analytical**

- 34) In the figure above, long-term economic growth can be seen as
- the growth in actual GDP from 1994 to 2002.
  - the growth in potential GDP from 1994 to 2002.
  - the fluctuations of real GDP around potential GDP.
  - the maximum point of real GDP as the economy moves through the business cycles.

**Answer: B****Topic: Productivity Growth Slowdown****Skill: Recognition**

- 35) The productivity slowdown refers to the
- increase in the growth rate of output per person that started during the 1970s.
  - decrease in the growth rate of output per person that started during the 1970s.
  - recession that occurred in 1981.
  - recession that occurred in 1991.

**Answer: B****Topic: Productivity Growth Slowdown****Skill: Recognition**

- 36) The growth rate of GDP per person since the 1960s has
- consistently risen as shown with the Lucas wedge.
  - remained constant and is measured by the Okun gap.
  - slowed, especially during the 1970s, and has resulted in losses estimated by the Lucas wedge.
  - risen, particularly during the 1970s, and has meant GDP has grown as measured by the Okun gap.

**Answer: C****Topic: Business Cycle****Skill: Recognition**

- 37) A business cycle is
- the pattern of short-run upward and downward movements in total output.
  - the increase in consumer spending that accompanies an increase in disposable income.
  - the cyclical change in the nation's balance of trade.
  - the cyclical movement in the interest rates.

**Answer: A****Topic: Business Cycle****Skill: Recognition\***

- 38) The business cycle is defined as the
- regular growth rate of the real GDP.
  - regular fluctuations of real GDP below potential GDP.
  - irregular fluctuations of prices around real GDP.
  - irregular fluctuations of real GDP around potential GDP.

**Answer: D****Topic: Business Cycle****Skill: Recognition\***

- 39) Business cycles
- are not regular cycles like the phases of the moon.
  - can be caused by the phases of the moon.
  - are more regular than the phases of the moon.
  - often follow changes in the phases of the moon.

**Answer: A**

**Topic: Business Cycle****Skill: Recognition\***

- 40) Business cycles are
- irregular, with some having two recessions and no expansion.
  - predictable, with a recession following a trough.
  - unpredictable, but always have two phases and two turning points.
  - unpredictable, and don't always have two phases and two turning points.

**Answer: C****Topic: Business Cycle****Skill: Recognition\***

- 41) A recession
- follows a trough.
  - is defined as a period of negative real GDP growth.
  - comes just before a peak.
  - is a period during which real GDP expands.

**Answer: B****Topic: Business Cycle****Skill: Recognition**

- 42) A recession is
- a period during which real GDP increases for at least two successive quarters.
  - the lower turning point of a business cycle.
  - the upper turning point of a business cycle.
  - a period during which real GDP decreases for at least two successive quarters.

**Answer: D****Topic: Business Cycle****Skill: Recognition**

- 43) A recession is a period with
- negative growth rate in real GDP that lasts at least one quarter.
  - positive growth rate in real GDP that lasts at least one quarter.
  - positive growth rate in real GDP that lasts at least two quarters.
  - negative growth rate in real GDP that lasts at least two quarters.

**Answer: D****Topic: Business Cycle****Skill: Conceptual**

- 44) An observer of the economy notices that over the last nine months the unemployment rate has increased from 5.6 percent to 8.7 percent. During the same time the rate of growth in real gross domestic product has become negative. From this information we might conclude that
- inflation is probably rampant in this economy.
  - a recession is occurring in this economy.
  - an expansionary phase of the business cycle is in process.
  - a peak in the business cycle will soon be reached.

**Answer: B****Topic: Business Cycle****Skill: Recognition**

- 45) A trough is the
- lower turning point of a business cycle when an expansion begins.
  - lower turning point of a business cycle when a recession begins.
  - upper turning point of a business cycle when an expansion begins.
  - upper turning point of a business cycle when a recession begins.

**Answer: A****Topic: Business Cycle****Skill: Recognition**

- 46) An expansion occurs when the level of real GDP is
- increasing.
  - decreasing.
  - at a cyclical peak.
  - at a cyclical trough.

**Answer: A****Topic: Business Cycle****Skill: Recognition\***

- 47) An expansion
- follows a peak.
  - is defined as a period of negative real GDP growth.
  - comes just before a trough.
  - is defined as a period of real GDP increases.

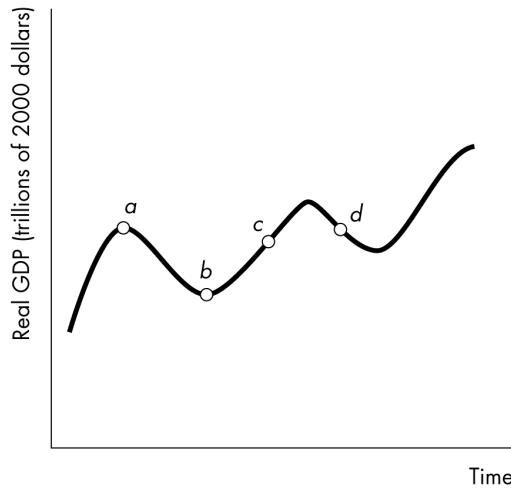
**Answer: D**

**Topic: Business Cycle****Skill: Recognition\***

- 48) An expansion ends when the economy
- hits a trough and then enters a recession.
  - hits a peak and then enters a recession.
  - begins to grow following a peak.
  - has grown for two quarters in a row.

**Answer: B****Topic: Business Cycle****Skill: Recognition**

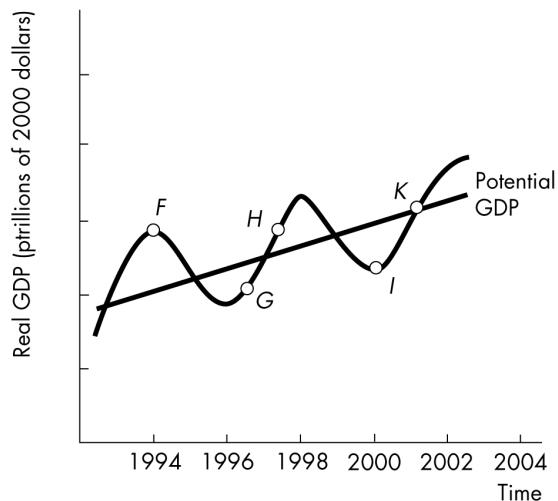
- 49) A peak is the
- lower turning point of a business cycle when an expansion ends.
  - lower turning point of a business cycle when a recession ends.
  - upper turning point of a business cycle when an expansion ends.
  - upper turning point of a business cycle when a recession ends.

**Answer: C****Topic: Business Cycle****Skill: Analytical**

- 50) In the above figure, a recession begins at point \_\_\_\_ and an expansion begins at point \_\_\_\_.
- $a; b$
  - $b; c$
  - $b; a$
  - $d; c$

**Answer: A****Topic: Business Cycle****Skill: Analytical**

- 51) In the above figure, a trough is at point \_\_\_\_ and a peak is at point \_\_\_\_.
- $a; b$
  - $b; c$
  - $b; a$
  - $d; c$

**Answer: C****Topic: Business Cycle****Skill: Recognition**

- 52) In the above figure, which point represents the under use of resources?
- point F.
  - point G.
  - point H.
  - point K.

**Answer: B****Topic: Business Cycle****Skill: Recognition**

- 53) In the above figure, which point represents the overuse of resources?
- point F.
  - point G.
  - point I.
  - point K.

**Answer: A**

**Topic: Business Cycle****Skill: Recognition\***

- 54) In the above figure, which point represents an economy which is at the peak part of a business cycle?
- point *F*.
  - point *G*.
  - point *I*.
  - point *K*.

**Answer: A****Topic: Recent U.S. History****Skill: Recognition\***

- 55) Most recently the U.S. economy
- has experienced an expansion since the 4th quarter of 2001.
  - has been a long recession which began in the 3rd quarter of 2001.
  - experienced several recessions since the 4th quarter of 2001.
  - was at a peak during the 4th quarter of 2001.

**Answer: A****Topic: Recent U.S. History****Skill: Recognition\***

- 56) During the late 1990s the U.S. economy
- endured a recession that ended in the 1st quarter of 2001.
  - had real GDP below potential GDP.
  - experienced real GDP above potential GDP.
  - experienced real GDP that fluctuated around potential GDP.

**Answer: C****Topic: Economic Growth Around the World****Skill: Recognition**

- 57) In the United States, real GDP per person in 2003 was equal to approximately
- \$12,600
  - \$16,900
  - \$33,900
  - \$58,600

**Answer: C****Topic: Economic Growth Around the World****Skill: Recognition\***

- 58) If we look at the U.S. economy over the past 130 years we see that
- real GDP expanded continuously throughout the period at a rate of 4.2 percent.
  - only potential GDP grew at a rate of 3.7 percent, without any growth in real GDP.
  - real GDP declined more often than it expanded.
  - real GDP averaged an annual growth rate of 3.7 percent.

**Answer: D****Topic: Economic Growth Around the World****Skill: Recognition\***

- 59) If we compare U.S. GDP to other nations' GDP and the world GDP as a whole we see that the
- United States grew faster than some countries but slower than others.
  - United States had a lower growth rate than all other countries.
  - rest of the world always grew at a faster rate because it is bigger.
  - rest of the world always grew at a slower rate because it is bigger.

**Answer: A****Topic: Economic Growth Around the World****Skill: Recognition**

- 60) A meaningful measure that can be used to compare economic growth rates across countries is
- inflation per person.
  - nominal GDP.
  - potential GDP.
  - real GDP per person.

**Answer: A****Topic: Economic Growth Around the World****Skill: Recognition**

- 61) To study economic growth across countries, you should compare growth in \_\_\_\_ across countries.
- inflation rates.
  - real GDP.
  - unemployment.
  - real GDP per person.

**Answer: D**

**Topic: Economic Growth Around the World****Skill: Recognition**

- 62) Real GDP per person is defined as
- nominal GDP divided by the number of workers.
  - nominal GDP divided by total population.
  - real GDP divided by total population.
  - real GDP divided by the number of workers.

**Answer: C****Topic: Benefits and Costs of Economic Growth****Skill: Recognition**

- 63) One of the costs of faster growth in GDP is that
- too many goods are available for consumption.
  - more money for research and development is available.
  - it does not increase the wealth available for all.
  - resources may be depleted more rapidly.

**Answer: D****Topic: Benefits and Costs of Economic Growth****Skill: Analytical**

- 64) One of the costs of more rapid growth in GDP is that
- people must give up current consumption.
  - more money is available for research and development.
  - it does not increase the wealth available for all.
  - too many goods eventually are available for consumption.

**Answer: A****Topic: Benefits and Costs of Economic Growth****Skill: Recognition\***

- 65) Economic growth
- is always desired and faster growth has only benefits and no costs.
  - is paid for in part by less current consumption.
  - allows for greater current consumption.
  - costs us with less future consumption.

**Answer: B****■ Jobs and Unemployment****Topic: Jobs****Skill: Recognition\***

- 66) In 2003 in the United States the number of individuals with a job was approximately
- 17 million.
  - 37 million.
  - 137 million.
  - 217 million.

**Answer: C****Topic: Jobs****Skill: Recognition**

- 67) In 2003, \_\_\_\_ people held jobs in the U.S. economy.
- between 75 and 100 million.
  - between 95 and 105 million.
  - between 130 and 140 million.
  - between 250 and 270 million.

**Answer: C****Topic: Jobs****Skill: Recognition\***

- 68) In characterizing U.S. job creation during the 1980s and 1990s we see that jobs were
- lost during the 1980s but created during the 1990s.
  - created at a faster annual rate during the 1980s than during the 1990s.
  - created during the 1980s but lost during the 1990s.
  - lost during both decades but at a faster rate during the 1980s.

**Answer: B****Topic: Jobs****Skill: Recognition\***

- 69) The number of jobs in the U.S. economy
- stays constant overtime because the same number of workers are lost during recessions as are created during expansions.
  - grows always, even during recessions.
  - has actually fallen as jobs have gone to places with lower wages around the globe.
  - generally grows over time, as fewer jobs are lost during recessions than are created during expansions.

**Answer: D**

**Topic: Jobs****Skill: Recognition**

- 70) During a recession, \_\_\_\_ jobs are destroyed than created and during an expansion \_\_\_\_ jobs are created than destroyed.
- more; more
  - fewer; fewer
  - more; fewer
  - fewer; more

**Answer: A****Topic: Unemployment****Skill: Conceptual**

- 71) The unemployment rate generally \_\_\_\_ during recessions and \_\_\_\_ during expansions.
- rises; falls
  - rises; rises
  - falls; rises
  - falls; falls

**Answer: A****Topic: Unemployment****Skill: Conceptual**

- 72) Which of the following is TRUE regarding the unemployment rate?
- The unemployment rate tells the percentage of the nation's population that is unemployed.
  - The unemployment rate measures unemployed labor hours.
- I only.
  - II only.
  - Both I and II.
  - Neither I nor II.

**Answer: D****Topic: Unemployment in the United States****Skill: Recognition\***

- 73) Looking at the history of U.S. unemployment rates during the 20th century we see that the rate
- was highest during the Great Depression when it reached 25 percent.
  - at the end of the century was greater than even the Great Depression.
  - was above 10 percent for much of the century.
  - was highest during the Great Depression when it equaled 10 percent.

**Answer: A****Topic: The Unemployment Rate****Skill: Recognition\***

- 74) The unemployment rate
- falls to 0 percent during expansions and goes up during recessions.
  - rises during expansions and falls during recessions.
  - never reaches 0 percent but rises during recessions and expansions.
  - never reaches 0 percent but rises during recessions and falls during expansions.

**Answer: D****Topic: Unemployment Around the World****Skill: Recognition\***

- 75) Looking at unemployment rates around the world over the past 20 years we see that
- the United States has had the highest unemployment rate most of the time.
  - Japan had the lowest unemployment rate most of the time.
  - Western Europe had the lowest unemployment rate most of the time.
  - the United States had the lowest unemployment rate most of the time.

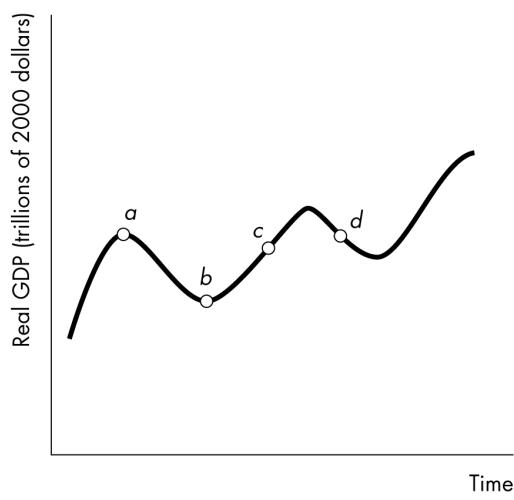
**Answer: B****Topic: Unemployment****Skill: Recognition**

- 76) In the 1990s, the range of the unemployment rate was approximately \_\_\_\_ percent.
- 4.0 to 7.5.
  - 9.0 to 12.5.
  - 2.5 to 4.5.
  - 11.0 to 25.0.

**Answer: A****Topic: Unemployment****Skill: Recognition**

- 77) Over the last 20 years, \_\_\_\_ has generally had the lowest unemployment rate.
- Japan.
  - the United States.
  - Western Europe.
  - Canada.

**Answer: A**

**Topic: Unemployment****Skill: Conceptual**

- 78) Which of the following points is likely to be associated with the highest unemployment rate?

- A) *a*.
- B) *b*.
- C) *c*.
- D) *d*.

**Answer: B****Topic: Unemployment Around the World****Skill: Recognition**

- 79) Which of the following economies has consistently achieved the lowest unemployment rate over the past 20 years?

- A) Canada
- B) Western Europe
- C) United States
- D) Japan

**Answer: D****Topic: Why Unemployment Is a Problem****Skill: Conceptual**

- 80) Unemployment is a serious economic problem because
- A) it coincides with a higher inflation rates.
  - B) it is spread unequally among the population.
  - C) it adds to the human capital of workers.
  - D) resources get diverted into illegal activities.

**Answer: B****■ Inflation****Topic: Inflation****Skill: Recognition**

- 81) Inflation is a
- A) process of rising prices.
  - B) process of falling prices.
  - C) minor change in the price level.
  - D) large, *one-time* fall in the price level.

**Answer: A****Topic: Inflation****Skill: Recognition\***

- 82) Inflation is defined as a period where prices are
- A) rising, falling or stable.
  - B) falling.
  - C) rising.
  - D) stable.

**Answer: C****Topic: Inflation****Skill: Recognition**

- 83) Deflation is a
- A) process of rising prices.
  - B) process of falling prices.
  - C) minor change in the price level.
  - D) large, *one-time* hike in the price level.

**Answer: B****Topic: Inflation****Skill: Recognition**

- 84) The CPI can be used to measure
- A) expectations of the future rate of inflation.
  - B) how consumer unemployment has changed.
  - C) changes in average price of the goods and services bought by a typical urban household.
  - D) the unemployment rates of discouraged workers.

**Answer: C****Topic: Inflation****Skill: Conceptual**

- 85) If the inflation rate is positive, the price level in an economy is
- A) falling rapidly.
  - B) rising.
  - C) constant.
  - D) falling slowly.

**Answer: B**

**Topic: Inflation****Skill: Conceptual**

- 86) If the inflation rate is negative, the price level in an economy is
- falling.
  - rising slowly.
  - constant.
  - rising rapidly.

**Answer: A****Topic: Inflation****Skill: Conceptual**

- 87) If the inflation rate is negative, the \_\_\_\_ is falling and there is \_\_\_\_.
- unemployment rate; inflation
  - price level; inflation
  - price level; deflation
  - unemployment rate; deflation

**Answer: C**

Period	Price index	Inflation rate (percent)
1	100	
2	117	A
3	125	B
4	120	C
5	D	8.3
6	150	E

**Topic: Inflation Rate****Skill: Analytical**

- 88) In the table above, what inflation rate belongs in space A?
- 17.0 percent.
  - 6.8 percent.
  - 8.3 percent.
  - 4.0 percent.

**Answer: A****Topic: Inflation Rate****Skill: Analytical**

- 89) In the table above, what inflation rate belongs in space B?
- 17.0 percent.
  - 6.8 percent.
  - 8.3 percent.
  - 4.0 percent.

**Answer: B****Topic: Inflation Rate****Skill: Analytical**

- 90) In the table above, what inflation rate belongs in space C?
- 17.0 percent.
  - 6.8 percent.
  - 8.3 percent.
  - 4.0 percent.

**Answer: D****Topic: Inflation Rate****Skill: Analytical**

- 91) In the table above, what price level belongs in space D?
- 125.
  - 130.
  - 140.
  - 145.

**Answer: B****Topic: Inflation Rate****Skill: Analytical**

- 92) In the table above, what inflation rate belongs in space E?
- 17.0 percent.
  - 6.8 percent.
  - 8.3 percent.
  - 15.4 percent.

**Answer: D****Topic: Inflation Rate****Skill: Analytical**

- 93) If the CPI was 132.5 at the end of 2003 and 140.2 at the end of 2004, the inflation rate over these two years was
- 7.7 percent.
  - 5.4 percent.
  - 4.4 percent.
  - 5.8 percent.

**Answer: D****Topic: Inflation Rate****Skill: Analytical**

- 94) If the CPI was 121.5 at the end of 2003 and 138.3 at the end of 2004, the inflation rate over these two years was
- 10.2 percent.
  - 13.8 percent.
  - 12.2 percent.
  - 16.8 percent.

**Answer: B**

**Topic: Inflation Rate****Skill: Analytical**

- 95) If the CPI was 122.3 at the end of 2003 and 124.5 at the end of 2004, the inflation rate over these two years was
- 1.8 percent.
  - 2.5 percent.
  - 22.5 percent.
  - 18.0 percent.

**Answer: A****Topic: Inflation Rate****Skill: Analytical**

- 96) If the CPI was 132.5 at the end of 2003 and 137.5 at the end of 2004, the inflation rate over these two years was
- 3.6 percent.
  - 3.8 percent.
  - 5.0 percent.
  - None of the above answers is correct.

**Answer: B****Topic: Inflation Rate****Skill: Analytical**

- 97) The price level last year was 120 in this year is 150 in 2004. What is the inflation rate between these two years.
- 2.5 percent.
  - 20 percent.
  - 25 percent.
  - 30 percent.

**Answer: C****Topic: Inflation Rate****Skill: Analytical**

- 98) In 2003 the CPI was 108; in 2004 it was 112. The rate of inflation between 2003 and 2004 was
- 3.7 percent.
  - 4.0 percent.
  - 108 percent.
  - 112 percent.

**Answer: A****Topic: Inflation Rate****Skill: Analytical**

- 99) In 2003 the CPI was 105; in 2004 it was 112. The rate of inflation between 2003 and 2004 was
- 6.7 percent.
  - 7.0 percent.
  - 105 percent.
  - 112 percent.

**Answer: A****Topic: Inflation Rate****Skill: Analytical**

- 100) In 2004 the Consumer Price Index was equal to 163.8 and in 2003 it was equal to 157.5. What is the inflation rate over of this time period?
- 6.3 percent
  - 4.0 percent
  - 3.85 percent
  - 10.1 percent

**Answer: B****Topic: Inflation Rate****Skill: Analytical**

- 101) The Consumer Price Index for country Beta in 2003 was equal to 203.5 and for 2004 it was 199.6. On the basis of this information which of the following statements is true?
- Beta experienced an inflation rate of 3.9 percent.
  - Beta experienced a deflation rate of 3.9 percent.
  - Beta experienced an inflation rate of 1.9 percent.
  - Beta experienced a deflation rate of 1.9 percent.

**Answer: D****Topic: Inflation in the United States****Skill: Recognition\***

- 102) In the United States, the inflation rate
- rises and falls over the years.
  - is always rising.
  - is always falling.
  - remains a stable 3 percent over the years.

**Answer: A****Topic: Inflation in the United States****Skill: Recognition\***

- 103) Since the 1930s, each year in the United States the price level has generally
- fallen.
  - risen.
  - remained stable.
  - experienced deflation.

**Answer: B****Topic: Inflation in the United States****Skill: Recognition**

- 104) In the United States, the inflation rate has
- remained almost constant over the past 25 years.
  - risen and fallen since the 1960s.
  - fallen as a result of OPEC oil price hikes.
  - fallen constantly over the past 30 years.

**Answer: B**

**Topic: Inflation in the United States****Skill: Recognition\***

- 105) Looking at inflation rates in the United States since the 1960s, we see that
- inflation fell the most during the 1970s productivity slowdown.
  - the highest rates of inflation were the double digits during the 1990s.
  - the rate increased with the increased growth of the 1990s.
  - the 1970s experienced the highest rates of inflation.

**Answer: D****Topic: Inflation in the United States****Skill: Recognition\***

- 106) In 2003 some people feared that the United States might be on the edge of
- rising inflation.
  - good inflation.
  - deflation.
  - stable prices.

**Answer: C****Topic: Inflation Around the World****Skill: Conceptual**

- 107) The U.S. inflation rate has been \_\_\_\_ that of other industrial countries over the past 25 years.
- very different from
  - similar to
  - constantly greater than
  - constantly less than

**Answer: B****Topic: Inflation Around the World****Skill: Recognition\***

- 108) Comparing other industrial countries' inflation rates with those of the United States since the early 1980s we see that the
- experiences have been similar with generally declining rates.
  - United States has had much higher rates.
  - other industrial countries have had much higher rates.
  - experiences have been very different between the two.

**Answer: A****Topic: Inflation Around the World****Skill: Recognition\***

- 109) In comparing the inflation rates of developing countries to the industrial countries over the past 20 years we see that
- both groups had similar experiences throughout of higher rates.
  - though their experiences were different, both saw rising rates most recently.
  - industrial countries have had higher rates though both groups have seen lower rates recently.
  - developing countries had higher rates though both groups have seen lower rates recently.

**Answer: D****Topic: Is Inflation a Problem?****Skill: Conceptual**

- 110) Inflation is a problem when
- it is unpredictable.
  - it causes the value of money to vary unpredictably.
  - it causes resources to be diverted from productive uses.
  - All of the above answers are correct.

**Answer: D****Topic: Is Inflation a Problem?****Skill: Conceptual**

- 111) Unpredictable changes in the value of money, which brings about gains and losses, are a consequence of unpredictable changes in
- real GDP.
  - unemployment rate.
  - inflation.
  - productivity.

**Answer: C****Topic: Is Inflation a Problem?****Skill: Conceptual**

- 112) During a period of unpredictable inflation,
- the value of money changes unpredictably.
  - the price level falls unpredictably.
  - the Consumer Price Index falls.
  - the economy is unharmed.

**Answer: A**

**Topic: Is Inflation a Problem?****Skill: Conceptual**

113) The most serious type of inflation is called \_\_\_, which is defined as occurring when the inflation rate exceeds 50 percent a \_\_\_.

- A) hyperinflation; month
- B) hyperinflation; year
- C) superinflation; month
- D) superinflation; year

**Answer: A****Topic: Is Inflation a Problem?****Skill: Recognition\***

114) Hyperinflation is defined as

- A) declining rates of inflation.
- B) rising but low rates of inflation.
- C) very high rates of inflation.
- D) very low rates of inflation.

**Answer: C****Topic: Is Inflation a Problem?****Skill: Conceptual**

115) In a period of rapid, unexpected inflation, resources can be lost

- A) when firms invest in research and development instead of forecasting inflation.
- B) when firms use resources to forecast inflation.
- C) because rapid inflation almost always turns into a hyperinflation.
- D) Both answers B and C are correct.

**Answer: B****Topic: Is Inflation a Problem?****Skill: Conceptual\***

116) Inflation has

- A) no costs but reducing it is costly.
- B) some costs but reducing it is also costly.
- C) some costs but reducing it is costless.
- D) no costs and reducing it is costless.

**Answer: B****■ Surpluses and Deficits****Topic: Government Budget Surplus and Deficit****Skill: Recognition**

117) When the federal government spends less than it collects in tax revenue,

- A) it has a government budget surplus.
- B) it must enact fiscal policy.
- C) it must enact monetary policy.
- D) it has a government budget deficit.

**Answer: A****Topic: Government Budget Surplus and Deficit****Skill: Recognition**

118) The government has a budget surplus when government spending

- A) exceeds tax receipts.
- B) is less than tax receipts.
- C) equals tax receipts.
- D) is zero.

**Answer: B****Topic: Government Budget Surplus and Deficit****Skill: Recognition**

119) The government has a budget deficit when government spending

- A) exceeds tax receipts.
- B) is less than tax receipts.
- C) equals tax receipts.
- D) is zero.

**Answer: A****Topic: Government Budget Surplus and Deficit****Skill: Conceptual**

120) If the government budget deficit stays the same and GDP increases, then

- A) the ratio of the deficit to GDP increases.
- B) the ratio of the deficit to GDP stays the same.
- C) the ratio of the deficit to GDP decreases.
- D) without more information, it is impossible to determine if the ratio of the deficit to GDP increases, decreases, or stays the same.

**Answer: C**

**Topic: Government Budget Surplus and Deficit****Skill: Conceptual**

- 121) Which of the following best describes the government budget situation in the United States?
- The government budget deficit has continually increased since 1980.
  - The U.S. government has had a budget surplus since 1990.
  - As a percentage of GDP, the budget deficit consistently increased throughout the 1990s.
  - The United States had a budget surplus between 1998 and 2000, while after 2001 the United States has had a budget deficit.

**Answer: D****Topic: International Deficit****Skill: Recognition**

- 122) When the United States imports goods and services from the rest of the world,
- we receive payments from the rest of the world.
  - we make payments to the rest of the world.
  - we increase our inflation rate.
  - we decrease our inflation rate.

**Answer: B****Topic: International Deficit****Skill: Recognition**

- 123) When we export goods to foreign countries, we
- receive payments from the rest of the world.
  - make payments to the rest of the world.
  - increase our inflation rate.
  - decrease our inflation rate.

**Answer: A****Topic: International Deficit****Skill: Recognition**

- 124) The current account
- measures our exports minus our imports taking into account interest payments paid to and received from the rest of the world.
  - measures our imports minus our exports.
  - does not account for interest payments paid to and received from the rest of the world.
  - is part of GDP.

**Answer: A****Topic: International Deficit****Skill: Recognition**

- 125) The current account is
- the difference between exports and imports, also taking into account interest payments to and from the rest of the world.
  - the amount of money the government keeps on hand to pay its bills taking account of the interest payments on its debt.
  - is the amount of tax revenue that the government expects to collect.
  - is the total amount of interest payments that the U.S. owes to foreign countries.

**Answer: D****■ Macroeconomic Policy Challenges and Tools****Topic: Macroeconomic Policy Challenges****Skill: Recognition**

- 126) All of the following are policy goals targeted by macroeconomic policy EXCEPT
- reduce unemployment.
  - stabilize the business cycle.
  - increase the current account deficit.
  - control inflation.

**Answer: C****Topic: Fiscal Policy****Skill: Recognition**

- 127) All of the following are part of fiscal policy EXCEPT
- setting tax rates.
  - setting government spending.
  - choosing the size of the government deficit.
  - controlling the money supply.

**Answer: D****Topic: Fiscal Policy****Skill: Recognition**

- 128) Which of the following is included as part of fiscal policy?
- The level of government spending.
  - Money supply.
  - The level of interest rates.
  - Monetary policy.

**Answer: A**

**Topic: Fiscal Policy****Skill: Recognition**

- 129) Changes in which of the following is included as part of fiscal policy?
- The money supply.
  - The level of interest rates.
  - Monetary policy.
  - Tax rates.

**Answer: D****Topic: Monetary Policy****Skill: Recognition**

- 130) Monetary policy is controlled by
- Congress.
  - the president.
  - the Federal Reserve.
  - the Treasury Department.

**Answer: C****Topic: Monetary Policy****Skill: Recognition**

- 131) Which of the following is a policy tool of the Federal Reserve?
- Changes in interest rates.
  - Changes in government spending.
  - Changes in the government deficit.
  - Changes in tax rates.

**Answer: A****Topic: Monetary Policy****Skill: Recognition**

- 132) Which of the following is a policy tool of the Federal Reserve?
- The level of government spending.
  - Changes in the money supply.
  - The government deficit.
  - Tax rates.

**Answer: B****Topic: Monetary Policy****Skill: Recognition**

- 133) The principal goal of monetary policy is to
- reverse the productivity growth slowdown
  - keep the budget deficit small and/or the budget surplus large.
  - lower taxes
  - maintain low inflation

**Answer: D****Topic: Monetary Policy****Skill: Recognition**

- 134) The principal aim of monetary policy is to
- change government spending to spur innovation.
  - keep inflation in check.
  - change tax rates to boost investment.
  - change tax rates to boost saving.

**Answer: B****Topic: Monetary Policy****Skill: Conceptual**

- 135) If the economy is in a too-rapid expansion, the Fed might
- decrease interest rates to stimulate the economy.
  - raise tax rates to restrain the economy.
  - decrease government spending.
  - increase interest rates to restrain the economy.

**Answer: D****Topic: Monetary Policy****Skill: Conceptual**

- 136) If the economy is in a recession, the Fed might
- reduce interest rates to stimulate the economy.
  - cut tax rates to stimulate the economy.
  - increase government spending.
  - increase interest rates.

**Answer: A****■ Study Guide Questions****Topic: Study Guide Question, Origins and Issues of Macroeconomics****Skill: Recognition**

- 137) During the Great Depression,
- the unemployment rate was 25 percent and the major focus of macroeconomics switched to economic growth.
  - productivity growth increased and the focus of macroeconomics changed to business cycles.
  - the unemployment rate was 25 percent and economists paid more attention to stimulating total spending.
  - John Maynard Keynes suggested that inflation was the major problem facing capitalist nations.

**Answer: C**

**Topic: Study Guide Question, Productivity Growth Slowdown****Skill: Recognition**

- 138) Which of the following statements about the slowdown in productivity growth is correct?
- The slowdown in productivity growth occurred only in Japan.
  - The slowdown in productivity growth occurred during the 1980s.
  - Potential GDP growth also decreased during this period.
  - Extremely high inflation rates were a major cause of the slowdown in productivity growth.

**Answer: C****Topic: Study Guide Question, Business Cycle****Skill: Recognition**

- 139) Suppose real GDP decreases in all four quarters of 2005; thus 2005 definitely would be a year
- of expansion.
  - with a business cycle peak.
  - of recession.
  - with a business cycle trough.

**Answer: C****Topic: Study Guide Question, Business Cycle****Skill: Conceptual**

- 140) The unemployment rate generally rises during \_\_\_\_\_ in the business cycle.
- a peak
  - a recession
  - a trough
  - an expansion

**Answer: B****Topic: Study Guide Question, Government Budget Deficit****Skill: Conceptual**

- 141) Which of the following statements about the government budget is correct?
- Whenever tax revenues exceed government spending, the government has a budget deficit.
  - As a fraction of GDP, the budget deficit has increased steadily since 1980.
  - The government has had a budget deficit every year since 1970.
  - None of the above are correct

**Answer: D****Topic: Study Guide Question, Inflation Rate****Skill: Analytical**

- 142) If last year's price level was 100 and this year's price level is 114, over the year the inflation rate has been
- 14 percent.
  - 114 percent.
  - 12 percent
  - 100 percent.

**Answer: A****Topic: Macroeconomic Policy Challenges****Skill: Recognition**

- 143) Which of the following is NOT a macroeconomic policy challenge?
- Boosting long-term growth.
  - Lowering unemployment.
  - Stabilizing the business cycle.
  - Raising the government budget deficit.

**Answer: A****Topic: Study Guide Question, Monetary Policy****Skill: Recognition**

- 144) Which of the following is an example of monetary policy?
- Changing the level of the money supply.
  - Changing government spending.
  - Changing tax rates.
  - Changing the government's budget surplus.

**Answer: A**



**Gross Domestic Product****Topic: GDP****Skill: Recognition**

- 1) Gross domestic product is the total \_\_\_\_ produced within a country in a given time period.
  - A) market value of all final and intermediate goods and services
  - B) market value of all final and intermediate goods and services plus investment and depreciation
  - C) amount of final and intermediate goods and services
  - D) market value of all final goods and services

**Answer: D****Topic: Circular Flow****Skill: Conceptual**

- 2) The circular flow diagram shows
  - A) how nominal GDP is distinct from real GDP.
  - B) how the prices of factors are determined.
  - C) the effects of inflation in a simple economy.
  - D) the flows between different sectors of the economy.

**Answer: D****Topic: Circular Flow****Skill: Conceptual**

- 3) The circular flow diagram indicates that
  - A) households sell the services of factors of production to firms.
  - B) firms buy the services of factors of production from the government.
  - C) households sell goods and services to the government.
  - D) firms buy goods and services from households.

**Answer: A****Topic: Circular Flow****Skill: Conceptual**

- 4) In the circular flow model of an economy with no government sector and no international trade, households
  - A) receive income from buyers of goods and services.
  - B) receive income from the sale of factors in the goods markets.
  - C) pay firms for the use of their factors.
  - D) receive income from producers for the use of factors in the factor markets.

**Answer: D****Topic: Circular Flow, Aggregate Expenditure****Skill: Conceptual**

- 5) In the circular flow diagram, aggregate expenditure includes the sum of
  - A) saving and investment.
  - B) consumption and investment.
  - C) consumption, investment, and saving.
  - D) income and saving.

**Answer: B****Topic: Circular Flow, Aggregate Expenditure****Skill: Conceptual**

- 6) In the circular flow of economic activity
  - A) aggregate expenditure measures the dollar value of purchases of factors.
  - B) aggregate expenditure measures the dollar value of purchases of final goods and services.
  - C) aggregate income measures the dollar value of labor resources only.
  - D) aggregate expenditure is measured as it moves through the financial markets.

**Answer: B**

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\* This is Chapter 21 in *Economics*.

**Topic: Government Budget Deficit****Skill: Recognition**

- 7) The government's budget deficit is the excess of government
- purchases of goods and services over its interest payments on the government debt.
  - purchases of goods and services over its net taxes.
  - net taxes over its purchases of goods and services.
  - interest payments on the government debt over its net taxes.

**Answer: B****Topic: Rest of the World Sector****Skill: Conceptual**

- 8) If U.S. imports are less than U.S. exports, the
- rest of the world borrows from the U.S. economy.
  - U.S. economy borrows from the rest of the world.
  - U.S. government has a budget surplus.
  - U.S. government has a budget deficit.

**Answer: A****Topic: Rest of the World Sector****Skill: Conceptual**

- 9) If the rest of the world lends to the U.S. economy,
- the U.S. government has a budget surplus.
  - the U.S. government has a budget deficit.
  - U.S. imports are less than U.S. exports.
  - U.S. imports exceed than U.S. exports.

**Answer: D****Topic: Rest of the World Sector****Skill: Conceptual**

- 10) When exports from the United States exceed imports into the United States, the rest of the world
- borrow from the United States or sells U.S. assets.
  - lends to the United States or sells U.S. assets.
  - borrow from the United States or buys U.S. assets.
  - lends to the United States or buys U.S. assets.

**Answer: A****Topic: Rest of the World Sector****Skill: Conceptual**

- 11) When imports into the United States exceed exports from the United States, the United States
- borrow from the rest of the world or sells foreign assets.
  - lends to the rest of the world or sells foreign assets.
  - borrow from the rest of the world or buys foreign assets.
  - lends to the rest of the world or buys foreign assets.

**Answer: A****Topic: Expenditure Equals Income****Skill: Conceptual**

- 12) Which of the following are equal to one another?
- aggregate production
  - aggregate expenditure
  - aggregate income
- I equals II, but not III.
  - I equals III, but not II.
  - II equals III, but not I.
  - I equals II equals III.

**Answer: D****Topic: How Investment Is Financed****Skill: Recognition**

- 13) Investment is financed by which of the following?
- Government spending
  - National saving
  - Borrowing from the rest of the world
- I, II, and III
  - I and II only
  - I and III only
  - II and III only

**Answer: D****Topic: National Saving****Skill: Recognition**

- 14) National saving is defined as the amount of saving by
- businesses.
  - households.
  - businesses and households.
  - businesses and households and the government.

**Answer: D**

**Topic: National Saving****Skill: Recognition**

- 15) National saving equals
- household saving + business saving.
  - household saving + business saving + government saving.
  - household saving + business saving + net taxes – government purchases of goods and services.
  - Both answers B and C are correct.

**Answer: D****Topic: National Saving****Skill: Recognition**

- 16) National saving is defined as
- the total amount of household saving.
  - personal saving by households and businesses plus government saving.
  - the saving by the federal government.
  - None of the above answers are correct.

**Answer: B****Topic: National Saving****Skill: Conceptual**

- 17) If the government runs a budget deficit, then
- national saving is negative.
  - household but not business saving must pay for the deficit.
  - part of household and business saving finances the deficit.
  - national saving cannot fund investment.

**Answer: C****Topic: National Saving****Skill: Analytical**

- 18) If national saving ( $S$ ) is \$100,000, net taxes ( $T$ ) equal \$100,000 and government purchases of goods and services ( $G$ ) are \$25,000, how much are households and businesses saving?
- \$25,000.
  - \$225,000.
  - \$25,000.
  - None of the above.

**Answer: A****Topic: Borrowing from the Rest of the World****Skill: Recognition**

- 19) Suppose the U.S. spends more on foreign goods and services than foreigners spend on our goods and services and the U.S. sells no foreign assets. Then
- the United States must borrow an amount equal to national saving.
  - the United States must borrow an amount equal to imports minus exports.
  - the rest of the world may or may not finance the U.S. trade deficit.
  - the United States must borrow an amount equal to consumption expenditure plus investment.

**Answer: B****Topic: Borrowing from the Rest of the World****Skill: Conceptual**

- 20) If foreigners spend more on U.S.-made goods and services than we spend on theirs,
- foreigners must borrow from the United States or sell U.S. assets to make up the difference.
  - all U.S. national saving remains in the United States
  - we must borrow from foreigners because of low imports.
  - funds flow in from abroad to help finance U.S. investment.

**Answer: A****Topic: Borrowing from the Rest of the World****Skill: Analytical**

- 21) If our exports are \$1.2 billion and our imports are \$1.7 billion,
- the United States is lending to the rest of the world.
  - U.S. national saving is too high.
  - the United States is borrowing from the rest of the world.
  - U.S. investment must decrease.

**Answer: C**

**Topic: Flows and Stocks****Skill: Recognition**

- 22) A feature of a stock variable and a flow variable is that
- a stock is a quantity per unit of time and a flow is a quantity that exists at a point in time.
  - a stock is a quantity that exists at a point in time and a flow is a quantity per unit of time.
  - a stock only measures the value of goods and services produced in a country during a given time period.
  - an example of a stock variable is real GDP and an example of a flow variable is consumption expenditure.

**Answer: B****Topic: Flows and Stocks****Skill: Conceptual**

- 23) Which of the following is a stock variable?
- Investment.
  - Income.
  - Wealth.
  - Saving.

**Answer: C****Topic: Flows and Stocks****Skill: Conceptual**

- 24) GDP is
- a measure of the amount of government debt.
  - investment in the nation's economy.
  - stock.
  - flow.

**Answer: D****Topic: Flows and Stocks****Skill: Conceptual**

- 25) Which of the following is a flow variable?
- investment.
  - capital.
  - the amount of money in your savings account.
  - the number of CD's you own.

**Answer: A****Topic: Flows and Stocks****Skill: Conceptual**

- 26) Which of the following is NOT a flow variable?
- The number of DVD players sold per month.
  - The number of DVDs available at the library.
  - Annual spending on DVD rentals.
  - The number of DVDs produced per year.

**Answer: B****Topic: Flows and Stocks****Skill: Conceptual**

- 27) Which of the following is a flow variable?
- Capital.
  - Gross domestic product.
  - Wealth.
  - The money in your pocket.

**Answer: B****Topic: Flows and Stocks****Skill: Conceptual**

- 28) An example of a flow variable is
- capital.
  - consumption expenditure by households.
  - the machinery owned by a firm.
  - the cash held by households.

**Answer: B****Topic: Flows and Stocks****Skill: Conceptual**

- 29) Which of the following is a stock variable?
- Capital.
  - Consumption expenditure by households.
  - Gross investment.
  - Depreciation.

**Answer: A****Topic: Flows and Stocks****Skill: Conceptual**

- 30) An example of a stock quantity is
- real GDP.
  - consumption expenditure by households.
  - gross investment.
  - wealth.

**Answer: D****Topic: Wealth and Saving****Skill: Recognition**

- 31) Which of the following is FALSE about saving?
- Saving adds to wealth.
  - Income left after paying taxes can either be consumed or saved.
  - Saving equals wealth minus consumption expenditures.
  - Saving is a flow variable.

**Answer: C**

**Topic: Wealth and Saving****Skill: Analytical**

- 32) At the beginning of the year, your wealth is \$10,000. During the year, you have an income of \$90,000 and you spend \$80,000 on consumption. You pay no taxes. Your wealth at the end of the year is
- \$20,000.00.
  - \$0.
  - \$90,000.00.
  - \$100,000.00.

**Answer: A****Topic: Wealth and Saving****Skill: Analytical**

- 33) At the beginning of the year, your wealth is \$10,000. During the year, you have an income of \$80,000 and you spend \$90,000 on consumption. You pay no taxes. Your wealth at the end of the year is
- \$20,000.00.
  - \$0.
  - \$90,000.00.
  - \$100,000.00.

**Answer: B****Topic: Capital and Investment****Skill: Recognition**

- 34) The term capital, as used in macroeconomics, refers to
- the plant, equipment, buildings, and inventories of raw materials and semi-finished goods.
  - financial wealth.
  - the sum of investment and government purchases of goods.
  - investment.

**Answer: A****Topic: Capital and Investment****Skill: Recognition**

- 35) The term capital, as used in macroeconomics, refers to
- the amount of money that someone can invest in a new venture.
  - the amount of money a firm can raise in the stock market.
  - manufactured inputs, including inventories, buildings, machinery, etc.
  - All of the above answers are correct.

**Answer: C****Topic: Capital and Investment****Skill: Recognition**

- 36) The term capital, as used in macroeconomics, includes all of the following except
- inventories.
  - equipment.
  - buildings.
  - a company's work force.

**Answer: D****Topic: Capital and Investment****Skill: Recognition**

- 37) Capital
- includes the plant, equipment, and buildings owned by firms.
  - increases when depreciation increases.
  - does not include semifinished goods used to produce other goods and services.
  - is a flow variable.

**Answer: A****Topic: Capital and Investment****Skill: Recognition**

- 38) Depreciation
- does not change the level of capital in the economy.
  - is the decrease in the capital stock because of wear and tear.
  - is also known as capital consumption.
  - Both answers B and C are correct.

**Answer: D****Topic: Capital and Investment****Skill: Recognition**

- 39) Investment, as defined in the text, refers to the purchase of
- new capital.
  - stocks and bonds.
  - durable goods by consumers.
  - All of the above answers are correct.

**Answer: A****Topic: Capital and Investment****Skill: Recognition**

- 40) Which of the following is not included in the investment component of GDP?
- A household purchases a new washing machine.
  - Purchase of new equipment by a business.
  - A firm builds a new warehouse.
  - A business fails to sell all of its output and therefore experiences an increase in inventories.

**Answer: A**

**Topic: Capital and Investment****Skill: Recognition**

- 41) Gross investment
- is the purchase of new capital.
  - includes only replacement investment.
  - does not include additions to inventories.
  - Both answers A and B are correct.

**Answer: A****Topic: Capital and Investment****Skill: Recognition**

- 42) The total amount spent on adding to the stock of capital and on replacing depreciated capital is
- capital consumption.
  - gross investment.
  - depreciation.
  - the net stock of investment.

**Answer: B****Topic: Capital and Investment****Skill: Recognition**

- 43) The total amount spent on adding to the stock of capital *and* on replacing depreciated capital is
- consumption on new capital.
  - depreciation.
  - gross investment.
  - net investment.

**Answer: C****Topic: Capital and Investment****Skill: Recognition**

- 44) Economists define depreciation as
- the decrease in the capital stock from wear and tear and obsolescence.
  - the loss in stock market of a company's value.
  - the drop in the price of a company's product.
  - All of the above answers are correct.

**Answer: A****Topic: Capital and Investment****Skill: Recognition**

- 45) Depreciation is
- the sum of gross and net investment.
  - a stock variable that affects the economy's ability to produce.
  - the difference between gross investment and the capital stock.
  - one of the flow variables affecting the capital stock.

**Answer: D****Topic: Capital and Investment****Skill: Conceptual**

- 46) If the economy's capital stock increases over time,
- net investment is positive.
  - depreciation is less than zero.
  - depreciation exceeds gross investment.
  - gross investment equals depreciation.

**Answer: A****Topic: Capital and Investment****Skill: Conceptual**

- 47) If the economy's capital stock decreases over time,
- net investment is positive.
  - depreciation is less than zero.
  - depreciation exceeds gross investment.
  - gross investment equals net investment.

**Answer: C****Topic: Capital and Investment****Skill: Analytical**

- 48) The Acme Stereo Company had a capital stock of \$24 million at the beginning of the year. At the end of the year, the firm had a capital stock of \$20 million. Thus its
- net investment was some amount but we need more information to determine the amount.
  - net investment was \$4 million for the year.
  - gross investment was zero.
  - net investment was -\$4 million for the year.

**Answer: D****Topic: Capital and Investment****Skill: Analytical**

- 49) At the beginning of the year, Tom's Tubes had a capital stock of 5 tube inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's net investment for the year totaled

- 1 machine.
- 2 machines.
- 3 machines.
- 6 machines.

**Answer: A**

**Topic: Capital and Investment****Skill: Analytical**

- 50) At the beginning of the year, Tom's Tubes had a capital stock of 5 tube inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's gross investment for the year totaled
- 1 machine.
  - 2 machines.
  - 3 machines.
  - 6 machines.

**Answer: C****Topic: Capital and Investment****Skill: Analytical**

- 51) At the beginning of the year, Tom's Tubes had a capital stock of 5 tube inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's capital stock at the end of year equals
- 1 machine.
  - 2 machines.
  - 3 machines.
  - 6 machines.

**Answer: D****Topic: Net Domestic Product****Skill: Recognition**

- 52) Depreciation is subtracted from gross domestic product to determine directly
- consumption expenditures plus investment expenditures plus government purchases plus net exports.
  - disposable income.
  - net domestic product.
  - national income.

**Answer: C****Topic: Net Domestic Product****Skill: Recognition**

- 53) GDP equals net domestic product plus
- transfer payments and business transfers.
  - depreciation.
  - indirect business taxes and personal taxes.
  - retained earnings.

**Answer: B****Topic: Net Domestic Product****Skill: Analytical**

- 54) In the nation of Nirvana, depreciation is \$22 billion, GDP is \$260.4 billion, and national income is \$215.2 billion. Net domestic product is
- smaller than national income.
  - \$215.2 billion.
  - \$238.4 billion.
  - \$445.2 billion.

**Answer: C****■ Measuring U.S. GDP****Topic: GDP****Skill: Recognition**

- 55) Which of the following correctly describes GDP?
- GDP is a flow variable.
  - GDP is the value of the production of an individual firm's goods and services.
  - GDP can be calculated using the expenditure approach or the income approach.
- I only.
  - III only.
  - I and III.
  - II and III.

**Answer: C****Topic: Expenditure Approach****Skill: Recognition**

- 56) GDP can be computed as the sum of
- all sales that have taken place in an economy over a period of time.
  - the total expenditures of consumers and business over a period of time.
  - the total expenditures of consumption, investment, and government purchases of goods and services over a period of time.
  - the total expenditures of consumption, investment, government purchases of goods and services, and net exports over a period of time.

**Answer: D**

**Topic: Expenditure Approach****Skill: Recognition**

- 57) GDP using the expenditure approach equals the sum of personal consumption expenditures plus
- gross private investment.
  - gross private investment plus government purchases of goods and services.
  - gross private investment plus government purchases of goods and services minus imports of goods and services.
  - gross private investment plus government purchases of goods and services plus net exports of goods and services.

**Answer: D****Topic: Expenditure Approach****Skill: Recognition**

- 58) The expenditure approach measures GDP by adding
- compensation of employees, rental income, corporate profits, net interest, and proprietors' income.
  - compensation of employees, rental income, corporate profits, net interest, proprietors' income, subsidies paid by the government, indirect taxes paid, and depreciation.
  - compensation of employees, rental income, corporate profits, net interest, proprietors' income, indirect taxes paid, and depreciation and subtracting subsidies paid by the government.
  - consumption expenditure, gross private domestic investment, net exports of goods and services, and government purchases of goods and services.

**Answer: D****Topic: Expenditure Approach****Skill: Recognition**

- 59) Which of the following is NOT part of the expenditure approach to measuring GDP?
- Gross private domestic investment
  - Net exports of goods and services
  - Net interest
  - Personal consumption expenditures

**Answer: C****Topic: Expenditure Approach****Skill: Recognition**

- 60) To measure GDP using the expenditure approach you must collect data on
- inflation.
  - exports.
  - wages.
  - saving.

**Answer: B****Topic: Expenditure Approach****Skill: Recognition**

- 61) Aggregate expenditures include all of the following EXCEPT
- consumption of food.
  - purchases of intermediate goods.
  - purchases of a piece of capital equipment.
  - purchases of guns by the government.

**Answer: B****Topic: Expenditure Approach****Skill: Conceptual**

- 62) In the expenditure approach to GDP, the largest component is
- government purchases.
  - personal consumption expenditures.
  - gross private domestic investment.
  - net exports.

**Answer: B****Topic: Expenditure Approach****Skill: Conceptual**

- 63) Let  $C$  represent consumption expenditure,  $S$  saving,  $I$  gross private domestic investment,  $G$  government purchases of goods and services, and  $NX$  net exports of goods and services. Then GDP equals

- $C + S + G + NX$ .
- $C + S + G - NX$ .
- $C + I + G + NX$ .
- $C + I + G - NX$ .

**Answer: C**

**Topic: Expenditure Approach, Consumption Expenditure****Skill: Recognition**

- 64) Consumption expenditure is the payment by households for consumption of
- goods but not services.
  - services but not goods.
  - goods and services.
  - services and for saving.

**Answer: C****Topic: Expenditure Approach, Consumption Expenditure****Skill: Recognition**

- 65) The largest component of GDP is
- gross private domestic investment.
  - personal consumption expenditures.
  - net exports of goods and services.
  - government purchases of goods and services.

**Answer: B****Topic: Expenditure Approach, Consumption Expenditure****Skill: Recognition**

- 66) Personal consumption expenditures include
- expenditures by households on goods and services produced only in the United States.
  - expenditures by households on goods and services produced in the United States and the rest of the world.
  - the purchase of new homes.
  - the purchase of used goods and new goods.

**Answer: B****Topic: Expenditure Approach, Consumption Expenditure****Skill: Conceptual**

- 67) All of the following household expenditures are included in consumption expenditure EXCEPT
- payment to a dentist for filling a tooth.
  - purchase of corporate stock.
  - purchase of a new purse.
  - purchase of hair styling.

**Answer: B****Topic: Expenditure Approach, Investment****Skill: Recognition**

- 68) Gross private domestic investment is all purchases of newly produced business capital goods and buildings
- minus the change in business inventories.
  - plus the change in business inventories plus residential construction.
  - plus fixed investment minus inventory investment.
  - plus purchases of capital goods produced in previous years to replace any depreciated capital goods.

**Answer: B****Topic: Expenditure Approach, Investment****Skill: Recognition**

- 69) The difference between gross investment and net investment is
- inflation.
  - depreciation.
  - initial capital.
  - consumption.

**Answer: B****Topic: Expenditure Approach, Investment****Skill: Recognition**

- 70) Goods that are produced this year, stored in inventories, and then sold to consumers next year
- count in this year's GDP.
  - count in next year's GDP.
  - count in both this year's and next year's GDP.
  - are not counted as a part of GDP.

**Answer: A****Topic: Expenditure Approach, Investment****Skill: Conceptual**

- 71) An example of "investment" in computing real GDP using the expenditure approach is the purchase of
- a new set of tools by an auto mechanic, for use in repairing cars.
  - 100 shares of IBM stock.
  - a 100 year old house by a married couple.
  - computer chips by IBM to put in their personal computers.

**Answer: A**

**Topic: Expenditure Approach, Investment****Skill: Conceptual**

- 72) An example of “investment” in the national income accounts is the purchase of
- a new van by a potter, who packs it with his wares and travels to art shows.
  - 100 shares of Canadian stock on the New York Stock Exchange.
  - a 100-year-old house that was just put on the protected historic sites list in the year in question.
  - a U.S. government bond.

**Answer: A****Topic: Expenditure Approach, Investment****Skill: Conceptual**

- 73) In the national income accounts, the purchase of a new house counts as
- consumption expenditure.
  - investment.
  - a transfer.
  - an addition to inventory.

**Answer: B****Topic: Expenditure Approach, Investment****Skill: Conceptual**

- 74) All of the following are included in gross private domestic investment expenditure EXCEPT a
- business's purchase of a fleet of cars.
  - household's purchase of a new house.
  - business's purchase of another company's stock.
  - a retail store's purchase of shoes to add to its inventory.

**Answer: C****Topic: Expenditure Approach, Government Purchases****Skill: Recognition**

- 75) In the national income accounts, government purchases of goods and services refer to those purchases made by
- federal and state governments only.
  - the federal government only.
  - state and local governments only.
  - all levels of government.

**Answer: D****Topic: Expenditure Approach, Government Purchases****Skill: Recognition**

- 76) In the national income accounts, government purchases of goods and services exclude
- transfer payments.
  - state and local government purchases.
  - local government purchases but include state government purchases.
  - spending on national defense.

**Answer: A****Topic: The Expenditure Approach, Government Purchases****Skill: Recognition**

- 77) Which of the following is included in the government purchases component of the expenditure approach to GDP?
- State government expenditure on local schools
  - Transfer payments
  - Changes in inventories
  - Taxes

**Answer: A****Topic: The Expenditure Approach, Government Purchases****Skill: Recognition**

- 78) Which one of the following transactions in a particular year is included in gross domestic product for that year?
- Social Security payments to retirees
  - The government pays a computer services company that assisted in the delivery of Social Security payments to retirees
  - A car is produced in the previous year and remains in inventory for the entire year under consideration
  - A stay-at-home parent performs housework that the family would otherwise have paid a maid \$20,000 a year to perform.

**Answer: B**

**Topic: The Expenditure Approach, Government Purchases****Skill: Recognition**

- 79) In the computation of GDP, social security payments count as
- transfer payments and are included in GDP.
  - transfer payments and are not included in GDP.
  - government purchases of goods and services and are included in GDP.
  - government purchases of goods and services and are not included in GDP.

**Answer: B****Topic: The Expenditure Approach, Government Purchases****Skill: Conceptual**

- 80) Which of the following is NOT part of GDP?
- General Motors' purchases of new capital equipment
  - Expenditures by the federal government for national defense
  - Social security payments made to the elderly
  - The purchase of new homes by consumers

**Answer: C****Topic: Expenditure Approach, Government Purchases****Skill: Conceptual**

- 81) Transfer payments are not part of government purchases of goods and services because transfer payments
- are not predictable given the nature of their appropriation and allocation.
  - do not represent the purchase of a final good or service.
  - are not always spent on goods produced in the U.S.
  - The premise of the question is incorrect because transfer payments *are* part of government purchases of goods and services.

**Answer: B****Topic: Expenditure Approach, Net Exports****Skill: Recognition**

- 82) Net exports of goods and services equal the
- exports of goods and services divided by the imports of goods and services.
  - exports of goods and services plus the imports of goods and services.
  - exports of goods and services minus the imports of goods and services.
  - imports of goods and services minus the exports of goods and services.

**Answer: C****Topic: Expenditure Approach, Net Exports****Skill: Conceptual**

- 83) In the calculation of GDP by the expenditure approach, exports from the United States must be
- subtracted because they are included in the consumption of a foreign country.
  - ignored because they are not bought by U.S. citizens.
  - subtracted if they are bought by foreign firms for investment purposes.
  - added.

**Answer: D**

Government purchases of goods and services	\$240
Depreciation	240
Gross private domestic investment	400
Personal income taxes	140
Net taxes	120
Net exports of goods and services	80
Personal consumption expenditures	640
Net interest	100

**Topic: Expenditure Approach****Skill: Analytical**

- 84) From the data in the above table, GDP equals
- \$1,120.
  - \$1,280.
  - \$1,290.
  - \$1,360.

**Answer: D**

**Topic: Net Domestic Product****Skill: Analytical**

- 85) Using the data in the above table, net domestic product equals
- \$1,120.
  - \$1,280.
  - \$1,290.
  - \$1,360.

**Answer: A****Topic: Income Approach****Skill: Recognition**

- 86) The approach to GDP that sums compensation of employees, rental income, corporate profits, net interest, proprietors' income, depreciation, and indirect taxes and subtracts subsidies is the
- opportunity cost approach.
  - expenditure approach.
  - added cost approach.
  - income approach.

**Answer: D****Topic: Income Approach****Skill: Conceptual**

- 87) The income approach to measuring GDP sums together
- compensation of employees, rental income, corporate profits, net interest, proprietors' income, subsidies paid by the government, indirect taxes paid, and capital consumption expenditures.
  - compensation of employees, rental income, corporate profits, net interest, proprietors' income, indirect taxes paid, and capital consumption expenditures and subtracts subsidies paid by the government.
  - the sales of each firm in the economy.
  - the costs of each firm in the economy and then subtracts indirect business taxes and the capital consumption allowance.

**Answer: B****Topic: Income Approach****Skill: Recognition**

- 88) Proprietors' income is a component of which approach to measuring GDP?
- Incomes approach.
  - Expenditure approach.
  - Cost approach.
  - Output approach.

**Answer: A****Topic: Income Approach****Skill: Analytical**

- 89) Which of the following is a component of the incomes approach to GDP?
- Consumption expenditure.
  - Wages and salaries.
  - Investment.
  - Government purchases of goods and services.

**Answer: B****Topic: Income Approach****Skill: Recognition**

- 90) The largest component of national income is
- compensation of employees.
  - rental income.
  - corporate profits.
  - proprietors' income.

**Answer: A****Topic: Income Approach, Compensation of Employees****Skill: Recognition**

- 91) Which of the following is included in "compensation of employees" part of the income approach to measuring GDP?
- Wages and salaries.
  - Pension fund contributions.
  - Social security contributions.
- I only.
  - I and II.
  - I and III.
  - I, II and III.

**Answer: D****Topic: Income Approach, Compensation of Employees****Skill: Recognition**

- 92) When calculating the compensation of employees part of GDP,
- social security contributions must be included.
  - fringe benefits are not included.
  - taxes withheld on earnings are not included.
  - the value of vacation time must be included.

**Answer: A**

**Topic: Income Approach, Net Interest****Skill: Recognition**

- 93) In the national income accounts, net interest is the total interest payments received by households on loans made by them minus
- interest received from households' ownership of government bonds.
  - interest payments made by households on their own borrowing.
  - interest payments made by households to foreign lenders.
  - taxes paid by households on their interest income.

**Answer: B****Topic: Income Approach, Rental Income****Skill: Recognition**

- 94) Rental income includes
- the payment for the use of land.
  - the payment for the use of all rented inputs.
  - no income from rental housing because most houses are occupied by their owners.
  - Both answers A and B are correct.

**Answer: D****Topic: Income Approach, Corporate Profits****Skill: Recognition**

- 95) Which of the following are included in the category of corporate profits when measuring GDP?
- Profits paid as dividends.
  - Undistributed profits.
  - Income received by owners and operators of businesses.
- I only.
  - I and II.
  - I and III.
  - I, II and III.

**Answer: B****Topic: Indirect Tax****Skill: Recognition**

- 96) An indirect tax is a tax paid by consumers
- to a state or local government.
  - when they purchase goods and services.
  - on unearned income (as opposed to wages and salaries).
  - that is a percentage of the value of their real property.

**Answer: B****Topic: Indirect Tax****Skill: Conceptual**

- 97) All of the following are indirect taxes EXCEPT
- cigarette sales taxes.
  - income taxes.
  - liquor excise taxes.
  - taxes on utility bills.

**Answer: B****Topic: Net Domestic Income At Factor Cost****Skill: Recognition**

- 98) The sum of compensation to employees, rental income, corporate profits, net interest, and proprietors' income is
- gross domestic product.
  - gross domestic income.
  - net domestic income at factor cost.
  - net domestic product.

**Answer: C****Topic: Income Approach****Skill: Conceptual**

- 99) Reasons why valuing goods at their market prices is different than valuing them at their factor costs include
- depreciation and investment.
  - exports and imports.
  - personal taxes and corporate taxes.
  - indirect taxes and subsidies.

**Answer: D****Topic: Income Approach, Depreciation****Skill: Recognition**

- 100) Gross domestic product minus net domestic product equals
- exports minus imports.
  - imports minus exports.
  - net taxes.
  - depreciation.

**Answer: D**

Corporate profits	\$200
Net interest	150
Indirect taxes less subsidies	230
Depreciation	250
Compensation of employees	1,350
Proprietor's income	150
Rental income	70
Personal consumption expenditures	1,400
Government purchases of goods and services	500
Net exports of goods and services	40

**Topic: Income Approach****Skill: Analytical**

- 101) Using the data in the table above, gross domestic product equals
- \$1,920.
  - \$1,940.
  - \$2,150.
  - \$2,400.

**Answer: D****Topic: Expenditure Approach****Skill: Analytical**

- 102) Using the data in the above table, gross private domestic investment equals
- \$250.
  - \$260.
  - \$460.
  - some amount that cannot be determined without more information.

**Answer: C****Topic: Expenditure Approach****Skill: Analytical**

- 103) Using the data in the above table, net private domestic investment equals
- \$210.
  - \$260.
  - \$510.
  - some amount that cannot be determined without more information.

**Answer: A**

Component	Amount (billions of dollars)
Gross investment	1300
Personal consumption expenditure	1475
Depreciation	25
Government purchases	1315
U.S. imports	260
U.S. exports	249
Compensation of employees	65

**Topic: Expenditure Approach****Skill: Analytical**

- 104) The above table gives data for a hypothetical nation. Gross domestic product is
- \$4,049 billion.
  - \$4,079 billion.
  - \$4,054 billion.
  - \$4,339 billion.

**Answer: B****Topic: Net Domestic Product****Skill: Analytical**

- 105) The above table gives data for a hypothetical nation. Net domestic product is
- \$4,039 billion.
  - \$4,044 billion.
  - \$4,054 billion.
  - \$4,314 billion.

**Answer: C****■ Real GDP and the Price Level****Topic: Real GDP****Skill: Recognition**

- 106) Real GDP measures the
- total profits earned by all businesses valued using prices from a single year.
  - changes in the prices of output measured in dollars.
  - general upward drift in prices.
  - value of total production linked to prices of a single year.

**Answer: D**

**Topic: Real GDP****Skill: Recognition**

- 107) The old, traditional base-year method of calculating real GDP compared
- the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output.
  - quantities produced in different years using prices from a year chosen as a reference period.
  - quantities produced in different years with the prices that prevailed during the year in which the output was produced.
  - prices at different points in time using a sample of goods that is representative of goods purchased by households.

**Answer: B****Topic: Real and Nominal GDP****Skill: Recognition**

- 108) Which of the following relationships is correct?
- $\text{Nominal GDP} = (\text{GDP Deflator} \div \text{Real GDP}) \times 100$
  - $\text{Real GDP} = (\text{Nominal GDP} \times \text{GDP Deflator}) \div 100$
  - $\text{GDP Deflator} = (\text{Nominal GDP} \div \text{Real GDP}) \times 100$
  - $\text{Real GDP} = \text{Nominal GDP} \times 100$

**Answer: C****Topic: Real and Nominal GDP****Skill: Conceptual**

- 109) To calculate real GDP, the GDP deflator can be used to adjust nominal GDP for changes in
- national income.
  - the unemployment rate.
  - the cost of the typical urban worker's market basket.
  - the general price level.

**Answer: D****Topic: Real and Nominal GDP****Skill: Recognition**

- 110) Economists distinguish real from nominal GDP to
- determine whether the government sector is growing.
  - measure the change in nominal interest rates.
  - determine whether economic welfare has changed.
  - determine whether real production has changed.

**Answer: D****Topic: Real and Nominal GDP****Skill: Conceptual**

- 111) In years with inflation, nominal GDP increases \_\_\_\_\_ real GDP.
- faster than
  - slower than
  - at the same rate as
  - sometimes faster, sometimes slower, and sometimes at the same rate as

**Answer: A****Topic: Real and Nominal GDP****Skill: Conceptual**

- 112) Suppose an economy has some inflation. Then, after a base year, the value of real GDP will
- be less than nominal GDP.
  - not be different from nominal GDP.
  - be greater than nominal GDP.
  - will be approximately half the value of nominal GDP.

**Answer: C****Topic: Real and Nominal GDP****Skill: Analytical**

- 113) If nominal GDP is \$5 trillion and the GDP deflator is 125, what is real GDP?
- \$4 trillion
  - \$0.04 trillion
  - \$625 trillion
  - \$6.25 trillion

**Answer: A****Topic: Real and Nominal GDP****Skill: Analytical**

- 114) What is the value of real GDP if the value of the GDP deflator is 122.5 and nominal GDP is \$825 billion?
- \$6.735 billion
  - \$673.5 billion
  - \$702.5 billion
  - \$1,010.6 billion

**Answer: B**

**Topic: Chain-Weighted Growth Rate****Skill: Conceptual**

- 115) The chain-weighted output index
- uses only the current year's prices to calculate growth in real GDP.
  - uses prices for the current year and the previous year to calculate growth in real GDP.
  - must only be calculated every other year.
  - is an inaccurate way to measure growth in real GDP and so has been replaced by the "nominal-to-real" index.

**Answer: B****Topic: Chain-Weighted Growth Rate****Skill: Conceptual**

- 116) The chain-weighted output index method of calculating real GDP compares
- compares the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output.
  - quantities produced in different years using prices from a year chosen as a reference period.
  - quantities produced in different years with the prices that prevailed during the year in which the output was produced.
  - prices at different points in time using a sample of goods that is representative of goods purchased by households.

**Answer: A****Topic: Chain-Weighted Growth Rate****Skill: Conceptual**

- 117) The chain-weighted output index method of measuring real GDP is based on
- using current prices rather than base year prices
  - averaging the market value of the expenditures over a two year period and then comparing with a base period.
  - using the prices of two adjacent years to calculate the growth rate of real GDP.
  - averaging the nominal and real measures of GDP to come up with a more accurate figure.

**Answer: C****Topic: GDP Deflator****Skill: Recognition**

- 118) The GDP deflator equals 100 times
- nominal GDP divided by real GDP.
  - real GDP divided by nominal GDP.
  - gross domestic product divided by net domestic product.
  - net domestic product divided by gross domestic product.

**Answer: A****Topic: Real and Nominal GDP****Skill: Analytical**

- 119) Suppose that nominal GDP per person is \$18,000 in 2004, the 1998 GDP deflator is 100, and the 2004 GDP deflator is 110. The approximate real per person GDP in 2004 is
- \$16,364.
  - \$16,634.
  - \$18,000.
  - \$19,800.

**Answer: A****Topic: Real and Nominal GDP****Skill: Analytical**

- 120) Suppose that nominal GDP per person is \$17,000 in 2004, the 1998 GDP deflator is 100, and the 2004 GDP deflator is 90. The approximate real GDP per person in 2004 is
- \$17,000.
  - \$18,889.
  - \$32,300.
  - \$15,300.

**Answer: B****Topic: Real and Nominal GDP****Skill: Analytical**

- 121) Suppose that nominal GDP per person is \$21,000 in 2004, the 1998 GDP deflator is 100, and the 2004 deflator is 105. The approximate real GDP per person in 2004 is
- \$20,000.
  - \$21,000.
  - \$19,048.
  - \$22,050.

**Answer: A**

**Topic: GDP Deflator****Skill: Recognition**

- 122) The implicit GDP deflator is calculated by
- comparing the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output.
  - comparing the quantities produced in different years using prices from a year chosen as a reference period.
  - comparing the quantities produced in different years with the prices that prevailed during the year in which the output was produced.
  - dividing nominal GDP by real GDP.

**Answer: D****Measuring Economic Growth****Topic: Over Adjustment for Inflation****Skill: Conceptual**

- 123) If the GDP deflator is biased by quality changes, the result is that
- nominal GDP is understated.
  - real GDP is overstated.
  - there is no effect upon the correct level of real GDP.
  - real GDP is understated.

**Answer: D****Topic: Household Production****Skill: Recognition**

- 124) Which of the following is NOT included in real GDP?
- Production of services, such as the services of doctors.
  - Production of goods that last more than one year, such as television sets.
  - Production of goods that do not last more than one year, such as gasoline.
  - Production in the home.

**Answer: D****Topic: Household Production****Skill: Analytical**

- 125) If a larger fraction of the adult population is working, household production
- counted in real GDP increases.
  - not counted in real GDP increases.
  - counted in real GDP decreases.
  - not counted in real GDP decreases.

**Answer: D****Topic: Underground Economic Activity****Skill: Recognition**

- 126) Which of the following is NOT included in real GDP?
- Production of services, such as the services of hair dressers.
  - Production of goods that last less than a year, such as production of hot dogs.
  - Production that takes place in the underground economy.
  - Production of goods that last more than a year, such as a pair of roller blades.

**Answer: C****Topic: Underground Economic Activity****Skill: Conceptual**

- 127) The underground economy exists for all of the following reasons EXCEPT the
- production of illegal goods.
  - avoidance of taxes.
  - desire to maintain accurate records of economic transactions.
  - avoidance of government regulation.

**Answer: C****Topic: Environmental Quality****Skill: Conceptual**

- 128) Because pollution reduces economic welfare, real GDP
- decreases as pollution increases.
  - increases to take into account the expenditures that will be made in the future to clean up the pollution.
  - overstates economic welfare.
  - understates economic welfare.

**Answer: C**

**Topic: Environmental Quality****Skill: Conceptual**

- 129) In the post World War II period, considerable growth in total production took place in the U.S. But at the same time, businesses were able to produce by dumping their waste into the Great Lakes with minimal cost, significantly polluting the bodies of water as a result. This occurrence is an example where
- real GDP gives an overly positive view of economic welfare.
  - real GDP gives an overly negative view of economic welfare.
  - investment would have been a better measure of total production.
  - the pollution counts as a final good.

**Answer: A****Topic: Environmental Quality****Skill: Conceptual**

- 130) Which of the following would lead GDP to *overstate* economic welfare?
- the existence of home-cooked meals.
  - restaurant workers that under-report tip income.
  - a self-employed CPA who takes a longer than normal vacation.
  - electric utilities that switch to burning coal because of higher natural gas prices and thereby create more acid rain pollution.

**Answer: D****Topic: Purchasing Power Parity Prices****Skill: Conceptual**

- 131) Purchasing power parity prices are used to construct GDP data that
- do not omit the underground economy.
  - can be used to make more valid comparisons between one country and another.
  - is a proper measure of economic welfare.
  - adjust for differences in population.

**Answer: B****Topic: Purchasing Power Parity Prices****Skill: Recognition\***

- 132) If we compare the U.S. GDP and the Chinese GDP,
- GDP per person is about the same in the two countries.
  - U.S. GDP per person is less than China's GDP per person once we adjust for currency differences.
  - China's GDP per person is less than GDP per person in the United States.
  - U.S. GDP per person was much larger than China's GDP per person when purchasing power parity prices are used but is less than China's GDP per person when exchange rate prices are used.

**Answer: C****■ Study Guide Questions****Topic: Study Guide Question, GDP****Skill: Conceptual**

- 133) Which of the following is NOT a final good?
- a new computer sold to an NYU student
  - a new car sold to Avis for use in their fleet of rental cars
  - a purse sold to a foreign visitor
  - a hot dog sold to a spectator at a Chicago Bears football game

**Answer: B****Topic: Study Guide Question, Expenditure Equals Income****Skill: Conceptual**

- 134) GDP equals
- aggregate expenditure.
  - aggregate income.
  - the value of the aggregate production in a country during a given time period.
  - all of the above.

**Answer: D**

**Topic: Study Guide Question, Financing Investment****Skill: Recognition**

- 135) A nation's investment must be financed by
- national saving only.
  - the government's budget deficit.
  - borrowing from the rest of the world only.
  - national saving plus borrowing from the rest of the world.

**Answer: D****Topic: Study Guide Question, Flows and Stocks****Skill: Conceptual**

- 136) Which of the following is a flow?
- GDP
  - Wealth
  - The amount of money in a savings account
  - Capital

**Answer: A****Topic: Study Guide Question, Flows and Stocks****Skill: Conceptual**

- 137) Which of the following is a stock?
- Income
  - Depreciation
  - Investment
  - Capital

**Answer: D****Topic: Study Guide Question, Flows and Stocks****Skill: Conceptual**

- 138) \_\_\_\_\_ is a flow variable and \_\_\_\_\_ is a stock variable.
- Wealth; income
  - Income; capital
  - Wealth; capital
  - Depreciation; income

**Answer: B****Topic: Study Guide Question, Expenditure Approach, Investment****Skill: Conceptual**

- 139) Gross private domestic investment is a component of which approach to measuring GDP?
- Incomes approach
  - Expenditure approach
  - Linking approach
  - Output approach

**Answer: B****Topic: Study Guide Question, Incomes Approach****Skill: Conceptual**

- 140) Which of the following is NOT a component of the incomes approach to GDP?

- Net exports
- Wages and salaries
- Corporate profits
- Proprietors' income

**Answer: A****Topic: Study Guide Question, Real GDP****Skill: Recognition**

- 141) Currently, real GDP is calculated using
- the quantities only method.
  - base year prices method.
  - current year prices method.
  - chain-weighted output index method.

**Answer: D****Topic: Study Guide Question, Real GDP****Skill: Analytical**

- 142) Real GDP in 2002 is \$100. Between 2002 and 2003, using 2002 prices GDP grew 8 percent and using 2003 prices real GDP grew 4 percent. What does real GDP in 2003 equal?
- \$104
  - \$106
  - \$108
  - None of the above answers is correct.

**Answer: B****Topic: Study Guide Question, Real and Nominal GDP****Skill: Analytical**

- 143) If the GDP deflator for 2004 is 125, nominal GDP
- equals real GDP in 2004.
  - is greater than real GDP in 2004.
  - is less than real GDP in 2004.
  - in 2003 will be less than real GDP in 2004.

**Answer: B**

Year	Nominal GDP (billions of dollars)	Real GDP (billions of dollars)	GDP deflator
2004	2500	_____	105
2005	_____	2400	117

**Topic: Study Guide Question, Real and Nominal GDP****Skill: Analytical**

144) Using the data in the above table, what is real GDP in 2004?

- A) \$2137 billion.
- B) \$2520 billion.
- C) \$2381 billion.
- D) \$2051 billion.

**Answer: C****Topic: Study Guide Question, Real and Nominal GDP****Skill: Analytical**

145) Using the data in the above table, what is nominal GDP in 2005?

- A) \$2400 billion.
- B) \$2381 billion.
- C) \$2808 billion.
- D) \$2520 billion.

**Answer: C****Topic: Study Guide Question, Environmental Quality****Skill: Conceptual**

146) Pollution is a by-product of some production processes, so real GDP as measured

- A) is adjusted downward to take into account the pollution.
- B) is adjusted upward to take into account the expenditures that will be made in the future to clean up the pollution.
- C) tends to overstate economic welfare.
- D) tends to underestimate economic welfare.

**Answer: C****Topic: Study Guide Question, Household Production****Skill: Conceptual**

147) Which of the following is NOT a reason that real GDP is a poor measure of a nation's economic welfare?

- A) Real GDP omits measures of political freedom.
- B) Real GDP does not take into account the value of people's leisure time.
- C) Real GDP does not include the underground economy.
- D) Real GDP overvalues household production.

**Answer: D****Topic: Study Guide Question, International Comparisons****Skill: Recognition**

148) Which of the following statements about the comparison between GDP in China and in the United States is correct?

- A) Using the exchange rate to value China's GDP in dollars shows that China's GDP per person exceeds the GDP per person in the United States.
- B) Using purchasing power parity prices to value China's GDP in dollars shows that China's GDP per person exceeds the GDP per person in the United States.
- C) China's GDP per person is higher using purchasing power parity prices rather than the exchange rate when valuing China's GDP in dollars.
- D) None of the above answers are correct because they are all false statements.

**Answer: C****■ MyEconLab Questions****Topic: Flows and Stocks****Level I: Definitions and Concepts**

149) An example of a stock is \_\_\_\_\_ and an example of a flow is \_\_\_\_\_.

- A) depreciation; capital
- B) capital; investment
- C) investment; capital
- D) investment; depreciation

**Answer: C**

**Topic: Capital and Investment****Level I: Definitions and Concepts**

- 150) Depreciation equals \_\_\_\_.
- capital minus gross investment
  - capital minus net investment
  - net investment minus gross investment
  - gross investment minus net investment

**Answer: D****Topic: Expenditure Approach, Government Purchases****Level I: Definitions and Concepts**

- 151) Government purchases include \_\_\_\_.
- social security and education
  - net exports
  - buying a new bomber
  - Both answers A and C are correct

**Answer: C****Topic: Financing Investment****Level I: Definitions and Concepts**

- 152) A country's investment can be financed by \_\_\_\_.
- a government budget surplus
  - national saving and foreign borrowing
  - only saving by households and firms
  - making exports exceed imports

**Answer: B****Topic: Expenditure Approach****Level I: Definitions and Concepts**

- 153) Gross Domestic Product is equal to the sum of consumption expenditure, investment, net exports, and \_\_\_\_.
- government purchases
  - saving
  - profits
  - net taxes

**Answer: A****Topic: Intermediate Goods and Services****Level I: Definitions and Concepts**

- 154) Intermediate goods and services \_\_\_\_.
- are double counted in GDP
  - are used to produce final goods and services
  - include used goods
  - are included in GDP

**Answer: B****Topic: Income Approach****Level I: Definitions and Concepts**

- 155) The income approach measures GDP by adding together compensation of employees, proprietors' income, \_\_\_\_.
- net investment, saving, and farmers' income
  - net interest, rental income, and corporate profits
  - net investment, rental income, and corporate profits
  - net saving, investment income, and profits

**Answer: B****Topic: Chain-Weighted Growth Rate****Level I: Definitions and Concepts**

- 156) The chain-weighted output index method \_\_\_\_.
- is used to calculate the value of nominal GDP
  - values the quantities produced in a year at the prices of the base year
  - shows that real GDP increases every year
  - uses the prices of two adjacent years to calculate the real GDP growth rate

**Answer: D****Topic: GDP Deflator****Level I: Definitions and Concepts**

- 157) The measure of the price level, which is an average of current year prices expressed as a percentage of base-year prices is the \_\_\_\_.

- GDP inflator
- inflation rate
- Urban GDP Price Level
- GDP deflator

**Answer: D****Topic: GDP Deflator****Level I: Definitions and Concepts**

- 158) GDP deflator equals \_\_\_\_.

- $(\text{Nominal GDP} \div 100) \times \text{Real GDP}$
- $(\text{Nominal GDP} \div \text{Real GDP}) \times 100$
- nominal GDP
- $(\text{Real GDP} \div \text{Nominal GDP}) \times 100$

**Answer: B**

**Topic: Flows and Stocks****Level 2: Using Definitions and Concepts**

159) Investment is a \_\_\_\_ that \_\_\_\_ the \_\_\_\_ of capital.

- A) flow; increases; stock
- B) stock; decreases; stock
- C) stock; increases; flow
- D) flow; adds to; flow

**Answer: A**

**Topic: Flows and Stocks****Level 2: Using Definitions and Concepts**

160) When \_\_\_\_ is greater than \_\_\_\_, saving increases \_\_\_\_.

- A) income; government purchases; wealth
- B) income; consumption expenditure; wealth
- C) consumption expenditure; government purchases; wealth
- D) government purchases; consumption expenditure; taxes

**Answer: B**

**Topic: Financing Investment****Level 2: Using Definitions and Concepts**

161) If the government budget is balanced and investment is equal to saving, then \_\_\_\_.

- A) exports equal imports
- B) net exports are positive
- C) the country does not trade internationally
- D) net exports are negative

**Answer: A**

**Topic: Expenditure Approach****Level 2: Using Definitions and Concepts**

162) Which of the following items is not a component of the expenditure approach to measuring U.S. GDP?

- A) purchases of food made by families
- B) social security payments made by the government
- C) purchases of U.S.-made movies by Europeans
- D) purchases of new homes made by families

**Answer: B**

**Topic: Income Approach****Level 2: Using Definitions and Concepts**

163) Which of the following items is not a component of the income approach to measuring U.S. GDP?

- A) interest earned on savings deposits
- B) profits made by businesses
- C) income earned by businesses that export goods
- D) investment

**Answer: D**

**Topic: Items Not in GDP****Level 2: Using Definitions and Concepts**

164) Which of the following items are counted in GDP? A taxi company's \_\_\_\_.

- A) sale of some bonds to finance its purchases
- B) purchase of new trip meters for its cabs
- C) sale of 5 old cabs
- D) purchase of 5 new cabs

**Answer: D**

**Topic: Price Level****Level 2: Using Definitions and Concepts**

165) Paying higher prices means that our \_\_\_\_.

- A) standard of living has decreased
- B) cost of living has increased
- C) cost of living has increased and our standard of living has increased
- D) standard of living has increased

**Answer: B**

**Topic: Real and Nominal GDP****Level 2: Using Definitions and Concepts**

166) One year after the base year, the price level rises.

In this year, nominal GDP is \_\_\_\_ real GDP, and the GDP deflator is \_\_\_\_.

- A) less than; less than 100
- B) equal to; equal to 10
- C) greater than; greater than 100
- D) less than; greater than 100

**Answer: C**

**Topic: GDP and Economic Welfare Comparisons****Level 2: Using Definitions and Concepts**

167) What we produce during our working time is \_\_\_\_ as part of GDP and the enjoyment we gain from our leisure time is \_\_\_\_ as part of GDP.

- A) included; not included
- B) included; included
- C) not included; included
- D) not included; not included

**Answer: A**

**Topic: GDP and Economic Welfare Comparisons****Level 2: Using Definitions and Concepts**

- 168) Real GDP is not a good indicator of economic welfare because \_\_\_\_.
- it includes the underground economy
  - it includes a direct measure of health and life expectancy
  - it underestimates inflation
  - economic welfare depends on many factors not measured or not measured accurately by real GDP

**Answer: D**

Item	Millions of dollars
Personal consumption expenditure	80
Government purchases of goods and services	30
Net taxes	35
Gross private domestic investment	20
Imports of goods and services	10
Exports of goods and services	20

**Topic: Expenditure Approach****Level 3: Calculations and Predictions**

- 169) Using the information in the table above, calculate the value of GDP.
- \$185 million
  - \$145 million
  - \$195 million
  - \$140 million

**Answer: D****Topic: Expenditure Approach, Net Exports****Level 3: Calculations and Predictions**

- 170) Use the information in the table above to calculate the value of net exports.
- \$10 million
  - \$0
  - \$10 million
  - \$30 million

**Answer: A****Topic: Financing Investment****Level 3: Calculations and Predictions**

- 171) Use the information in the table above to calculate the value of private saving.
- \$15 million
  - \$40 million
  - \$25 million
  - \$20 million

**Answer: C****Topic: Financing Investment****Level 3: Calculations and Predictions**

- 172) Use the information in the table above to calculate the value of government saving.
- \$15 million
  - \$5 million
  - \$5 million
  - \$45 million

**Answer: C**

Item	Billions of dollars
Compensation of employees	80
Net interest and rental income	30
Corporate profits	10
Proprietor's income	20

**Topic: Net Domestic Income at Factor Cost****Level 3: Calculations and Predictions**

- 173) Use the information in the table above to calculate the value of net domestic income at factor cost.
- \$80 billion
  - \$140 billion
  - \$100 billion
  - \$90 billion

**Answer: B****Topic: Income Approach****Level 3: Calculations and Predictions**

- 174) Use the information in the table above plus the fact that indirect taxes less subsidies are \$10 billion and depreciation is \$30 billion to calculate the value of GDP.
- \$180 billion
  - \$150 billion
  - \$140 billion
  - \$130 billion

**Answer: A**

Year	Nominal GDP (billions of dollars)	Real GDP (billions of 2000 dollars)	GDP deflator
2003		90	120
2004	125		125

**Topic: Real and Nominal GDP****Level 3: Calculations and Predictions**

175) Use the information in the table above to calculate nominal GDP in 2003.

- A) \$75 billion
- B) \$0.75 billion
- C) \$10,800 billion
- D) \$108 billion

**Answer: D**

**Topic: Real and Nominal GDP****Level 3: Calculations and Predictions**

176) Use the information in the table above to calculate real GDP in 2004.

- A) \$1 billion
- B) \$100 billion
- C) \$156.25 billion
- D) \$95 billion

**Answer: B**

**Topic: GDP Growth Rate****Level 3: Calculations and Predictions**

177) If real GDP in 2003 is \$9 trillion and real GDP in 2004 is \$9.27 trillion, then the economic growth rate in 2004 is \_\_\_\_.

- A) 2.7 percent
- B) \$0.27 trillion
- C) 3.0 percent
- D) \$9.27 trillion

**Answer: C**

**Topic: Chain-Weighted Growth Rate****Level 3: Calculations and Predictions**

178) At 2003 prices, the value of production in 2004 was 6 percentage points higher than in 2003. At 2004 prices, the value of production in 2004 was 4 percentage points higher than in 2003. Using the chain-weighted output index, real GDP is \_\_\_\_ in 2004 than in 2003.

- A) 10 percent greater
- B) 5 percent greater
- C) 7.5 percent greater
- D) 4 percent smaller

**Answer: B**

**Topic: Expenditure Approach****Level 4: Advanced Calculations and Predictions**

179) In 2004, the country of Nerf had its imports equal its exports. Nerf's GDP was \$500 million, its consumer expenditure was \$380 million, and its investment was \$20 million. Nerf's government purchases were \_\_\_\_.

- A) \$100 million
- B) \$900 million
- C) \$500 million
- D) zero

**Answer: A**

**Topic: Financing Investment****Level 4: Advanced Calculations and Predictions**

180) Last year in the country of More, government purchases of goods and services were \$20 million and the government had a budget deficit of \$3 million. Consumption expenditure was \$7 million, and there was dissaving of \$2 million. GDP in More was \_\_\_\_.

- A) \$28 million
- B) \$32 million
- C) \$22 million
- D) \$26 million

**Answer: C**

**Topic: Financing Investment****Level 4: Advanced Calculations and Predictions**

181) The country of Erdf has net exports of \$5 million. Government purchases of goods and services are \$15 million and the government has a budget surplus of \$5 million. Investment is \$5 million. Private saving in Erdf is \_\_\_\_.

- A) \$10 million
- B) zero
- C) \$15 million
- D) \$5 million

**Answer: D**

**Topic: Financing Investment****Level 4: Advanced Calculations and Predictions**

- 182) The country of Erdf has net exports of  $-\$5$  million. Government purchases of goods and services are  $\$15$  million and the government has a budget surplus of  $\$5$  million. Investment is  $\$5$  million. National saving in Erdf is \_\_\_\_.
- $\$10$  million
  - $\$15$  million
  - $\$5$  million
  - $-\$5$  million

**Answer: A****Topic: Financing Investment****Level 4: Advanced Calculations and Predictions**

- 183) If the government has a budget surplus and saving is equal to investment, then \_\_\_\_.
- aggregate expenditure does not equal aggregate income
  - imports exceed exports
  - imports equal exports
  - imports are less than exports

**Answer: D****Topic: Income Approach****Level 4: Advanced Calculations and Predictions**

- 184) In the country of Darrowby, net domestic income at factor cost is  $\$2.0$  million. Gross domestic product is  $\$3.0$  million, and depreciation is  $\$0.5$  million. Indirect taxes less subsidies \_\_\_\_.
- are  $\$1$  million
  - are  $\$0.5$  million
  - cannot be calculated
  - are  $-\$0.5$  million

**Answer: B****Topic: Household Production****Level 4: Advanced Calculations and Predictions**

- 185) Real GDP fluctuations tend to \_\_\_\_ fluctuations in total production because household production \_\_\_\_.
- overstate; increases during a recession and decreases during an expansion
  - overstate; decreases during a recession and increases during an expansion
  - understate; decreases during a recession and increases during an expansion
  - understate; increases during a recession and decreases during an expansion

**Answer: A****Topic: Chain-Weighted Growth Rate****Level 4: Advanced Calculations and Predictions**

- 186) Real GDP in 2003 is  $\$10$  trillion. Between 2003 and 2004, using 2003 prices, GDP grew 3 percent and using 2004 prices real GDP grew 7 percent. Using the chain-weighted output index method, real GDP in 2004 is \_\_\_\_ trillion.
- $\$10.5$
  - $\$11$
  - $\$10.1$
  - $\$12.72$

**Answer: A****Topic: Expenditure Equals Income****Level 4: Advanced Calculations and Predictions**

- 187) Choose the best statement.
- GDP equals aggregate expenditure and equals aggregate income.
  - An increase in government purchases increases aggregate expenditure but does not change GDP.
  - An increase in compensation of employees increases aggregate income but does not change GDP.
  - GDP always equals aggregate expenditure and sometimes equals aggregate income.

**Answer: A****Topic: GDP Growth Rate****Level 4: Advanced Calculations and Predictions**

- 188) In the country of Kemper, real GDP in 2003 was  $\$5$  billion and real GDP in 2004 was  $\$5.5$  billion. The economic growth rate in 2004 was \_\_\_\_.
- 16.7 percent a year
  - $\$0.5$  billion
  - 10 percent a year
  - 1 percent a year

**Answer: C**



# 6 MONITORING CYCLES, JOBS, AND THE PRICE LEVEL\*

## ■ The Business Cycle

**Topic: Business Cycle**

**Skill: Recognition**

- 1) A business cycle is the
  - A) pattern of short-run upward and downward movements in production and jobs.
  - B) increase in consumer spending that accompanies an increase in disposable income.
  - C) cyclical change in the nation's balance of trade.
  - D) cyclical movement in the interest rates.

**Answer: A**

**Topic: Business Cycle**

**Skill: Recognition**

- 2) Which of the following are parts of the business cycle?
  - A) Peak and potential GDP
  - B) Real GDP and potential GDP
  - C) Recession and expansion
  - D) Inflation and Recession

**Answer: C**

**Topic: Business Cycle**

**Skill: Recognition**

- 3) A popular working definition of a recession is
  - A) a period during which real GDP increases for at least two successive quarters.
  - B) the lower turning point of a business cycle.
  - C) the upper turning point of a business cycle.
  - D) a period during which real GDP decreases for at least two successive quarters.

**Answer: D**

**Topic: Business Cycle**

**Skill: Recognition**

- 4) A popular working definition of a recession is a period with
  - A) negative growth rate in real GDP that lasts at least one quarter.
  - B) positive growth rate in real GDP that lasts at least one quarter.
  - C) positive growth rate in real GDP that lasts at least two quarters.
  - D) negative growth rate in real GDP that lasts at least two quarters.

**Answer: D**

**Topic: Business Cycle**

**Skill: Recognition**

- 5) By the popular working definition, a recession occurs when
  - A) the international deficit worsens for at least two successive quarters.
  - B) the government budget deficit exceeds the national debt.
  - C) the inflation rate exceeds 3.5 percent.
  - D) real GDP decreases for at least two successive quarters.

**Answer: D**

**Topic: Business Cycle**

**Skill: Analytical**

- 6) By the popular working definition, recessions occur
  - A) whenever unemployment increases.
  - B) when growth in real GDP decreases for two consecutive quarters.
  - C) when growth in real GDP is negative for two consecutive quarters.
  - D) when the unemployment rate exceeds 6 percent.

**Answer: B**

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\* This is Chapter 22 in *Economics*.

**Topic: Business Cycle****Skill: Analytical**

- 7) GDP declines during
- the movement from trough to peak.
  - the movement from below potential GDP back to potential GDP.
  - the movement from peak to trough.
  - a decrease in unemployment.

**Answer: C****Topic: Business Cycle****Skill: Recognition**

- 8) A trough is the
- lower turning point of a business cycle when an expansion begins.
  - lower turning point of a business cycle when a recession begins.
  - upper turning point of a business cycle when an expansion begins.
  - upper turning point of a business cycle when a recession begins.

**Answer: A****Topic: Business Cycle****Skill: Recognition**

- 9) What term is used to describe the lowest point of a business cycle?
- peak
  - trough
  - expansion
  - recession

**Answer: B****Topic: Business Cycle****Skill: Recognition**

- 10) The bottom or low point of a recession just before an expansion begins is called
- the trough.
  - the contraction.
  - the peak.
  - the pits.

**Answer: A****Topic: Business Cycle****Skill: Recognition**

- 11) An expansion occurs when production of goods and services is
- increasing.
  - decreasing.
  - at a cyclical peak.
  - at a cyclical trough.

**Answer: A****Topic: Business Cycle****Skill: Conceptual**

- 12) Suppose the country of Dingo experienced an economic trough in January 2004. We can conclude that
- real GDP in Dingo was increasing in January 2004.
  - an expansion occurred after January 2004.
  - Dingo did not experience a recession in 2003.
  - Dingo's potential GDP fell in 2004.

**Answer: B****Topic: Business Cycle****Skill: Conceptual**

- 13) An observer of the economy notices that over the last nine months the unemployment rate has increased from 5.6 percent to 8.7 percent. During the same time the rate of growth in real gross domestic product has become negative. From this information we might conclude that
- inflation is probably rampant in this economy.
  - a recession is occurring in this economy.
  - an expansionary phase of the business cycle is in process.
  - a peak in the business cycle will soon be reached.

**Answer: B****Topic: Business Cycle****Skill: Recognition**

- 14) A peak is the
- lower turning point of a business cycle when an expansion ends.
  - lower turning point of a business cycle when a recession ends.
  - upper turning point of a business cycle when an expansion ends.
  - upper turning point of a business cycle when a recession ends.

**Answer: C****Topic: Business Cycle****Skill: Recognition**

- 15) Between the trough and the peak of the business cycle the economy
- experiences rising unemployment.
  - is in an economic expansion.
  - experiences falling real GDP.
  - is in an economic recession.

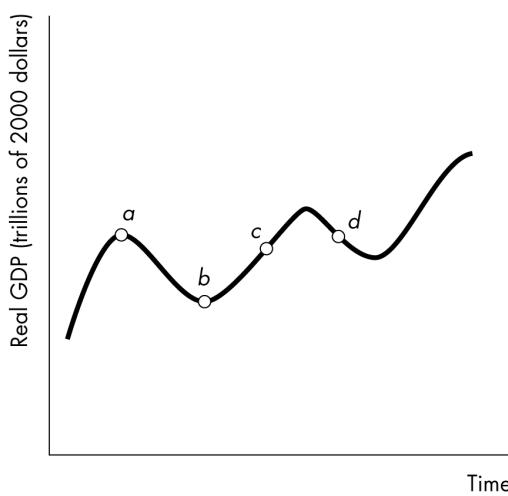
**Answer: B**

**Topic: Business Cycle****Skill: Recognition**

- 16) Recessions
- begin at the trough of the business cycle.
  - are an economy-wide decrease in the level of economic activity.
  - end at the peak of the business cycle.
  - have not occurred in the United States after 1963.

**Answer: B****Topic: Business Cycle****Skill: Recognition**

- 17) Which of the following is a correct statement about business cycles?
- Expansions follow peaks.
  - Expansions tend to last longer than recessions.
  - The increase in real GDP from trough to peak is typically less than the decrease in real GDP from peak to trough.
  - To count as a period of recession, real GDP must decrease for at least 1 year.

**Answer: D****Topic: Business Cycle****Skill: Analytical**

- 18) In the above figure, a recession begins at point \_\_\_\_ and an expansion begins at point \_\_\_\_.
- $a; b$
  - $b; c$
  - $b; a$
  - $d; c$

**Answer: A****Topic: Business Cycle****Skill: Analytical**

- 19) In the above figure, a trough is at point \_\_\_\_ and a peak is at point \_\_\_\_.
- $a; b$
  - $b; c$
  - $b; a$
  - $d; c$

**Answer: C****Jobs and Wages****Topic: Population Survey****Skill: Recognition**

- 20) The working-age population is defined as the number of
- people over the age of 16 who are not in jail, hospital, or other institution.
  - people who have a job.
  - people working full-time jobs who are over the age of 16.
  - people looking for work.

**Answer: A****Topic: Population Survey****Skill: Recognition**

- 21) The working-age population can be divided into two groups,
- people in the labor force and people looking for work.
  - people in the labor force and people with a job.
  - people looking for work and those in the armed forces.
  - people in the labor force and people who are not in the labor force.

**Answer: D****Topic: Working Age Population****Skill: Conceptual**

- 22) Suppose the working age population in Tiny Town is 100 people. If 25 of these people are NOT in the labor force, the \_\_\_\_ equals \_\_\_\_.
- unemployment rate;  $25/100 \times 100$
  - unemployment rate;  $25/125 \times 100$
  - labor force; 75
  - labor force;  $25/100 \times 100$

**Answer: C**

**Topic: Population Survey****Skill: Recognition**

- 23) The labor force is the sum of
- the working-age population and the number of unemployed people.
  - the number of employed people and the working-age population.
  - the number of employed people and the number of unemployed people.
  - the total population and the number of unemployed people.

**Answer: C****Topic: Population Survey****Skill: Recognition**

- 24) The labor force is defined as the number of people who
- are employed plus the number of people who are unemployed.
  - are available and looking for work but are unable to find employment.
  - would like to have a job but have stopped seeking work.
  - would like to have a full-time job but are working part-time.

**Answer: A****Topic: Population Survey****Skill: Analytical**

- 25) Unemployment as measured includes the total number of people who
- have jobs or are currently looking for jobs.
  - are available and looking for work but unable to find employment.
  - would like to have a job but have stopped seeking work.
  - would like to have a full-time job but are working part-time.

**Answer: B****Topic: Population Survey****Skill: Conceptual**

- 26) Which of the following people would be counted as employed in the Current Population Survey?
- Rich, who is working 20 hours a week but wants a full-time job.
  - Misty, who just quit her job to return full-time to school.
  - April, who just graduated from college and is looking for work.
  - Jason, who was laid off from work less than 6 months ago but who has stopped looking for work.

**Answer: C****Topic: Labor Force****Skill: Conceptual**

- 27) Which of the following is NOT considered to be in the labor force?
- A student who works part-time.
  - A person who is not working but who has tried to find a job in the past week.
  - A person who is waiting to start a new job in the next 30 days.
  - A person who is not working and who has not tried to find a job.

**Answer: D****Topic: Population Survey****Skill: Conceptual**

- 28) Which of the following people is NOT considered unemployed in the Current Population Survey?
- The person has just finished school and has entered the labor force to look for work.
  - The person has been laid off and is looking for a new job.
  - The person is looking for work after not doing so for a time.
  - The person is discouraged about finding a job and so does not search for work.

**Answer: D**

**Topic: Population Survey****Skill: Conceptual**

- 29) Which of the following people would NOT be counted as unemployed in the Current Population Survey?
- The person has no job and has made an effort to find work in the last four weeks.
  - The person is awaiting recall to a job after being laid off.
  - The person is without a job and is making no effort to find work.
  - The person is waiting to start a new job in thirty days.

**Answer: C****Topic: Unemployment Rate****Skill: Recognition**

- 30) The unemployment rate is calculated as 100 times
- $[(\text{labor force}) \div (\text{population})]$ .
  - $[(\text{unemployment}) \div (\text{population})]$ .
  - $[(\text{unemployment}) \div (\text{labor force})]$ .
  - $[(\text{labor force}) \div (\text{unemployment})]$ .

**Answer: C****Topic: Unemployment Rate****Skill: Recognition**

- 31) The unemployment rate equals
- (number of people employed/working age population)  $\times 100$ .
  - (number of people unemployed/labor force)  $\times 100$ .
  - (labor force/working age population)  $\times 100$ .
  - (number of people employed/number of people age 16 and over)  $\times 100$ .

**Answer: B****Topic: Unemployment Rate****Skill: Conceptual**

- 32) The unemployment rate
- measures the percentage of people who want full-time jobs, but can't find them.
  - measures the percentage of the working-age population who can't find a job.
  - measures the percentage of people in the labor force who can't find a job.
  - measures the percentage of the working age population that can't find a full-time job.

**Answer: C****Topic: Unemployment Rate****Skill: Conceptual**

- 33) Suppose the population of Tiny Town is 100 people and the working age population is 70. If 10 of these people are unemployed, the unemployment rate in Tiny Town is
- 10 percent.
  - $10/70 \times 100$ .
  - $10/80 \times 100$ .
  - There is not enough information provided to calculate the unemployment rate.

**Answer: D****Topic: Unemployment Rate****Skill: Conceptual**

- 34) The population of Tiny Town is 100 people and the labor force is made up of 75 people. If 5 of these people are unemployed, the unemployment rate is
- $5/100 \times 100$ .
  - $5/80 \times 100$ .
  - $5/75 \times 100$ .
  - There is not enough information provided to calculate the unemployment rate.

**Answer: C****Topic: Unemployment Rate****Skill: Conceptual**

- 35) Based on the following data for the country of Tiny Town, the unemployment rate equals
- Population = 100  
 Labor force = 80  
 Number of employed persons = 70  
 Number of discouraged workers = 5
- $10/100 \times 100$ .
  - $10/80 \times 100$ .
  - $15/80 \times 100$ .
  - $5/70 \times 100$ .

**Answer: B**

**Topic: Discouraged Workers****Skill: Conceptual**

- 36) Which of the following will decrease the unemployment rate?
- Discouraged workers leave the labor force.
  - More women enter the labor force and seek jobs.
  - Young people graduate from college and start to look for their first full-time job.
  - None of the above because they all increase or do not change the unemployment rate.

**Answer: A**

Person A	Now that the kids are in school for a full day, this person is looking for work and has interviewed for three jobs during the past two weeks.
Person B	This person has been laid off from a job but expects to be called back as soon as the economy improves.
Person C	This person has just graduated from college and will start a new job in three weeks. In the meantime this person will tour the great American beaches.
Person D	This person was laid off last year when new equipment was installed at the plant, reducing the number of workers needed. Shortly after being laid off, this person looked for a new job, was unable to find one, and then stopped looking for work.

**Topic: Population Survey****Skill: Conceptual**

- 37) The above table shows answers given by people interviewed in a government survey of households. Which individuals are considered to be a part of the labor force?
- C and D.
  - B, C, and D.
  - A, C, and D.
  - A, B, and C.

**Answer: D****Topic: Population Survey****Skill: Conceptual**

- 38) The above table shows answers given by people interviewed in a government survey of households. Which individuals are considered unemployed?
- A, B, and C.
  - B, C, and D.
  - A, C, and D.
  - C and D.

**Answer: A****Topic: Discouraged Workers****Skill: Conceptual**

- 39) The above table shows answers given by people interviewed in a government survey of households. Which person is a discouraged worker?
- A.
  - B.
  - C.
  - D.

**Answer: D**

Total population (millions)	Currently employed (millions)	Not working and looking for work (millions)	Want to work but no longer looking for work (millions)
80	40	2	4

**Topic: Population Survey****Skill: Analytical**

- 40) In the table above, the size of the labor force is
- 80 million.
  - 46 million.
  - 42 million.
  - 40 million.

**Answer: C****Topic: Population Survey****Skill: Analytical**

- 41) In the table above, the number of people officially unemployed is \_\_\_\_.
- 40 million.
  - 6 million.
  - 4 million.
  - 2 million.

**Answer: D**

**Topic: Unemployment Rate****Skill: Analytical**

- 42) In the table above, the unemployment rate is
- 50 percent.
  - 15 percent.
  - 10 percent.
  - 5 percent.

**Answer: D****Topic: Labor Force Participation Rate****Skill: Recognition**

- 43) The labor force participation rate is the ratio of
- (the labor force divided by the working-age population) multiplied by 100.
  - (the number of unemployed divided by the working-age population) multiplied by 100.
  - (the labor force divided by the total population) multiplied by 100.
  - (the number of unemployed divided by the labor force) multiplied by 100.

**Answer: A****Topic: Labor Force Participation Rate****Skill: Recognition**

- 44) The labor force participation rate is calculated as the
- labor force divided by the number of persons employed then multiplied by 100.
  - number of persons unemployed divided by the labor force then multiplied by 100.
  - labor force divided by the unemployment rate then multiplied by 100.
  - labor force divided by the working age population then multiplied by 100.

**Answer: D****Topic: Labor Force Participation Rate****Skill: Analytical**

- 45) If the labor force participation rate is rising and the working-age population is not changing, then the
- size of the labor force is rising.
  - number of unemployed people is rising and the size of the labor force is falling.
  - size of the labor force is falling.
  - number of unemployed people is falling and the size of the labor force is rising.

**Answer: A****Topic: Labor Force Participation Rate****Skill: Conceptual**

- 46) Suppose the labor force in Tiny Town is 100 people. If the \_\_\_\_\_ in Tiny Town is 150 people, the labor force participation rate equals 100 times \_\_\_\_\_.
- working age population;  $100/150$
  - working age population;  $100/250$
  - number of employed persons;  $100/250$
  - number of employed persons;  $100/150$

**Answer: A****Topic: Labor Force Participation Rate****Skill: Recognition**

- 47) Over the last 30 years, the labor force participation rates of men
- increased and the labor force participation rates of women decreased.
  - decreased and the labor force participation rates of women increased.
  - increased and the labor force participation rates of women increased.
  - decreased and the labor force participation rates of women decreased.

**Answer: B****Topic: Employment-to-Population Ratio****Skill: Recognition**

- 48) The employment-to-population ratio is the ratio of the number of
- unemployed people divided by the total population, then multiplied by 100.
  - employed people divided by the working-age population, then multiplied by 100.
  - employed people divided by the total population, then multiplied by 100.
  - unemployed people divided by the working age population, then multiplied by 100.

**Answer: B****Topic: Employment-to-Population Ratio****Skill: Conceptual**

- 49) Which labor market statistic tends rise during recessions and fall during expansions?
- The unemployment rate.
  - The labor-force participation rate.
  - The employment-to-population ratio.
  - Aggregate hours.

**Answer: A**

**Topic: Employment-to-Population Ratio****Skill: Analytical**

- 50) Suppose the number of people employed is 25 million and the number of people in the labor force is 75 million. What is the employment-to-population ratio?
- 33 percent.
  - 25 percent.
  - 75 percent.
  - There is not enough information given to answer the question.

**Answer: D****Topic: Employment-to-Population Ratio****Skill: Analytical**

- 51) Based on the following data for the country of Tiny Town, the employment-to-population ratio equals 100 times

$$\text{Population} = 200$$

$$\text{Working age population} = 100$$

$$\text{Labor Force} = 90$$

$$\text{Number of employed persons} = 75$$

- $90/100$ .
- $75/200$ .
- $90/200$ .
- $75/100$ .

**Answer: D****Topic: Employment-to-Population Ratio****Skill: Recognition**

- 52) Over the last thirty years, the labor force participation rate \_\_\_\_ and the employment-to-population ratio \_\_\_\_.
- increased; increased
  - increased; decreased
  - decreased; increased
  - decreased; decreases

**Answer: A**

Category	Number (millions)
Discouraged workers	15
Unemployed workers	40
Employed workers	100
Population (16 years and over)	225

**Topic: Population Survey****Skill: Analytical**

- 53) In the above table, the working age population is
- 225 million.
  - 100 million.
  - 140 million.
  - 155 million.

**Answer: A****Topic: Population Survey****Skill: Analytical**

- 54) In the above table, the size of the labor force is
- 210 million.
  - 155 million.
  - 140 million.
  - 100 million.

**Answer: C****Topic: Unemployment Rate****Skill: Analytical**

- 55) In the above table, the unemployment rate is
- 6 percent.
  - 24 percent.
  - 18 percent.
  - 29 percent.

**Answer: D****Topic: Labor Force Participation Rate****Skill: Analytical**

- 56) In the above table, the labor force participation rate is
- 55 percent.
  - 44 percent.
  - 62 percent.
  - 69 percent.

**Answer: C****Topic: Employment-to-Population Ratio****Skill: Analytical**

- 57) In the above table, the employment-to-population ratio is
- 51 percent.
  - 42 percent.
  - 62 percent.
  - 44 percent.

**Answer: D**

Component	Number of people (millions)
Under 16	50
Working full-time	90
Working part-time	30
Retired	40
Unemployed	5

**Topic: Unemployment Rate****Skill: Analytical**

- 58) Using the data in the above table, the unemployment rate is
- 4.0 percent.
  - 4.16 percent.
  - 5.55 percent.
  - 28.0 percent.

**Answer: A****Topic: Labor Force****Skill: Analytical**

- 59) Using the data in the above table, the labor force is \_\_\_\_ million.
- 215
  - 120
  - 125
  - 165

**Answer: C****Topic: Labor Force Participation Rate****Skill: Analytical**

- 60) Using the data in the above table, the labor force participation rate is
- 66 percent.
  - 58.1 percent.
  - 75.7 percent.
  - 96.0 percent.

**Answer: C**

Component	Number of people
Total population	2600
Working-age population	2000
Not in labor force	500
Employed	1300

**Topic: Population Survey****Skill: Analytical**

- 61) Using the information in the table above, calculate the number of people in the labor force.
- 2500.
  - 2100.
  - 1500.
  - 800.

**Answer: C****Topic: Unemployment Rate****Skill: Analytical**

- 62) Using the information in the table above, calculate the unemployment rate.
- 53.3 percent.
  - 30.8 percent.
  - 13.3 percent.
  - 7.7 percent.

**Answer: C****Topic: Employment-to-Population Ratio****Skill: Analytical**

- 63) Using the information in the table above, calculate the employment-to-population ratio.
- 75 percent.
  - 65 percent.
  - 50 percent.
  - 23.2 percent.

**Answer: B**

Component	Number of people (millions)
Total population	246
Working-age population	207
Labor force	139
Employed	133
Unemployed	6

**Topic: Unemployment Rate****Skill: Quantitative**

- 64) Using the information in the above table, the unemployment rate is
- 4.5 percent.
  - 4.3 percent.
  - 2.8 percent.
  - 6.0 percent.

**Answer: B****Topic: Labor Force Participation Rate****Skill: Quantitative**

- 65) The labor force participation rate is
- 67.1 percent.
  - 64.0 percent.
  - 95.7 percent.
  - 56 percent.

**Answer: A****Topic: Employment-to-Population Ratio****Skill: Quantitative**

- 66) The employment-to-population ratio is
- 67 percent.
  - 64 percent.
  - 50 percent.
  - 62 percent.

**Answer: B****Topic: Aggregate Hours****Skill: Recognition**

- 67) Over the last thirty years, average hours per worker decreased because the number of hours worked by full-time workers \_\_\_\_ and because the number of part-time jobs increased \_\_\_\_ than the number of full-time jobs.
- increased; faster
  - increased; slower
  - decreased; faster
  - decreased; slower

**Answer: C****Topic: Aggregate Hours****Skill: Recognition**

- 68) Aggregate hours
- are the total number of hours worked by people holding full time jobs.
  - are the total number of hours worked by all people employed.
  - are the total number of hours worked by all people age 21 and over.
  - have decreased over the last thirty years.

**Answer: B****Topic: Aggregate Hours****Skill: Recognition**

- 69) Which of the following best measures the total amount of labor used to produce GDP?
- The total number of people employed.
  - The total number of people employed full time.
  - The total hours worked by full time employees.
  - The total hours worked by full and part time employees.

**Answer: D****Topic: Aggregate Hours****Skill: Recognition**

- 70) Over the last 30 years, aggregate hours
- have increased at the same rate as the labor force participation rate.
  - have an upward trend.
  - have a downward trend.
  - have decreased because the average hours per worker has decreased.

**Answer: B****Topic: Aggregate Hours****Skill: Recognition**

- 71) Since 1963 in the United States, aggregate hours have \_\_\_\_ and average weekly hours per person has \_\_\_\_.
- increased over time; increased over time
  - decreased over time; varied over the business cycle
  - varied over the business cycle; increased over time
  - increased over time; decreased over time

**Answer: D**

**Topic: Aggregate Hours****Skill: Recognition**

- 72) During the past 3 recessions in the United States, aggregate hours have \_\_\_\_ and average hours per worker have \_\_\_\_.
- decreased; decreased
  - decreased; increased
  - increased; increased
  - increased; decreased

**Answer: A****Topic: Aggregate Hours****Skill: Conceptual**

- 73) If aggregate hours worked grows more slowly than the number of people employed then
- people are working fewer hours on average.
  - people are working more hours on average.
  - there must be fewer part time workers.
  - None of the above are correct because aggregate hours cannot grow more slowly than the number of people employed.

**Answer: A****Topic: Wage Rates****Skill: Recognition**

- 74) The money wage rate is the same as
- the dollar wage in 1992 dollars.
  - the real wage rate.
  - the number of dollars per hour of work.
  - real disposable income.

**Answer: C****Topic: Wage Rates****Skill: Recognition**

- 75) The real wage rate is
- the money wage divided by the price level.
  - the money wage multiplied by the price level.
  - the money wage rate divided by the number of employed workers.
  - None of the above answers are correct.

**Answer: A****Topic: Wage Rates****Skill: Conceptual**

- 76) The money wage rate equals \$10 per hour. If the price level rises and the money wage does not change,
- the real wage decreases.
  - the quantity of goods and services that an hour of work can buy decreases.
  - the real wage increases.
  - Both answers A and B are correct.

**Answer: D****Topic: Wage Rates****Skill: Conceptual**

- 77) The real wage rate
- has increased substantially over the past 30 years regardless of which measure is used.
  - has decreased over the past 10 years regardless of which measure is used.
  - has increased or remained about constant over the last 30 years, depending on the measure used.
  - includes only the actual salary paid and not the fringe benefits.

**Answer: C**

## ■ Unemployment and Full Employment

**Topic: Sources of Unemployment****Skill: Recognition**

- 78) Job losers are people who
- are laid off permanently or temporarily.
  - quit a job to look for something better.
  - enter the labor force for the first time.
  - reenter the labor force after many years.

**Answer: A****Topic: Sources of Unemployment****Skill: Conceptual**

- 79) Suppose Andy is laid off from the automobile plant because of slow automobile sales. Andy is looking for a new job. Andy is considered
- a discouraged worker.
  - a job loser.
  - a job leaver.
  - not in the labor force.

**Answer: B**

**Topic: Sources of Unemployment****Skill: Recognition**

- 80) Job leavers are people who
- are laid off permanently or temporarily.
  - quit a job to look for something better.
  - enter the labor force for the first time.
  - reenter the labor force after many years.

**Answer: B****Topic: Sources of Unemployment****Skill: Conceptual**

- 81) Suppose Sophie quit her job at the Soda Shop to look for a better job. Sophie is considered
- a discouraged worker.
  - a job loser.
  - a job leaver.
  - not in the labor force.

**Answer: C****Topic: Sources of Unemployment****Skill: Conceptual**

- 82) Most unemployed people are unemployed because they are
- job leavers.
  - job losers.
  - reentrants into the labor force.
  - new entrants into the labor force.

**Answer: B****Topic: Sources of Unemployment****Skill: Recognition**

- 83) The smallest and most stable source of unemployment is
- job leavers.
  - job losers.
  - reentrants into the labor force.
  - new entrants into the labor force.

**Answer: A****Topic: Duration of Unemployment****Skill: Recognition**

- 84) The duration of unemployment is the length of time a person
- is employed while looking for work.
  - is unemployed while looking for work.
  - is unemployed even though that person is not looking for work.
  - spends working in a job.

**Answer: B****Topic: Duration of Unemployment****Skill: Conceptual**

- 85) The duration of unemployment is
- long when the unemployment rate is low.
  - short when the unemployment rate is high.
  - long when the unemployment rate is high.
  - longer during expansions than during recessions.

**Answer: C****Topic: Duration of Unemployment****Skill: Conceptual**

- 86) The duration of a spell of unemployment
- falls during a recession and rises during an expansion.
  - falls during both recessions and expansions.
  - rises during a recession and falls during an expansion.
  - rises during both recessions and expansions.

**Answer: C****Topic: Duration of Unemployment****Skill: Conceptual**

- 87) The duration of time spent by unemployed people looking for jobs
- rises during recessions and falls during expansions.
  - falls during recessions and rises during expansions.
  - falls during both recessions and expansions.
  - rises during both recessions and expansions.

**Answer: A****Topic: Demographics of Unemployment****Skill: Recognition**

- 88) Which of the following groups has the highest unemployment rate?
- White teenagers.
  - Black teenagers.
  - Blacks, 20 years of age or older.
  - Whites, 20 years of age or older.

**Answer: B****Topic: Demographics of Unemployment****Skill: Recognition**

- 89) Which of the following groups has the lowest unemployment rate?
- White teenagers.
  - Black teenagers.
  - Blacks, 20 years of age or older.
  - Whites, 20 years of age or older.

**Answer: D**

**Topic: Frictional Unemployment****Skill: Recognition**

- 90) Frictional unemployment
- A) includes discouraged workers.
  - B) is voluntary part-time unemployment.
  - C) is unemployment associated with the changing of jobs in a changing economy.
  - D) is unemployment associated with declining industries.

**Answer: C****Topic: Frictional Unemployment****Skill: Conceptual**

- 91) Frictional unemployment is the result of
- A) technological change or foreign competition.
  - B) normal labor market turnover.
  - C) a slowdown in the rate of economic expansion.
  - D) irresponsible workers with poor work habits.

**Answer: B****Topic: Frictional Unemployment****Skill: Conceptual**

- 92) Suppose the country of Tiny Town experienced frictional unemployment. This frictional unemployment would
- A) definitely signal that the country is in a recession.
  - B) be considered a natural occurrence in a growing economy.
  - C) signal that there are more job leavers than job losers.
  - D) signal that the number of discouraged workers is growing.

**Answer: A****Topic: Frictional Unemployment****Skill: Conceptual**

- 93) When a worker quits a job to look for a better job,
- A) structural and cyclical unemployment increase.
  - B) structural unemployment decreases.
  - C) cyclical unemployment increases.
  - D) frictional unemployment increases.

**Answer: D****Topic: Frictional Unemployment****Skill: Conceptual**

- 94) When a woman reenters the labor force and looks for a job after spending time at home raising a child,
- A) cyclical unemployment increases.
  - B) structural unemployment decreases.
  - C) frictional and cyclical unemployment increase.
  - D) frictional unemployment increases.

**Answer: D****Topic: Frictional Unemployment****Skill: Conceptual**

- 95) When a student finishes college and begins looking for work,
- A) cyclical unemployment increases.
  - B) structural unemployment increases.
  - C) frictional unemployment increases.
  - D) frictional and cyclical unemployment increase.

**Answer: C****Topic: Frictional Unemployment****Skill: Conceptual**

- 96) Which of the following most likely would decrease frictional unemployment?
- A) An increase in the number of high school and college graduates.
  - B) Effective Internet-based employment services and job registries.
  - C) An expansion of unemployment compensation benefits.
  - D) All of the above would decrease frictional unemployment.

**Answer: B****Topic: Structural Unemployment****Skill: Recognition**

- 97) Structural unemployment is
- A) associated with the normal changing of jobs in a dynamic economy.
  - B) associated with the general downturns in the economy.
  - C) associated with the general decline of specific industries.
  - D) almost always short-term in nature.

**Answer: C**

**Topic: Structural Unemployment****Skill: Recognition**

- 98) Structural unemployment is the result of
- technological change or foreign competition.
  - normal labor market turnover.
  - a slowdown in the rate of economic expansion.
  - irresponsible workers with poor work habits.

**Answer: A****Topic: Structural Unemployment****Skill: Recognition**

- 99) Structural unemployment
- falls during the expansion phase of the business cycle.
  - falls as the pace of technological progress increases.
  - generally lasts longer than frictional unemployment.
  - falls when the government provides more generous unemployment compensation benefits.

**Answer: C****Topic: Structural Unemployment****Skill: Conceptual**

- 100) When the automobile replaced horse-drawn carriages as the principal means of transportation, firms producing horse-drawn carriages went bankrupt and permanently laid off all their workers, thereby increasing
- frictional unemployment.
  - structural unemployment.
  - frictional and cyclical unemployment.
  - cyclical unemployment.

**Answer: B****Topic: Structural Unemployment****Skill: Conceptual**

- 101) When the economy switches production toward services and away from manufacturing and workers in the manufacturing industry are permanently laid off,
- frictional unemployment decreases.
  - structural unemployment increases.
  - cyclical unemployment increases.
  - frictional and cyclical unemployment increase.

**Answer: B****Topic: Structural Unemployment****Skill: Conceptual**

- 102) Suppose the country of Tiny Town decided to open its borders to free trade. As a result, a number of its workers lost their jobs to international competition and can't find new jobs because their skills don't match what is required for job openings. The workers who lost their jobs would best be considered part of
- frictional unemployment.
  - structural unemployment
  - cyclical unemployment.
  - discouraged workers.

**Answer: B**

Person A	This person has just graduated from high school and is working at a part-time job but wants a full-time job.
Person B	At the age of 45, this person was laid off from the automobile industry when new equipment was installed and the person did not have the skills necessary to use the equipment. This person now is searching to find a new job.
Person C	As a result of this person's spouse being transferred to a job in a new city, this person is looking for a new job.
Person D	This person just graduated from college and is looking for an engineering job. In the meantime, this person is working full-time waiting tables.

**Topic: Population Survey****Skill: Conceptual**

- 103) The above table shows answers given by people interviewed in the Current Population Survey. Which person (people) is (are) considered unemployed?
- A, B C, and D.
  - A, B, and C.
  - B and C.
  - A, B, and C.

**Answer: C**

**Topic: Structural Unemployment****Skill: Conceptual**

- 104) The above table shows answers given by people interviewed in the Current Population Survey. Which person (people) is (are) structurally unemployed?
- A and B.
  - B.
  - C.
  - B and D.

**Answer: B****Topic: Cyclical Unemployment****Skill: Recognition**

- 105) Cyclical unemployment
- is due mainly to job leavers.
  - may increase or decrease during an expansion.
  - occurs when technology improvements change job requirements.
  - fluctuates over the business cycle.

**Answer: D****Topic: Cyclical Unemployment****Skill: Recognition**

- 106) Which type of unemployment increases during a recession?
- Cyclical unemployment.
  - Frictional unemployment.
  - Structural unemployment.
  - The natural rate of unemployment.

**Answer: A****Topic: Cyclical Unemployment****Skill: Recognition**

- 107) Cyclical unemployment
- is always present in an economy.
  - is higher during an expansion.
  - decreases during a recession.
  - fluctuates over the business cycle.

**Answer: D****Topic: Cyclical Unemployment****Skill: Recognition**

- 108) Cyclical unemployment is the result of
- technological change or foreign competition.
  - normal labor market turnover.
  - the business cycle.
  - irresponsible workers with poor work habits.

**Answer: C****Topic: Cyclical Unemployment****Skill: Conceptual**

- 109) If a worker is temporarily laid off because the economy is in a recession,
- frictional unemployment increases.
  - structural unemployment increases.
  - the size of the labor force rises.
  - cyclical unemployment increases.

**Answer: D****Topic: Cyclical Unemployment****Skill: Conceptual**

- 110) If the economy enters an expansion,
- cyclical unemployment increases.
  - structural unemployment increases.
  - cyclical unemployment decreases.
  - structural unemployment decreases.

**Answer: C****Topic: Cyclical Unemployment****Skill: Conceptual**

- 111) Cyclical unemployment
- is the major part of natural rate of unemployment.
  - decreases during economic expansions.
  - rises as a result of increased international competition.
  - falls when unemployment compensation payments are increased.

**Answer: B****Topic: Cyclical Unemployment****Skill: Conceptual**

- 112) Cyclical unemployment \_\_\_\_ during expansions and \_\_\_\_ during recessions.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer: C****Topic: Cyclical Unemployment****Skill: Conceptual**

- 113) Auto and steel workers commonly experience this type of unemployment in a recession.
- Frictional unemployment
  - Cyclical unemployment
  - Structural unemployment
  - Natural rate of unemployment

**Answer: B**

**Topic: Cyclical Unemployment****Skill: Conceptual**

- 114) If the economy enters a recession,
- frictional unemployment increases.
  - structural unemployment decreases.
  - cyclical unemployment increases.
  - the number of workers on layoff decreases.

**Answer: C****Topic: Cyclical Unemployment****Skill: Conceptual**

- 115) Recessions and expansions affect most strongly which type of unemployment?
- Frictional unemployment
  - Structural unemployment
  - Cyclical unemployment
  - Seasonal unemployment

**Answer: C****Topic: Cyclical Unemployment****Skill: Conceptual**

- 116) Mike has just been laid off from his construction job because consumers are not purchasing new homes because of the recession. Mike would be considered to be part of
- structural unemployment.
  - cyclical unemployment.
  - seasonal unemployment.
  - frictional unemployment.

**Answer: B****Topic: Cyclical Unemployment****Skill: Conceptual**

- 117) Bill is a high-school drop out who lost his job in a fast food restaurant when the economy plunged into a recession. After 8 months, Bill is still looking for work. He is an example of
- frictional unemployment.
  - structural unemployment.
  - cyclical unemployment.
  - the natural rate of unemployment

**Answer: C****Topic: Full Employment****Skill: Recognition**

- 118) Full employment occurs when
- structural unemployment is zero.
  - cyclical unemployment is zero.
  - frictional unemployment is zero.
  - cyclical and frictional unemployment are zero.

**Answer: B****Topic: Full Employment****Skill: Recognition**

- 119) Full employment occurs when the
- unemployment rate equals the natural rate of unemployment.
  - structural unemployment rate equals the frictional unemployment rate.
  - natural unemployment rate equals the frictional unemployment rate.
  - cyclical unemployment rate equals the natural rate of unemployment.

**Answer: A****Topic: Full Employment****Skill: Recognition**

- 120) Full employment occurs
- only if the unemployment rate is zero.
  - only if the unemployment rate is equal to the natural rate of unemployment.
  - only if unemployment is equal to structural unemployment plus cyclical unemployment.
  - None of the above answers are correct.

**Answer: B****Topic: Full Employment****Skill: Recognition**

- 121) When the economy is at full employment the
- natural rate of unemployment is equal to 0 percent.
  - natural rate of unemployment equals the unemployment rate.
  - natural rate of unemployment is equal to 10 percent.
  - unemployment rate is equal to 0 percent.

**Answer: B****Topic: Full Employment****Skill: Conceptual**

- 122) Suppose the natural rate of unemployment equals 6 percent and the current unemployment rate is 8 percent. We can conclude that
- there is no structural unemployment.
  - there is no frictional unemployment.
  - there is no cyclical unemployment.
  - full employment is not occurring.

**Answer: D**

**Topic: Full Employment****Skill: Conceptual**

- 123) Full employment means
- zero unemployment.
  - only cyclical unemployment.
  - only frictional and structural unemployment.
  - None of the above answers are correct.

**Answer: C****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 124) The natural rate of unemployment is
- not a fixed percentage of the labor force.
  - occurs when only there is no cyclical unemployment present.
  - the unemployment rate when the economy is at potential GDP.
  - All of the above answers are correct.

**Answer: D****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 125) Over the past two decades, in the United States we have seen
- the natural rate of unemployment steadily increase.
  - the natural rate of unemployment vary over the business cycle.
  - the unemployment rate steadily decline.
  - the natural rate of unemployment decline.

**Answer: D****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 126) The natural rate of unemployment
- falls with an increase in cyclical unemployment.
  - rises with an increase in structural unemployment.
  - rises with an increase in cyclical unemployment.
  - rises with a decrease in frictional unemployment.

**Answer: B****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 127) The unemployment rate is at the natural rate of unemployment when
- frictional unemployment equals zero.
  - structural unemployment equals zero.
  - cyclical unemployment equals zero.
  - all types of unemployment equal zero.

**Answer: C****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 128) The natural rate of unemployment is the unemployment rate that exists when there is no
- structural unemployment.
  - frictional unemployment.
  - cyclical unemployment.
  - cyclical or structural unemployment.

**Answer: C****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 129) When cyclical unemployment is zero,
- frictional unemployment is zero.
  - cyclical and frictional unemployment are zero.
  - structural unemployment is zero.
  - the unemployment rate equals the natural rate of unemployment.

**Answer: D****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 130) Full employment exists when
- there is only frictional and structural unemployment.
  - the economy is at the natural rate of unemployment.
  - there is no cyclical unemployment.
  - All of the above answers are correct.

**Answer: D****Topic: Natural Rate of Unemployment****Skill: Recognition**

- 131) When the economy moves into and out of recessions and expansions, the unemployment rate fluctuates around the
- natural rate of unemployment.
  - structural unemployment rate.
  - cyclical unemployment.
  - frictional unemployment rate.

**Answer: A**

**Topic: Natural Rate of Unemployment****Skill: Analytical**

- 132) Suppose the economy is experiencing frictional unemployment of 1 percent, structural unemployment of 3 percent and cyclical unemployment of 4 percent. What is the natural rate of unemployment?
- 3 percent.
  - 4 percent.
  - 5 percent.
  - 7 percent.

**Answer: B****Topic: Natural Rate of Unemployment****Skill: Analytical**

- 133) Suppose that the natural rate of unemployment is 4.5 percent and the actual rate of unemployment is 3.5 percent. Then cyclical unemployment is
- 1 percent.
  - 1 percent.
  - 8 percent.
  - 0 percent.

**Answer: B****Topic: Natural Rate of Unemployment****Skill: Conceptual**

- 134) The natural rate of unemployment
- estimated to be close to 9 percent in recent years in the United States.
  - is estimated to range between 4 percent and 6 percent in the United States in recent years.
  - is attained whenever the unemployment rate is less than 5 percent because 95 percent employment is considered full employment.
  - occurs when 100 percent of the labor force is employed.

**Answer: B****Topic: Potential GDP****Skill: Recognition**

- 135) Which of the following statements is true?
- Real GDP fluctuates around potential GDP.
  - Potential GDP fluctuates around real GDP.
  - Potential GDP is the same as real GDP.
  - When all of the economy's resources are fully employed, the value of production is called real GDP.

**Answer: A****Topic: Potential GDP****Skill: Conceptual**

- 136) Potential GDP
- measures the actual production from year to year.
  - measures the output that could be produced if the economy is at full employment.
  - is cyclical.
  - Both answers A and C are correct

**Answer: B****Topic: Potential GDP****Skill: Conceptual**

- 137) When the unemployment rate is below the natural rate of unemployment,
- real GDP is greater than potential GDP.
  - real GDP is less than potential GDP.
  - real GDP equals potential GDP.
  - None of the above is possible because it is impossible for the unemployment rate to be less than the natural rate.

**Answer: A****■ The Consumer Price Index****Topic: Consumer Price Index****Skill: Conceptual**

- 138) The consumer price index (CPI)
- compares the cost of the typical basket of goods consumed in period 1 to the cost of a basket of goods typically consumed in period 2.
  - compares the cost in the current period to the cost in a reference base period of a basket of goods typically consumed in the base period.
  - measures the increase in the prices of the goods included in GDP.
  - is the ratio of the average price of a typical basket of goods to the cost of producing those goods.

**Answer: B****Topic: Consumer Price Index****Skill: Analytical**

- 139) If the CPI basket of goods cost \$200 in the reference base period and \$450 in a later year, the CPI in the later year equals
- 225.
  - 250.
  - 300.
  - 450.

**Answer: A**

Year	Price index	Inflation rate (percent)
1	100	
2	117	A
3	125	B
4	120	C
5	D	8.3
6	150	E

**Topic: Inflation Rate****Skill: Analytical**

140) In the table above, what inflation rate belongs in space A?

- A) 17.0 percent.
- B) 6.8 percent.
- C) 8.3 percent.
- D) -4.0 percent.

**Answer: A**

**Topic: Inflation Rate****Skill: Analytical**

141) In the table above, what inflation rate belongs in space B?

- A) 17.0 percent.
- B) 6.8 percent.
- C) 8.3 percent.
- D) -4.0 percent.

**Answer: B**

**Topic: Inflation Rate****Skill: Analytical**

142) In the table above, what inflation rate belongs in space C?

- A) 17.0 percent.
- B) 6.8 percent.
- C) 8.3 percent.
- D) -4.0 percent.

**Answer: D**

**Topic: Inflation Rate****Skill: Analytical**

143) In the table above, what price level belongs in space D?

- A) 125.
- B) 130.
- C) 140.
- D) 145.

**Answer: B**

**Topic: Inflation Rate****Skill: Analytical**

144) In the table above, what inflation rate belongs in space E?

- A) 17.0 percent.
- B) 6.8 percent.
- C) 8.3 percent.
- D) 15.4 percent.

**Answer: D**

**Topic: Inflation Rate****Skill: Analytical**

145) If the CPI was 132.5 at the end of 2003 and 140.2 at the end of 2004, the inflation rate over these two years was

- A) 7.7 percent.
- B) 5.4 percent.
- C) 4.4 percent.
- D) 5.8 percent.

**Answer: D**

**Topic: Inflation Rate****Skill: Analytical**

146) If the CPI was 121.5 at the end of 2004 and 138.3 at the end of 2005, the inflation rate over these two years was

- A) 10.2 percent.
- B) 13.8 percent.
- C) 12.2 percent.
- D) 16.8 percent.

**Answer: B**

**Topic: Inflation Rate****Skill: Analytical**

147) If the CPI was 122.3 at the end of 2004 and 124.5 at the end of 2005, the inflation rate over these two years was

- A) 1.8 percent.
- B) 2.5 percent.
- C) 22.5 percent.
- D) 18.0 percent.

**Answer: A**

**Topic: Inflation Rate****Skill: Analytical**

- 148) If the CPI was 132.5 at the end of 2004 and 137.5 at the end of 2005, the inflation rate over these two years was
- 3.6 percent.
  - 3.8 percent.
  - 5.0 percent.
  - None of the above answers is correct.

**Answer: B****Topic: Inflation Rate****Skill: Analytical**

- 149) In 2004 the Consumer Price Index was equal to 163.8 and in 2005 it was equal to 157.5. What is the inflation rate over this time period?
- 6.3 percent
  - 4.0 percent
  - 3.85 percent
  - 10.1 percent

**Answer: B****Topic: Inflation Rate****Skill: Analytical**

- 150) The Consumer Price Index for country Beta in 2003 was equal to 203.5 and for 2004 it was 199.6. On the basis of this information which of the following statements is true?
- Beta experienced an inflation rate of 3.9 percent.
  - Beta experienced a deflation rate of 3.9 percent.
  - Beta experienced an inflation rate of 1.9 percent.
  - Beta experienced a deflation rate of 1.9 percent.

**Answer: D****Topic: Inflation Rate****Skill: Analytical**

- 151) If the CPI in 2004 was 100 and the CPI in 2005 was 115, the inflation rate was
- 1.5 percent.
  - 15 percent.
  - 100 percent.
  - 115 percent.

**Answer: B****Topic: Biased CPI****Skill: Recognition\***

- 152) The biases in the CPI include the
- old goods, unemployment, and inflation biases.
  - new goods, quality change, and substitution biases.
  - old goods, new goods, and quality change biases.
  - substitution, new goods, and old goods biases.

**Answer: B****Topic: Biased CPI****Skill: Recognition**

- 153) Which of the following means that the CPI overstates the actual inflation rate?
- new goods bias
  - quality change bias
  - outlet substitution bias
  - All of the above cause the CPI to overstate inflation

**Answer: D****Topic: Biased CPI****Skill: Recognition\***

- 154) The biases in the CPI are
- not important since they are so small.
  - important only to economists, not the real world.
  - important since they effect nearly 1/3 of federal government spending.
  - not important although they are large.

**Answer: C****Topic: Biased CPI****Skill: Conceptual\***

- 155) Because of the biases in calculating the CPI, actual inflation is
- accurately measured.
  - less than the measured inflation rate by about 1 percent per year.
  - more than the measured inflation rate by about 1 percent per year.
  - more than the measured inflation rate by about 1 percent per month.

**Answer: B**

**Topic: Biased CPI, Quality Improvement****Skill: Conceptual**

- 156) Price indexes can overstate inflation because they
- omit some quality improvements.
  - do not contain the correct collection of goods purchased by consumers.
  - do not contain the prices of foreign goods.
  - do not contain the prices of services.

**Answer: A****Topic: Biased CPI, Commodity Substitution Bias****Skill: Conceptual**

- 157) The technique currently used to calculate the CPI implicitly assumes that over time consumers buy
- relatively more of goods whose relative prices are rising.
  - relatively less of goods whose relative prices are rising.
  - the same relative quantities of goods as in a base year.
  - goods and services whose quality improves at the rate of growth of real income.

**Answer: C****Topic: Biased CPI, Commodity Substitution Bias****Skill: Recognition**

- 158) Substitution bias in the CPI refers to the fact that the CPI
- takes into account the substitution of goods by consumers when relative prices change.
  - takes no account of the substitution of goods by consumers when relative prices change.
  - substitutes quality changes whenever they occur without taking account of the cost of the quality changes.
  - substitutes relative prices for absolute prices of goods.

**Answer: B****■ Study Guide Questions****Topic: Study Guide Question, Business Cycle****Skill: Recognition**

- 159) Which is the proper order for the business cycle?
- Peak, recession, trough, expansion
  - Peak, trough, expansion, recession
  - Peak, expansion, trough, recession
  - Peak, recession, expansion, trough

**Answer: A****Topic: Study Guide Question, Business Cycle****Skill: Conceptual**

- 160) Suppose that real GDP rises in all four quarters of 2005; thus 2005 would definitely be a year
- of expansion.
  - with a business cycle peak.
  - of recession.
  - with a business cycle trough.

**Answer: A****Topic: Study Guide Question, Population Survey****Skill: Recognition**

- 161) Who of the following is unemployed?
- Rene, a retired chemist.
  - Homer, a full-time student at a vocational school.
  - Kim, a worker on strike from her company for a week.
  - Glenn, a student who just graduated from college *last* week and is currently looking for a job.

**Answer: D****Topic: Study Guide Question, Population Survey****Skill: Conceptual**

- 162) In a country with a working-age population of 150 million, 120 million workers are employed and 10 million workers are unemployed. What is the size of the labor force?
- 150 million.
  - 130 million.
  - 120 million.
  - 10 million.

**Answer: B****Topic: Study Guide Question, Population Survey****Skill: Conceptual**

- 163) In a country with a working-age population of 300 million, 230 million workers are employed and 40 million workers are unemployed. What is the labor force participation rate?
- 100 percent.
  - 90 percent.
  - 65 percent.
  - 5 percent.

**Answer: B**

**Topic: Study Guide Question, Unemployment Rate**  
**Skill: Conceptual**

- 164) In a country with a working-age population of 100 million, 70 million workers are employed and 5 million workers are unemployed. What is the labor force participation rate?
- 70 percent.
  - 5 percent.
  - 75 percent.
  - 7 percent.

**Answer: C**

**Topic: Study Guide Question, Unemployment Rate**

**Skill: Conceptual**

- 165) In a country with a working-age population of 130 million, 90 million workers are employed and 10 million workers are unemployed. What is the unemployment rate?
- 5.0 percent.
  - 7.1 percent.
  - 7.7 percent.
  - 10.0 percent.

**Answer: D**

**Topic: Study Guide Question, Unemployment Rate**

**Skill: Conceptual**

- 166) The unemployment rate generally falls during \_\_\_\_\_ in the business cycle.
- a peak
  - a recession
  - a trough
  - an expansion

**Answer: D**

**Topic: Study Guide Question, Discouraged Workers**  
**Skill: Conceptual**

- 167) If more unemployed workers stop looking for work, the unemployment rate will
- not change.
  - fall.
  - rise.
  - probably change, but in an unpredictable direction.

**Answer: B**

**Topic: Study Guide Question, Natural Rate of Unemployment**

**Skill: Recognition**

- 168) At the natural rate of unemployment, there is no
- frictional unemployment.
  - structural unemployment.
  - cyclical unemployment.
  - unemployment.

**Answer: C**

**Topic: Study Guide Question, Full Employment**

**Skill: Recognition**

- 169) If the economy is at full employment,
- the entire population is employed.
  - the entire labor force is employed.
  - the only unemployment is frictional unemployment plus discouraged workers.
  - real GDP equals potential GDP.

**Answer: D**

**Topic: Study Guide Question, Inflation Rate**

**Skill: Analytical**

- 170) At the end of last year, the CPI equaled 120. At the end of this year, the CPI equals 132. What is the inflation rate over this year?
- 6 percent.
  - 10 percent.
  - 12 percent.
  - None of the above answers are correct because more information is needed to calculate the inflation rate.

**Answer: B**

**Topic: Study Guide Question, Commodity Substitution Bias**

**Skill: Recognition**

- 171) The commodity substitution bias is that
- consumers substitute high-quality goods for low-quality goods.
  - government spending is a good substitute for investment expenditures.
  - national saving and foreign borrowing are interchangeable.
  - consumers decrease the quantity they buy of goods whose relative prices rise and increase the quantity of goods whose relative price falls.

**Answer: D**

## ■ MyEconLab Questions

### Topic: Business Cycle

#### Level I: Definitions and Concepts

- 172) An expansion begins at a \_\_\_\_ and ends at a \_\_\_\_.
- peak; recession
  - trough; peak
  - peak; trough
  - trough; recession

**Answer: B**

### Topic: Population Survey

#### Level I: Definitions and Concepts

- 173) The total number of people aged 16 years and over who are not institutionalized \_\_\_\_.
- equals the number of employed plus unemployed
  - is the working-age population
  - does not include students
  - is the labor force

**Answer: B**

### Topic: Unemployment Rate

#### Level I: Definitions and Concepts

- 174) The unemployment rate is the \_\_\_\_ who are unemployed.
- number of people in the labor force
  - percentage of people in the labor force
  - percentage of people in the country
  - percentage of the working-age population

**Answer: B**

### Topic: Labor Force Participation Rate

#### Level I: Definitions and Concepts

- 175) The labor force participation rate is percentage of the \_\_\_\_ who are in the labor force.
- people under age 65
  - working-age population
  - people over age 16
  - population

**Answer: B**

### Topic: Employment-to-Population Ratio

#### Level I: Definitions and Concepts

- 176) The percentage of the people of working age who have jobs is called the \_\_\_\_.
- labor force
  - inverse of the unemployment rate
  - employment-to-population ratio
  - employment-to-working-age-population ratio

**Answer: B**

### Topic: Wage Rates

#### Level I: Definitions and Concepts

- 177) The \_\_\_\_ wage rate is equal to the \_\_\_\_ wage rate divided by the \_\_\_\_.
- money; real; inflation rate
  - real; money; price level
  - real; money; inflation rate
  - money; real; level of real GDP

**Answer: B**

### Topic: Sources of Unemployment

#### Level I: Definitions and Concepts

- 178) The smallest source of unemployment is \_\_\_\_.
- job losers
  - job leavers
  - retirees
  - discouraged workers

**Answer: B**

### Topic: Natural Rate of Unemployment

#### Level I: Definitions and Concepts

- 179) The natural rate of unemployment \_\_\_\_.
- is the same from year to year
  - is greater than the actual rate of unemployment
  - is the unemployment rate when there is no cyclical unemployment
  - equals zero

**Answer: C**

### Topic: Consumer Price Index

#### Level I: Definitions and Concepts

- 180) The Consumer Price Index is a measure of the average of the prices paid by \_\_\_\_ for a fixed basket of consumer goods and services.
- urban consumers
  - all consumers
  - urban wage earners and clerical workers
  - consumers living in cities with a population greater than 100,000

**Answer: A**

### Topic: Consumer Price Index

#### Level I: Definitions and Concepts

- 181) The Consumer Expenditure Survey is \_\_\_\_.
- updated quarterly
  - undertaken infrequently
  - updated monthly
  - updated annually

**Answer: B**

**Topic: Business Cycle****Level 2: Using Definitions and Concepts**

- 182) Compared to other recessions, the recession of 2001 was
- much more severe than normal.
  - more severe than normal.
  - about the same as usual.
  - more mild than normal.

**Answer: D****Topic: Labor Force Participation Rate****Level 2: Using Definitions and Concepts**

- 183) From 1963 to 2003, the labor force participation rate of women in the United States \_\_\_\_ at a \_\_\_\_ rate than the labor force participation rate of men \_\_\_\_.
- increased; faster; increased
  - increased; faster; decreased
  - decreased; faster; decreased
  - increased; slower; decreased

**Answer: B****Topic: Discouraged Workers****Level 2: Using Definitions and Concepts**

- 184) During a recession, the \_\_\_\_.
- number of aggregate hours worked increases
  - unemployment rate decreases
  - employment-to-population ratio increases
  - number of discouraged workers increases

**Answer: D****Topic: The Sources of Unemployment****Level 2: Using Definitions and Concepts**

- 185) People enter the labor force \_\_\_\_.
- by being hired or recalled
  - when they switch from being unemployed to being employed
  - when their unemployment benefits run out
  - as entrants or reentrants

**Answer: D****Topic: Aggregate Hours****Level 2: Using Definitions and Concepts**

- 186) Between 1963 and 2003, average hours per worker in the United States \_\_\_\_.
- did not change
  - decreased
  - increased
  - hovered at almost 30 hours per week

**Answer: B****Topic: Wage Rates****Level 2: Using Definitions and Concepts**

- 187) Between 1963 and 2003, the real wage rate of private manufacturing nonsupervisory workers \_\_\_\_.
- increased by more than wages and salaries
  - increased
  - showed a downward trend
  - increased by more than wages, salaries, and supplements

**Answer: B****Topic: Aggregate Hours****Level 2: Using Definitions and Concepts**

- 188) Between 1963 and 2003, aggregate hours in the United States \_\_\_\_.
- decreased during expansions
  - decreased
  - increased during recessions
  - decreased during recessions

**Answer: D****Topic: Frictional Unemployment****Level 2: Using Definitions and Concepts**

- 189) Students who leave school in the spring and look for work are one source of \_\_\_\_.
- structural unemployment
  - cyclical unemployment
  - frictional unemployment
  - business-cycle fluctuation

**Answer: C****Topic: Full Employment****Level 2: Using Definitions and Concepts**

- 190) An economy is at full employment when \_\_\_\_.
- the unemployment rate is zero
  - there is no frictional unemployment
  - the unemployment rate equals the natural rate of unemployment
  - there is no structural unemployment

**Answer: C**

**Topic: The Biased CPI, New Goods Bias****Level 2: Using Definitions and Concepts**

- 191) If a new and better good replaced an older and less expensive good, then the price level measured by the CPI \_\_\_\_.
- is lower than the actual price level
  - is higher than the actual price level
  - might be either higher or lower than the actual price
  - is the same as the actual price level because it measures the prices of the actual goods.

**Answer: B****Topic: Structural Unemployment****Level 3: Calculations and Predictions**

- 192) Suppose that the number of jobs in the fishing industry decreases but the number of jobs in the travel industry increases. Initially, \_\_\_\_.
- the economy remains at full employment
  - structural unemployment increases
  - there is a shortage of workers in both sectors
  - cyclical unemployment increases

**Answer: B****Topic: Cyclical Unemployment****Level 3: Calculations and Predictions**

- 193) Cyclical unemployment \_\_\_\_.
- decreases during an expansion
  - grows at the same rate as potential GDP
  - is zero at a business-cycle trough
  - decreases during a recession

**Answer: A****Topic: Population Survey****Level 3: Calculations and Predictions**

- 194) Full-time students and prisoners are \_\_\_\_.
- not in the labor force
  - in the labor force
  - counted as discouraged workers
  - counted as unemployed

**Answer: A****Topic: Employment-to-Population Ratio****Level 3: Calculations and Predictions**

- 195) The \_\_\_\_ fluctuates more than does the \_\_\_\_.
- labor force participation rate; employment-to-population ratio
  - labor force participation rate; unemployment rate
  - employment-to-population ratio; labor force participation rate
  - employment-to-population ratio; unemployment rate

**Answer: C****Topic: Labor Force****Level 3: Calculations and Predictions**

- 196) In an economy, 42 million people are in the labor force, 38 million are employed, and 47 million are of working age. How many people are not in the labor force?
- 19 percent
  - 9 million
  - 5 million
  - 4 million

**Answer: C****Topic: Labor Force****Level 3: Calculations and Predictions**

- 197) In an economy, 19 million people are employed and 3 million are unemployed, but 2 million part-time workers would prefer full-time work. In addition, there are 2 million discouraged workers. How many people are in the labor force?

- 23 million
- 19 million
- 21 million
- 22 million

**Answer: D****Topic: Unemployment Rate****Level 3: Calculations and Predictions**

- 198) In an economy, 23 million people are employed and 2 million are unemployed, but 5 million part-time workers would prefer full-time work. What is the unemployment rate?

- 23.2 percent
- 6.7 percent
- 8 percent
- 25 percent

**Answer: C**

**Topic: Labor Force Participation Rate****Level 3: Calculations and Predictions**

- 199) If the people who take early retirement are not counted in the working-age population, then
- the unemployment rate would be lower.
  - the labor force participation rate would be less.
  - the unemployment rate would be higher.
  - the labor force participation rate would be higher.

**Answer: D****Topic: Labor Force Participation Rate****Level 3: Calculations and Predictions**

- 200) In an economy, 40 million people are employed, 2 million are unemployed, and 8 million are not in the labor force. What is the labor force participation rate?
- 83 percent
  - 84 percent
  - 80 percent
  - 87.5 percent

**Answer: B****Topic: Consumer Price Index****Level 3: Calculations and Predictions**

- 201) The CPI basket contains 400 oranges and 800 pens. In the base year, the price of an orange is \$1.00 and the price of a pen is \$0.75. This year, urban consumers each buy 300 oranges at \$2.00 each and 850 pens at \$1.00 each. The CPI this year is \_\_\_\_.
- 1.60
  - 62.5
  - 160
  - 140

**Answer: C****Topic: Unemployment Rate****Level 4: Advanced Calculations and Predictions**

- 202) If the number of people unemployed and the number of people in the labor force grow at the same rate, then the \_\_\_\_.
- labor force participation rate will decrease
  - unemployment rate will increase
  - unemployment rate will stay the same
  - labor force participation rate will increase

**Answer: C****Topic: Employment-to-Population Ratio****Level 4: Advanced Calculations and Predictions**

- 203) In an economy, 43 million people are employed, 3 million are unemployed, and 4 million are not in the labor force. What is the employment-to-population ratio?
- 86 percent
  - 92 percent
  - 93 percent
  - 6.5 percent

**Answer: B****Topic: Business Cycle****Level 4: Advanced Calculations and Predictions**

- 204) If the unemployment rate falls, the labor force participation rate increases, and the employment-to-population ratio increases, then the economy is most likely in \_\_\_\_.
- an expansion
  - a recession
  - a golden age
  - a trough

**Answer: A****Topic: Wage Rates****Level 4: Advanced Calculations and Predictions**

- 205) In 2003, the money wage rate was \$30.00 an hour and the real wage rate was \$24.00 an hour. In 2004, the money wage rate was \$40.00 an hour and the real wage rate was \$30.00 an hour. In 2003, the GDP deflator was \_\_\_\_ and in 2004 it was \_\_\_\_.
- 125; 133
  - 80; 75
  - 1.25; 1.26
  - 125; 126

**Answer: A****Topic: Natural Rate of Unemployment****Level 4: Advanced Calculations and Predictions**

- 206) When cyclical unemployment increases and other things remain the same, \_\_\_\_.
- the natural rate of unemployment increases
  - the amount of frictional unemployment increases
  - the amount of structural unemployment decreases
  - the natural rate of unemployment does not change

**Answer: D**

Item	2004		2005	
	Quantity	Price	Quantity	Price
Books	10	\$30	8	\$50
Pens	20	\$1	15	\$2

**Topic: Consumer Price Index****Level 4: Advanced Calculations and Predictions**

207) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter's CPI is 2004. What is the cost of the CPI basket in 2004?

- A) \$430
- B) \$335
- C) \$320
- D) \$540

**Answer: C****Topic: Consumer Price Index****Level 4: Advanced Calculations and Predictions**

208) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter's CPI is 2004. What is the CPI in 2004?

- A) 320
- B) 1.00
- C) 3.20
- D) 100

**Answer: D****Topic: Consumer Price Index****Level 4: Advanced Calculations and Predictions**

209) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter's CPI is 2004. What is the cost of the CPI basket in 2005?

- A) \$430
- B) \$335
- C) \$320
- D) \$540

**Answer: D****Topic: Consumer Price Index****Level 4: Advanced Calculations and Predictions**

210) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter's CPI is 2004. What is the CPI in 2005?

- A) 59
- B) 129
- C) 169
- D) 102

**Answer: C****Topic: Inflation Rate****Level 4: Advanced Calculations and Predictions**

211) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter's CPI is 2004. What is the inflation rate in 2005?

- A) 69 percent
- B) zero
- C) 31 percent
- D) 2 percent

**Answer: A**



# AGGREGATE SUPPLY AND AGGREGATE DEMAND\*

## ■ Aggregate Supply

**Topic: Aggregate Supply/Aggregate Demand Model**

**Skill: Recognition**

- 1) The aggregate supply/aggregate demand model is used to help understand all of the following except
  - A) inflation.
  - B) business cycle fluctuations.
  - C) the aggregate value of stock traded in the stock market.
  - D) growth of potential GDP.

**Answer: C**

**Topic: Aggregate Supply Fundamentals**

**Skill: Recognition**

- 2) At any given time, which of the factors in the aggregate supply function,  $Y = F(L, K, T)$ , is NOT fixed?
  - A)  $Y$
  - B)  $L$
  - C)  $K$
  - D)  $T$

**Answer: B**

**Topic: Aggregate Supply Fundamentals**

**Skill: Recognition**

- 3) Which of the following variables does NOT directly influence aggregate production?
  - A) the state of technology
  - B) the quantity of capital
  - C) the quantity demanded
  - D) the quantity of labor

**Answer: C**

**Topic: Aggregate Supply Fundamentals**

**Skill: Conceptual**

- 4) The supply of real GDP is a function of
  - A) the total expenditures of consumers, investors and government.
  - B) the sum of wages, salaries, corporate profits, rents and interest.
  - C) only the state of technology.
  - D) the quantities of labor, capital and the state of technology.

**Answer: D**

**Topic: Aggregate Supply**

**Skill: Recognition**

- 5) The quantity of real GDP supplied \_\_\_\_ the amount of \_\_\_\_.
  - A) increases as; labor input decreases
  - B) decreases as; capital input increases
  - C) decreases as; capital and labor input decreases
  - D) is unaffected by; technology

**Answer: C**

**Topic: Aggregate Supply**

**Skill: Recognition**

- 6) Aggregate supply describes the behavior of
  - A) foreign buyers.
  - B) households.
  - C) government.
  - D) producers.

**Answer: D**

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\* This is Chapter 23 in *Economics*.

**Topic: Aggregate Supply****Skill: Recognition**

- 7) An aggregate supply (*AS*) curve depicts the relationship between
- the price level and nominal GDP.
  - household expenditures and household income.
  - the price level and the aggregate quantity supplied.
  - the price level and the aggregate quantity demanded.

**Answer: C****Topic: Macroeconomic Long Run****Skill: Recognition**

- 8) In the macroeconomic long run,
- GDP always is below potential GDP.
  - there is full employment with no unemployment.
  - output always is above potential GDP.
  - there is full employment and real GDP is equal to potential GDP.

**Answer: D****Topic: Macroeconomic Long Run****Skill: Recognition**

- 9) The quantity of real GDP supplied at full employment is called
- hypothetical GDP.
  - short-run equilibrium GDP.
  - potential GDP.
  - all of the above.

**Answer: C****Topic: Macroeconomic Long Run****Skill: Conceptual**

- 10) At potential GDP
- there is no unemployment but there is not necessarily full employment.
  - there is no unemployment and there is full employment.
  - unemployment is at its natural rate.
  - None of the above are correct.

**Answer: C****Topic: Long-Run Aggregate Supply****Skill: Recognition**

- 11) The long-run aggregate supply (*LAS*) curve
- has a positive slope.
  - has a negative slope.
  - is vertical.
  - is horizontal.

**Answer: C****Topic: Long-Run Aggregate Supply****Skill: Recognition**

- 12) In the long-run
- the aggregate supply curve is upward sloping.
  - real GDP is equal to potential GDP.
  - aggregate supply depends on the price level.
  - All of the above answers are correct.

**Answer: B****Topic: Long-Run Aggregate Supply****Skill: Recognition**

- 13) In the macroeconomic long run,
- real GDP = potential GDP.
  - the economy is at full employment.
  - regardless of the price level, the economy is producing at potential GDP.
  - All of the above are correct.

**Answer: D****Topic: Long-Run Aggregate Supply****Skill: Recognition**

- 14) The long-run aggregate supply curve is \_\_\_\_\_ because along it, as prices rise, the money wage rate \_\_\_\_\_.
- vertical; falls
  - vertical; rises
  - upward sloping; falls
  - upward sloping; stays constant

**Answer: B****Topic: Long-Run Aggregate Supply****Skill: Conceptual**

- 15) The long-run aggregate supply curve illustrates the
- relationship of prices with the level of GDP when real GDP equals potential GDP.
  - relationship of aggregate supply and aggregate demand.
  - amount of products producers offer at various prices when money wages and other resource prices do not change.
  - surpluses, shortages and equilibrium level of GDP.

**Answer: A**

**Topic: Long-Run Aggregate Supply****Skill: Conceptual**

- 16) The long-run aggregate supply curve
- is negatively sloped.
  - is positively sloped.
  - is vertical at the level of potential GDP.
  - is horizontal at the level of potential GDP.

**Answer: C****Topic: Long-Run Aggregate Supply****Skill: Conceptual**

- 17) If the economy is at the natural rate of unemployment,
- real GDP > potential GDP.
  - real GDP < potential GDP.
  - real GDP = potential GDP.
  - All of the above can occur when the economy is at the natural rate of unemployment.

**Answer: C****Topic: Long-Run Aggregate Supply****Skill: Conceptual**

- 18) For movements along the long-run aggregate supply curve,
- potential GDP is dependent on the price level.
  - the prices of goods and services change while the prices of productive resources hold steady.
  - the price level and the money wage rate change in the same proportion.
  - All of the above are correct.

**Answer: C****Topic: Long-Run Aggregate Supply****Skill: Conceptual**

- 19) The long-run aggregate supply curve shows the
- maximum GDP the nation will ever produce.
  - full-employment level of real GDP.
  - level of real GDP associated with a constant price level.
  - level of output for which real GDP equals nominal GDP.

**Answer: B****Topic: Long-Run Aggregate Supply****Skill: Conceptual**

- 20) Which of the following is true about the long-run aggregate supply curve?
- It is vertical at the level of potential GDP.
  - It shows the relationship between the price level and real GDP when wages and other costs are at an equilibrium level.
  - It does not shift in response to temporary changes in aggregate demand.
  - All of the above are true.

**Answer: D****Topic: Macroeconomic Short Run****Skill: Recognition**

- 21) In the macroeconomic short run,
- actual real GDP may be less than or more than potential GDP.
  - the unemployment rate is zero.
  - the economy is always moving away from full employment.
  - actual real GDP always equals potential GDP.

**Answer: A****Topic: Short-Run Aggregate Supply****Skill: Recognition**

- 22) The short-run aggregate supply curve
- is vertical.
  - has a negative slope.
  - has a positive slope.
  - is horizontal.

**Answer: C****Topic: Short-Run Aggregate Supply****Skill: Recognition**

- 23) In the short run, the aggregate supply curve is
- horizontal.
  - vertical.
  - upward sloping.
  - downward sloping.

**Answer: C**

**Topic: Short-Run Aggregate Supply****Skill: Recognition**

- 24) The short-run aggregate supply curve is upward sloping because
- a lower price level creates a wealth effect.
  - lower taxes motivate people to work more.
  - money wages do not immediately change when the price level changes.
  - most business firms operate with long-term contracts for output but not labor.

**Answer: C****Topic: Short-Run Aggregate Supply****Skill: Recognition**

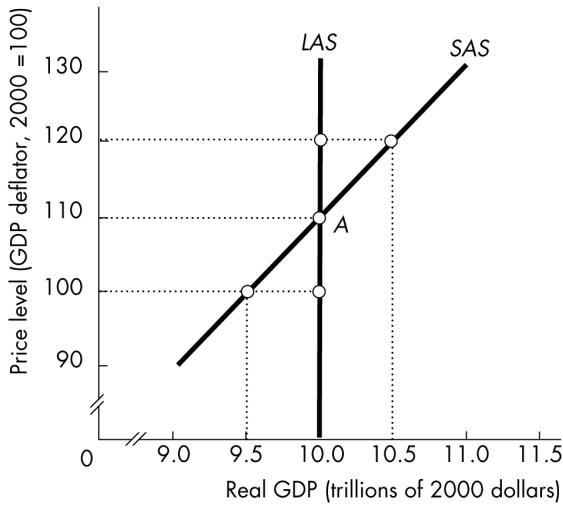
- 25) The short-run aggregate supply curve
- is vertical.
  - shows the impact changes in the price level have on the quantity of real GDP when resource prices are constant.
  - illustrates the level of potential real GDP.
  - shifts because of changes in the price level.

**Answer: B****Topic: Short-Run Aggregate Supply****Skill: Recognition**

- 26) In the short-run
- the aggregate supply curve is upward sloping.
  - real GDP is always equal to potential GDP.
  - the money wage rate can change.
  - the price level does not change.

**Answer: A****Topic: Short-Run Aggregate Supply****Skill: Conceptual**

- 27) The short-run aggregate supply curve is upward sloping because
- firms need to receive higher prices to cover the higher costs of producing increasing levels of output.
  - technology is scarce.
  - capital is scarce.
  - potential GDP is less than real GDP when the price level falls.

**Answer: A****Topic: Long-Run Aggregate Supply****Skill: Analytical**

- 28) In the figure above, potential GDP equals
- \$9.5 trillion.
  - \$10.0 trillion.
  - \$10.5 trillion.
  - None of the above answers is correct.

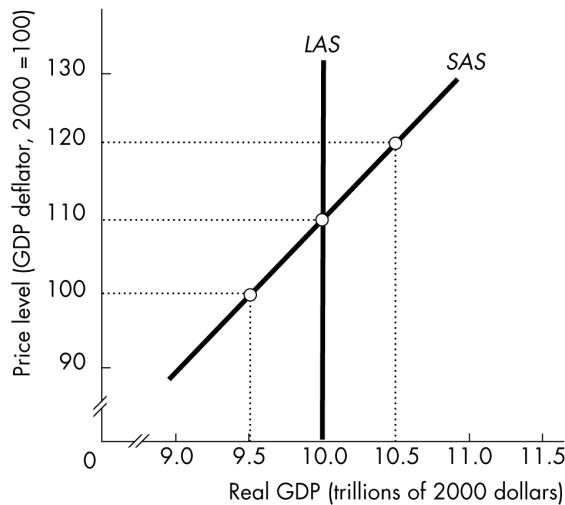
**Answer: B****Topic: Short-Run Aggregate Supply****Skill: Analytical**

- 29) In the figure above, the economy is at point A when the price level rises to 120. Money wages and other resource prices remain constant. Firms are willing to supply output equal to
- \$9.5 trillion.
  - \$10.0 trillion.
  - \$10.5 trillion.
  - None of the above answers is correct.

**Answer: C****Topic: Short-Run Aggregate Supply****Skill: Analytical**

- 30) In the figure above, the economy is at point A when the price level falls to 100. Money wages and all other resource prices remain constant. Firms are willing to supply output equal to
- \$9.5 trillion.
  - \$10.0 trillion.
  - \$10.5 trillion.
  - None of the above answers is correct.

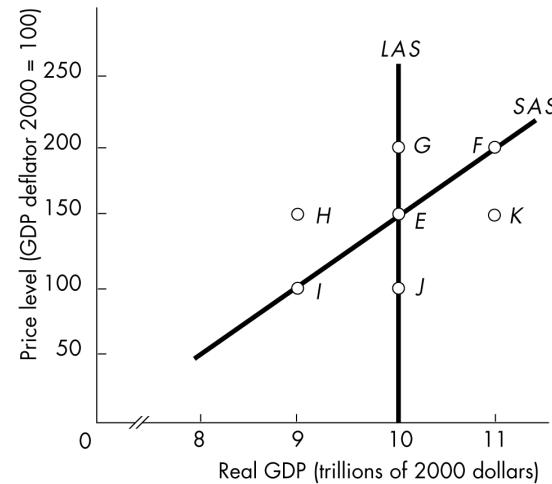
**Answer: A**



**Topic: Short-Run and Long-Run Aggregate Supply**  
**Skill: Analytical**

- 31) In the above figure, the economy will be at full employment if the price level
- is 110.
  - is above 110.
  - is below 100.
  - All of the above are possible because the economy will be at full employment at any price level at, above, or below 110.

**Answer: A**



**Topic: Movements Along the LAS and SAS Curves**  
**Skill: Analytical**

- 32) In the above figure, which movement illustrates the impact of a falling price level and a constant money wage rate?
- E to I
  - E to F
  - E to J
  - E to H

**Answer: A**

**Topic: Movements Along the LAS and SAS Curves**  
**Skill: Analytical**

- 33) In the above figure, which movement illustrates the impact of a rising price level and a constant money wage rate?
- E to I
  - E to F
  - E to G
  - E to K

**Answer: B**

**Topic: Movements Along the LAS and SAS Curves**  
**Skill: Analytical**

- 34) In the above figure, which movement illustrates the impact of the price level and money wage rate falling at the same rate?
- E to H
  - E to K
  - E to J
  - E to G

**Answer: C**

**Topic: Movements Along the LAS and SAS Curves****Skill: Analytical**

- 35) In the above figure, which movement illustrates the impact of a constant price level and a rising money wage rate?

- A)  $E$  to  $I$
- B)  $E$  to  $F$
- C)  $E$  to  $J$
- D)  $E$  to  $H$

**Answer: D****Topic: Changes in Long-Run Aggregate Supply****Skill: Conceptual**

- 36) All of the following shift the *LAS* curve EXCEPT
- A) a change in the capital stock.
  - B) an increase in the money wage rate.
  - C) an increase in the stock of human capital.
  - D) technological progress.

**Answer: B****Topic: Changes in Aggregate Supply; Full Employment****Skill: Conceptual**

- 37) A change in the full-employment quantity of labor \_\_\_\_ the short-run aggregate supply curve and \_\_\_\_ the long-run aggregate supply curve.
- A) shifts; shifts
  - B) shifts; does not shift
  - C) does not shift; shifts
  - D) does not shift; does not shift

**Answer: A****Topic: Changes in Aggregate Supply; Capital****Skill: Conceptual**

- 38) An increase in the amount of human capital labor \_\_\_\_ the short-run aggregate supply curve and \_\_\_\_ the long-run aggregate supply curve.
- A) shifts; shifts
  - B) shifts; does not shift
  - C) does not shift; shifts
  - D) does not shift; does not shift

**Answer: A****Topic: Changes in Aggregate Supply; Capital****Skill: Conceptual**

- 39) A change in the capital stock \_\_\_\_ the short-run aggregate supply curve and \_\_\_\_ the long-run aggregate supply curve.
- A) shifts; shifts
  - B) shifts; does not shift
  - C) does not shift; shifts
  - D) does not shift; does not shift

**Answer: A****Topic: Changes in Aggregate Supply; Technology****Skill: Conceptual**

- 40) A technological advance \_\_\_\_ the long-run aggregate supply curve and \_\_\_\_ the short-run aggregate supply curve.
- A) shifts; shifts
  - B) shifts; does not shift
  - C) does not shift; shifts
  - D) does not shift; does not shift

**Answer: A****Topic: Changes in Aggregate Supply; Technology****Skill: Recognition**

- 41) Technological progress will
- A) shift the *LAS* curve rightward but will not shift the *SAS* curve.
  - B) not shift either the *LAS* or the *SAS* curve.
  - C) shift both the *LAS* and *SAS* curves rightward.
  - D) shift the *SAS* curve rightward but will not shift the *LAS* curve.

**Answer: C****Topic: Changes in Short-Run Aggregate Supply****Skill: Conceptual**

- 42) The short-run aggregate supply curve shifts because of changes in all of the following EXCEPT
- A) the capital stock.
  - B) technological progress.
  - C) money wage rates.
  - D) the price level.

**Answer: D****Topic: Changes in Money Wages and Other Resource Prices****Skill: Conceptual**

- 43) A decrease in the money wage rate
- A) increases the long-run aggregate supply.
  - B) decreases the long-run aggregate supply.
  - C) increases the short-run aggregate supply.
  - D) decreases the short-run aggregate supply.

**Answer: C**

**Topic: Changes in Money Wages and Other Resource Prices**

**Skill: Conceptual**

- 44) An increase in the money wage rate  
 A) increases the long-run aggregate supply.  
 B) decreases the long-run aggregate supply.  
 C) increases the short-run aggregate supply.  
 D) decreases the short-run aggregate supply.

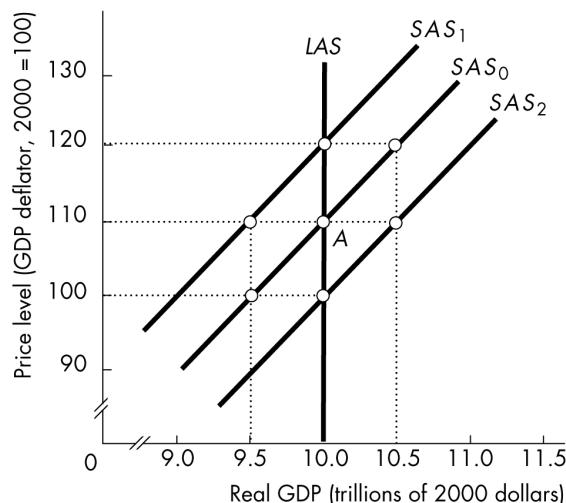
**Answer: D**

**Topic: Changes in Money Wages and Other Resource Prices**

**Skill: Conceptual**

- 45) A change in the money wage rate shifts  
 A) both the *SAS* and *LAS* curves.  
 B) the *LAS* curve but not the *SAS* curve.  
 C) the *SAS* curve but not the *LAS* curve.  
 D) neither the *SAS* nor the *LAS* curve.

**Answer: C**



**Topic: Long-Run Aggregate Supply**

**Skill: Analytical**

- 46) In the above figure, the economy is at point *A* when the money wage rate and the price level both fall by 10 percent. Firms will be willing to supply output equal to  
 A) less than \$10.0 trillion  
 B) \$10.0 trillion  
 C) more than \$10.0 trillion  
 D) Without more information, it is impossible to determine which of the above answers is correct.

**Answer: B**

**Topic: Short-Run Aggregate Supply**

**Skill: Analytical**

- 47) In the above figure, the economy is at point *A*. Then the price level falls to 90 while the money wage rate does not change. Firms will be willing to supply output equal to  
 A) less than \$10.0 trillion  
 B) \$10.0 trillion  
 C) more than \$10.0 trillion  
 D) Without more information, it is impossible to determine which of the above answers is correct.

**Answer: A**

**Topic: Short-Run Aggregate Supply**

**Skill: Analytical**

- 48) In the above figure, the economy is at point *A*. Then the price level rises to 110 while the money wage rate remains constant. Firms will be willing to supply output equal to  
 A) less than \$10.0 trillion  
 B) \$10.0 trillion  
 C) more than \$10.0 trillion  
 D) Without more information, it is impossible to determine which of the above answers is correct.

**Answer: C**

**Topic: Changes in Money Wages and Other Resource Prices**

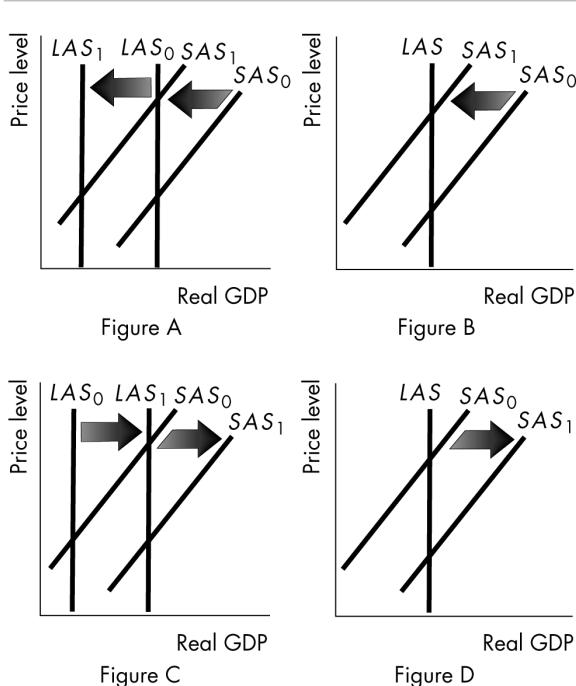
**Skill: Analytical**

- 49) In the above figure, the economy is at point *A* and the money wage rate falls by 10 percent. If the price level is constant, firms will be willing to supply output equal to  
 A) less than \$10.0 trillion  
 B) \$10.0 trillion  
 C) more than \$10.0 trillion  
 D) Without more information, it is impossible to determine which of the above answers is correct.

**Answer: C**

**Topic: Changes in Money Wages and Other Resource Prices****Skill: Analytical**

- 50) In the above figure, the economy is at point *A* and the money wage rate rises by 10 percent. If the price level is constant, firms will be willing to supply output equal to
- less than \$10.0 trillion
  - \$10.0 trillion
  - more than \$10.0 trillion
  - Without more information, it is impossible to determine which of the above answers is correct.

**Answer: A****Topic: Changes in Aggregate Supply; Capital****Skill: Analytical**

- 51) In the above figure, which part corresponds to a destruction of part of the nation's capital stock?
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: A****Topic: Changes in Aggregate Supply; Technology****Skill: Analytical**

- 52) In the above figure, which point corresponds to an increase in technology?

- Figure A.
- Figure B.
- Figure C.
- Figure D.

**Answer: C****Topic: Changes in Money Wages and Other Resource Prices****Skill: Analytical**

- 53) In the above figure, which part corresponds to an increase in the money wage rate?

- Figure A.
- Figure B.
- Figure C.
- Figure D.

**Answer: B****Topic: Changes in Money Wages and Other Resource Prices****Skill: Analytical**

- 54) In the above figure, which part corresponds to a fall in the money wage rate?

- Figure A.
- Figure B.
- Figure C.
- Figure D.

**Answer: D****■ Aggregate Demand****Topic: The Aggregate Demand Curve****Skill: Recognition**

- 55) The aggregate demand curve

- has a negative slope.
- has a positive slope.
- is vertical.
- is horizontal.

**Answer: A**

**Topic: The Aggregate Demand Curve****Skill: Conceptual**

- 56) Moving along the aggregate demand curve, a decrease in the quantity of real GDP demanded is a result of
- an increase in the price level.
  - a decrease in the price level.
  - an increase in income.
  - a decrease in income.

**Answer: A****Topic: The Aggregate Demand Curve****Skill: Conceptual**

- 57) Other things equal, along the aggregate demand curve, a higher price level is associated with
- an increase in the quantity of real GDP demanded.
  - a decrease in the quantity of real GDP demanded.
  - a decrease in the quantity of nominal GDP demanded.
  - higher income levels.

**Answer: B****Topic: The Aggregate Demand Curve****Skill: Conceptual**

- 58) Which of the following changes while moving along the aggregate demand curve?
- Future incomes of households.
  - The price level.
  - The amount of money in the economy.
  - Future profits from investment projects.

**Answer: B****Topic: Aggregate Demand, Wealth Effect****Skill: Recognition**

- 59) Your real wealth is measured as the
- amount of assets you have in dollar terms.
  - amount of money you have.
  - amount of goods and services your wealth will buy.
  - amount of goods you have divided by the price level.

**Answer: C****Topic: Aggregate Demand, Wealth Effect****Skill: Conceptual**

- 60) If you are have \$1,000 of money in the bank and the price level rises 5 percent, your
- money is worth more in terms of what it can purchase.
  - money is worth less in terms of what it can purchase.
  - money is worth the same in terms of what it can purchase.
  - purchasing power has risen.

**Answer: B****Topic: Aggregate Demand, Wealth Effect****Skill: Conceptual**

- 61) One reason that the aggregate demand curve has a negative slope is because
- people buy fewer goods and save more when the price level rises because their real wealth decreases.
  - firms produce more when the price rises.
  - people earn more money when output rises.
  - The premise of the question is wrong because the aggregate demand curve has a positive slope.

**Answer: A****Topic: Aggregate Demand, Wealth Effect****Skill: Conceptual**

- 62) According to the wealth effect, an increase in the price level \_\_\_\_ real wealth and \_\_\_\_ consumption expenditure.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer: D****Topic: Aggregate Demand, Intertemporal Substitution Effect****Skill: Conceptual**

- 63) The intertemporal substitution effect of prices on aggregate demand
- is the same as the real wealth effect.
  - is one reason that the aggregate demand curve has a negative slope.
  - explains why aggregate demand increases when the amount of money increases.
  - is one reason that the aggregate demand curve has a positive slope.

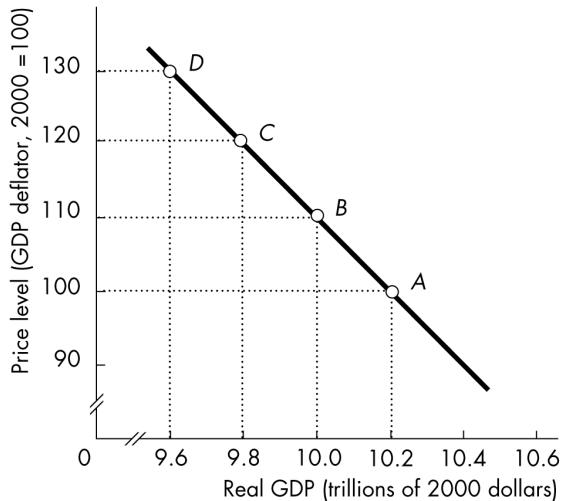
**Answer: B**

**Topic: Aggregate Demand, International Price****Substitution Effect****Skill: Recognition**

- 64) An increase in the price level decreases net exports, thereby decreasing the amount of real goods and services purchased in the United States. This phenomenon is known as
- the wealth effect.
  - the barter effect.
  - a substitution effect.
  - the GDP effect.

**Answer: C****Topic: Aggregate Demand, International Price****Substitution Effect****Skill: Conceptual**

- 65) One reason that the aggregate demand curve has a negative slope is because
- firms supply more when prices rise.
  - people buy more foreign goods when the domestic price level rises.
  - the amount of money in the economy increases when the price level rises.
  - firms supply less when prices rise.

**Answer: B****Topic: The Aggregate Demand Curve****Skill: Analytical**

- 66) In the above figure, when the price level is 130, the quantity of real GDP demanded is
- \$9.6 trillion.
  - \$9.8 trillion.
  - \$10.0 trillion.
  - \$10.2 trillion.

**Answer: A****Topic: The Aggregate Demand Curve****Skill: Analytical**

- 67) In the above figure, when the price level is 110, the quantity of real GDP demanded is
- \$9.6 trillion.
  - \$9.8 trillion.
  - \$10.0 trillion.
  - \$10.2 trillion.

**Answer: C****Topic: Aggregate Demand, Wealth Effect****Skill: Analytical**

- 68) In the above figure, the economy is initially at point B. Then the price level falls by 10. The wealth effect will help
- move the economy to point A.
  - move the economy to point C.
  - move the economy to point D.
  - keep the economy to point B.

**Answer: A**

**Topic: Aggregate Demand, Wealth Effect****Skill: Analytical**

- 69) In the above figure, the economy initially is at point *B*. Then price level rises by 10. The wealth effect will help
- move the economy to point *A*.
  - move the economy to point *C*.
  - move the economy to point *D*.
  - keep the economy to point *B*.

**Answer: B****Topic: Aggregate Demand, International Price Substitution Effect****Skill: Analytical**

- 70) In the above figure, the economy initially is at point *C*. Then the domestic price level rises by 10. A
- substitution effect would help move the economy to point *D*.
  - substitution effect would help move the economy to point *B*.
  - substitution effect would keep the economy at point *C*.
  - wealth effect would help move the economy to point *B*.

**Answer: A****Topic: Changes in Aggregate Demand****Skill: Recognition**

- 71) Which of the following does NOT shift the aggregate demand curve?
- A decrease in the money supply.
  - An increase in investment.
  - An increase in the price level.
  - A decrease in taxes.

**Answer: C****Topic: Changes in Aggregate Demand, Expectations****Skill: Conceptual**

- 72) An increase in expected future incomes
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: A****Topic: Changes in Aggregate Demand, Expectations****Skill: Conceptual**

- 73) A decrease in expected future income
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: D****Topic: Changes in Aggregate Demand, Expectations****Skill: Conceptual**

- 74) A rise in the expected future inflation rate
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: A****Topic: Changes in Aggregate Demand, Expectations****Skill: Conceptual**

- 75) A fall in the expected future inflation rate
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: D****Topic: Changes in Aggregate Demand, Transfer Payments****Skill: Conceptual**

- 76) A decrease in government transfer payments
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: D****Topic: Changes in Aggregate Demand, Government Purchases****Skill: Conceptual**

- 77) An increase in government purchases of goods and services
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: A**

**Topic: Changes in Aggregate Demand, Government Purchases****Skill: Conceptual**

- 78) A decrease in government purchases of goods and services
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: D****Topic: Changes in Aggregate Demand, Taxes****Skill: Conceptual**

- 79) Lower taxes
- increase aggregate demand.
  - increase the aggregate quantity demanded.
  - decrease the aggregate quantity demanded.
  - decrease aggregate demand.

**Answer: A****Topic: Changes in Aggregate Demand, Taxes****Skill: Conceptual**

- 80) Higher taxes
- increase aggregate demand.
  - increase the aggregate quantity demanded.
  - decrease the aggregate quantity demanded.
  - decrease aggregate demand.

**Answer: D****Topic: Changes in Aggregate Demand, Money****Skill: Conceptual**

- 81) An increase in the quantity of money
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: A****Topic: Changes in Aggregate Demand, Money****Skill: Conceptual**

- 82) A decrease in the quantity of money
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: D****Topic: Changes in Aggregate Demand, Foreign Exchange Rate****Skill: Conceptual**

- 83) A rise in the foreign exchange rate of the dollar
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

**Answer: D****Topic: Changes in Aggregate Demand, Foreign Exchange Rate****Skill: Conceptual**

- 84) A fall in the foreign exchange rate of the dollar
- increases aggregate demand.
  - increases the aggregate quantity demanded.
  - decreases the aggregate quantity demanded.
  - decreases aggregate demand.

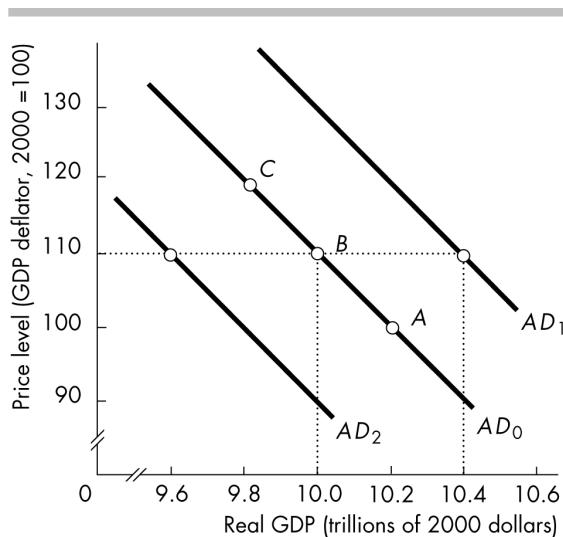
**Answer: A****Topic: Changes in Aggregate Demand, Foreign Incomes****Skill: Conceptual**

- 85) A decrease in foreign incomes
- increases aggregate demand in the United States.
  - increases the aggregate quantity demanded in the United States.
  - decreases the aggregate quantity demanded in the United States.
  - decreases aggregate demand in the United States.

**Answer: D****Topic: Changes in Aggregate Demand, Foreign Incomes****Skill: Conceptual**

- 86) An increase in foreign incomes
- increases aggregate demand in the United States.
  - increases the aggregate quantity demanded in the United States.
  - decreases the aggregate quantity demanded in the United States.
  - decreases aggregate demand in the United States.

**Answer: A**



**Topic: Changes in Aggregate Demand, Transfer Payments**

**Skill: Analytical**

- 87) In the above figure, the economy is initially at point B. If the government decreases transfer payments, there is
- a movement to point C.
  - a movement to point A.
  - a shift to  $AD_2$ .
  - a shift to  $AD_1$ .

**Answer: C**

**Topic: Changes in Aggregate Demand, Taxes**

**Skill: Analytical**

- 88) In the above figure, the economy is initially at point B. If taxes increase, there is
- a movement to point C.
  - a movement to point A.
  - a shift to  $AD_2$ .
  - a shift to  $AD_1$ .

**Answer: C**

**Topic: Changes in Aggregate Demand, Money**

**Skill: Analytical**

- 89) In the above figure, the economy is initially at point B. If the Fed decreases the quantity of money, there is
- a movement to point C.
  - a movement to point A.
  - a shift to  $AD_2$ .
  - a shift to  $AD_1$ .

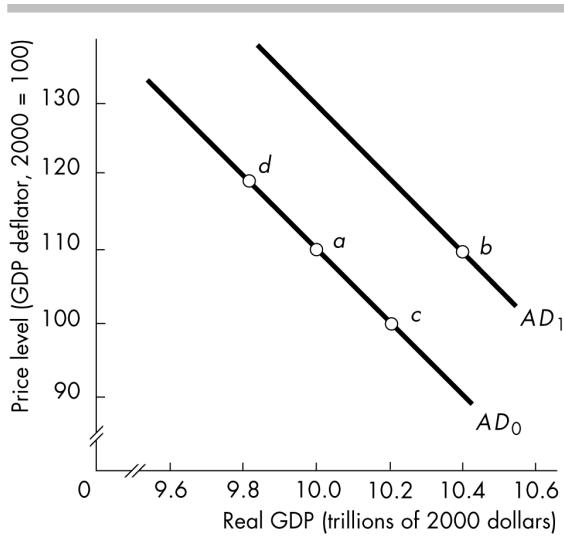
**Answer: C**

**Topic: Changes in Aggregate Demand, Money**

**Skill: Analytical**

- 90) In the above figure, the economy is initially at point B. If the Fed increases the quantity of money, there is
- a movement to point C.
  - a movement to point A.
  - a shift to  $AD_2$ .
  - a shift to  $AD_1$ .

**Answer: D**

**Topic: Aggregate Demand, Wealth Effect****Skill: Recognition**

- 91) In the above figure, if the economy is at point *a*, an increase in \_\_\_\_ will move the economy to \_\_\_\_.
- A) real wealth from the fall in the price level; point *b*.
  - B) real wealth from the fall in the price level; point *c*.
  - C) expected future income; point *c*.
  - D) expected future income; point *d*.

**Answer: B****Topic: Changes in Aggregate Demand, Expectations****Skill: Recognition**

- 92) In the above figure, if the economy is at point *a*, an increase in \_\_\_\_ will move the economy to \_\_\_\_.
- A) real wealth; point *d*
  - B) real wealth from a fall in the price level; point *d*
  - C) expected future income; point *b*
  - D) expected future income; point *d*

**Answer: C****Macroeconomic Equilibrium****Topic: Short-Run Macroeconomic Equilibrium****Skill: Conceptual**

- 93) In short-run macroeconomic equilibrium
- A) real GDP equals potential GDP and aggregate demand determines the price level.
  - B) the price level is fixed and short-run aggregate supply determines real GDP.
  - C) real GDP and the price level are determined by short-run aggregate supply and aggregate demand.
  - D) real GDP is less than potential GDP.

**Answer: C****Topic: Long-Run Macroeconomic Equilibrium****Skill: Recognition**

- 94) Full-employment equilibrium occurs when
- A) real GDP exceeds potential GDP.
  - B) real GDP equals potential GDP.
  - C) potential GDP exceeds real GDP.
  - D) a result of an increase in long-run aggregate supply.

**Answer: B****Topic: Long-Run Macroeconomic Equilibrium****Skill: Conceptual**

- 95) In long-run macroeconomic equilibrium,
- A) real GDP equals potential GDP.
  - B) the price level is fixed and aggregate demand determines real GDP.
  - C) real GDP and the price level are determined by short-run aggregate supply and aggregate demand and long-run aggregate supply is irrelevant.
  - D) real GDP is less than potential GDP.

**Answer: A**

Price level	Aggregate demand (trillions of 2000 dollars)	Short-run aggregate supply (trillions of 2000 dollars)	Long-run aggregate supply (trillions of 2000 dollars)
130	8	12	10
120	9	11	10
110	10	10	10
100	11	9	10
90	12	8	10

**Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 96) The data in the above table indicate that when the price level is 120,
- inventories fall and the price level rises.
  - the economy is in a long-run macroeconomic equilibrium.
  - inventories rise and the price level falls.
  - the unemployment rate is at its equilibrium level.

**Answer: C****Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

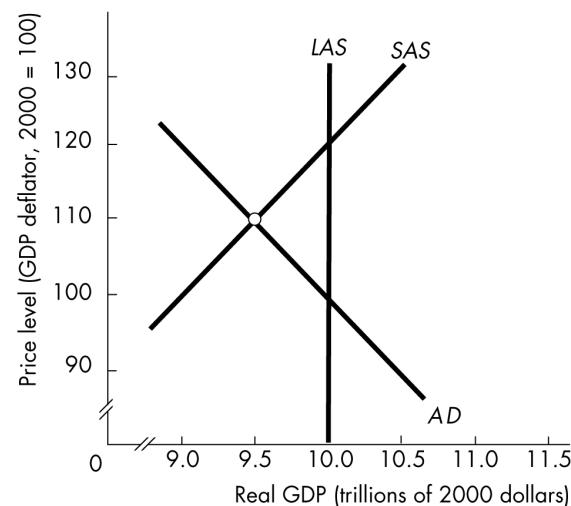
- 97) The data in the above table indicate that when the price level is 100,
- inventories fall and the price level rises.
  - the economy is in a long-run macroeconomic equilibrium.
  - inventories rise and the price level falls.
  - the unemployment rate is at its equilibrium level.

**Answer: A****Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 98) The data in the above table indicate that when the price level is 100,
- firms have unexpectedly low inventories, so prices will rise.
  - inventories are at levels planned by firms.
  - firms will plan to decrease the level of output.
  - firms have unexpectedly high inventories, so prices fall.

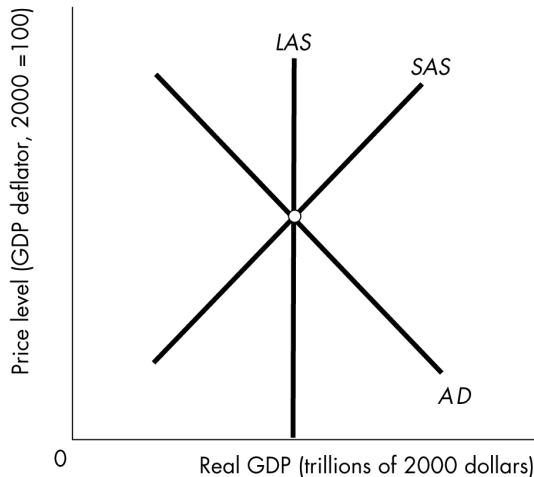
**Answer: A****Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 99) The data in the above table indicate that when the price level is 120,
- firms have unexpectedly low inventories, so prices will rise.
  - inventories are at levels planned by firms.
  - firms will plan to increase the level of output.
  - firms have unexpectedly high inventories, so prices fall.

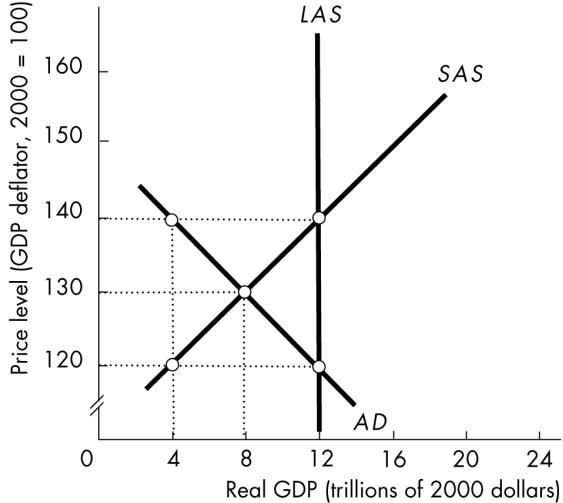
**Answer: D****Topic: Short-Run Macroeconomic Equilibrium****Skill: Recognition**

- 100) In the figure above, in the short-run macroeconomic equilibrium,
- there is no structural unemployment.
  - real GDP is greater than potential GDP.
  - real GDP equals potential GDP.
  - real GDP is less than potential GDP.

**Answer: D**

**Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 101) The above figure depicts an economy with a short-run equilibrium
- at full employment.
  - below full employment.
  - at higher than full-employment.
  - None of the above answers are correct.

**Answer: A****Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 102) In the above figure, at the price level of 140 and real GDP of
- \$12 trillion, firms will not be able to sell all their output.
  - \$4 trillion, firms will not be able to sell all their output.
  - \$4 trillion, consumers will not be able to buy all the goods and services they demand.
  - \$12 trillion, consumers will not be able to buy all the goods and services they demand.

**Answer: A****Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 103) Based on the figure above, short-run equilibrium occurs at the price level of
- 120 and real GDP of \$4 trillion.
  - 130 and real GDP of \$8 trillion.
  - 140 and real GDP of \$12 trillion.
  - 130 and real GDP of \$12 trillion.

**Answer: B****Topic: Long-Run Macroeconomic Equilibrium****Skill: Analytical**

- 104) Based on the figure above, the economy will be in a long-run macroeconomic equilibrium at a price level of
- 90.
  - 110.
  - 100.
  - 120.

**Answer: B**

**Topic: Economic Growth****Skill: Recognition**

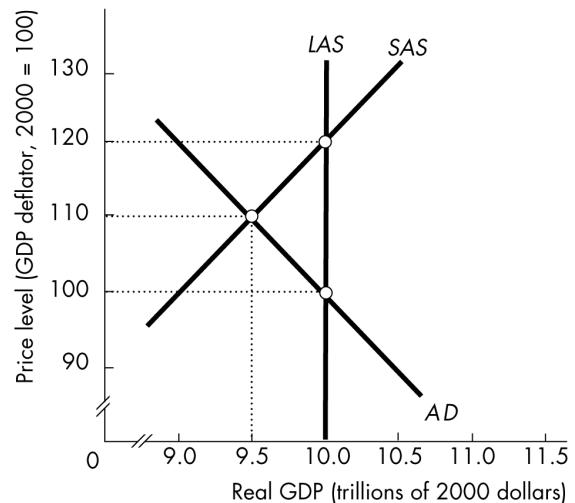
- 105) Which of the following can be said about economic growth?
- Economic growth is increases in long-run aggregate supply.
  - Economic growth is the persistent increase in potential GDP.
- I only.
  - II only.
  - I and II.
  - Neither I or II.

**Answer: C****Topic: Economic Growth****Skill: Conceptual**

- 106) Economic growth will occur and the price level will be constant when the increase in aggregate demand
- exactly equals the increase in long-run aggregate supply.
  - is more than the increase in long-run aggregate supply.
  - is less than the increase in long-run aggregate supply.
  - is accompanied by a decrease in short-run aggregate supply.

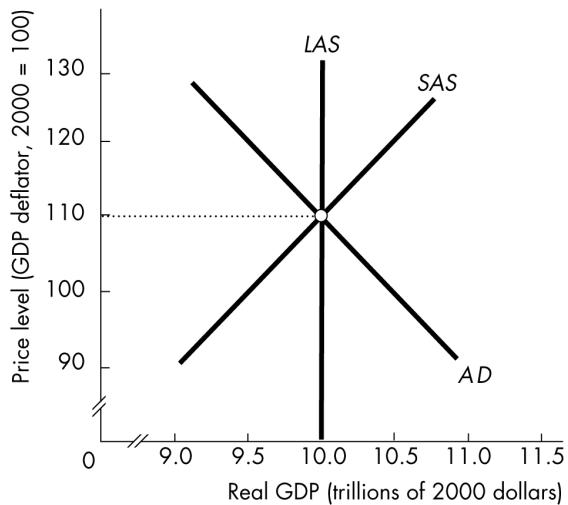
**Answer: A****Topic: Recessionary Gap****Skill: Recognition**

- 107) A recessionary gap means that short-run macroeconomic equilibrium GDP
- is less than full-employment GDP.
  - equals full-employment GDP.
  - is more than full-employment GDP.
  - may be less than, more than, or the same as full-employment GDP depending on the level of potential GDP.

**Answer: A****Topic: Recessionary Gap****Skill: Analytical**

- 108) The above figure illustrates
- a recessionary gap.
  - a full-employment equilibrium.
  - an inflationary gap.
  - an equilibrium at the economy's physical limits.

**Answer: A**



**Topic: Full-Employment Equilibrium**

**Skill: Analytical**

109) The above figure illustrates

- A) a recessionary gap.
- B) a full-employment equilibrium.
- C) an inflationary gap.
- D) an equilibrium at the economy's physical limits.

**Answer: B**

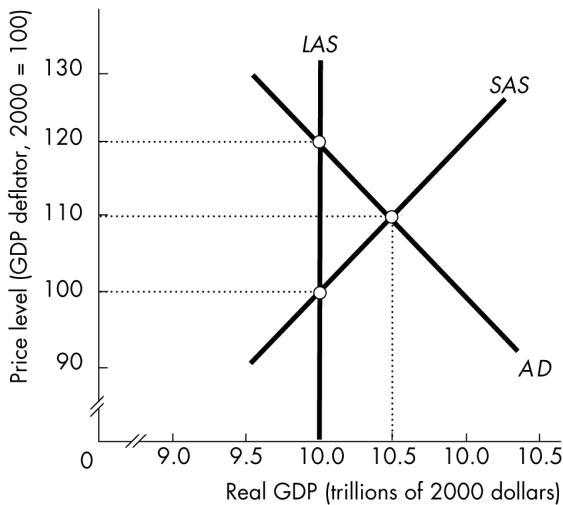
**Topic: Inflationary Gap**

**Skill: Recognition**

110) An inflationary gap means that short-run macroeconomic equilibrium GDP

- A) is less than full-employment GDP.
- B) equals full-employment GDP.
- C) is more than full-employment GDP.
- D) may be less than, more than, or the same as full-employment GDP depending on the level of potential GDP.

**Answer: C**



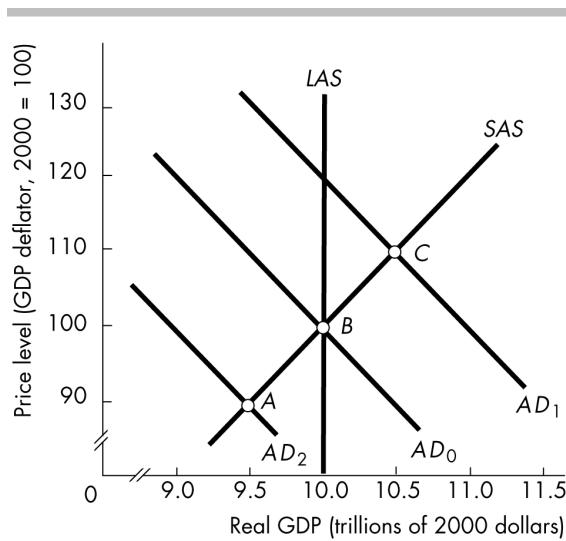
**Topic: Inflationary Gap**

**Skill: Analytical**

111) The above figure illustrates

- A) a recessionary gap.
- B) a full-employment equilibrium.
- C) an inflationary gap.
- D) an equilibrium at the economy's physical limits.

**Answer: C**

**Topic: Recessionary Gap****Skill: Analytical**

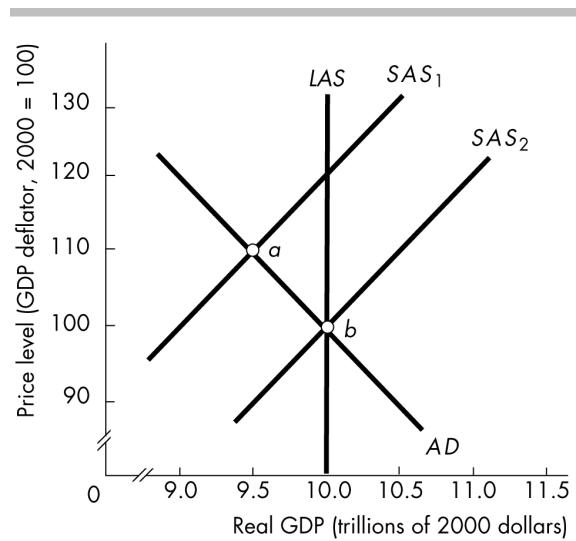
- 112) In the above figure, point *A* represents
- a recessionary gap.
  - a full-employment equilibrium.
  - an inflationary gap.
  - an increase in aggregate demand.

**Answer: A****Topic: Full-Employment Equilibrium****Skill: Recognition**

- 113) In the above figure, point *B* represents
- a recessionary gap.
  - a full-employment equilibrium.
  - an inflationary gap.
  - a decrease in aggregate demand.

**Answer: B****Topic: Inflationary Gap****Skill: Analytical**

- 114) In the above figure, point *C* represents
- a recessionary gap.
  - a full-employment equilibrium.
  - an inflationary gap.
  - a decrease in aggregate demand.

**Answer: C****Topic: Movement to the Long-Run Equilibrium****Skill: Recognition**

- 115) In the above figure, if the economy moves from point *a* to point *b*,
- the natural rate of unemployment increases.
  - there has been a decrease in the quantity of real GDP supplied.
  - there has been a decrease in the quantity of real GDP demanded.
  - there has been an increase in the quantity of real GDP demanded.

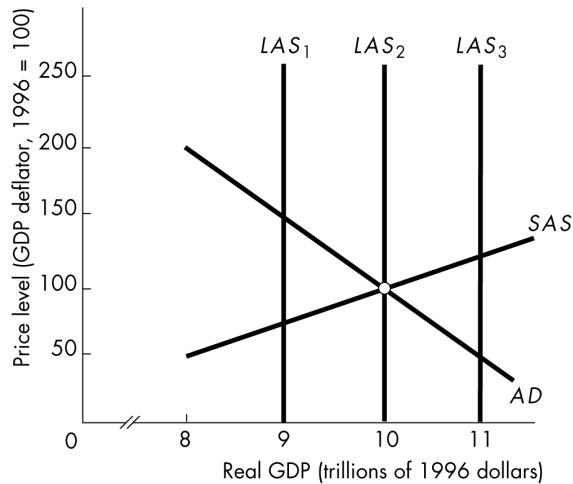
**Answer: D****Topic: Recessionary Gap****Skill: Conceptual**

- 116) Suppose the economy is experiencing a recessionary gap. In the long run, the money wage rate \_\_\_\_\_, unemployment \_\_\_\_\_, and the price level \_\_\_\_\_.
- falls; rises; falls
  - falls; falls; falls
  - rises; rises; rises
  - rises; falls; rises

**Answer: B****Topic: Inflationary Gap****Skill: Conceptual**

- 117) When real GDP exceeds potential GDP, then the economy is in
- an inflationary gap situation.
  - below full-employment equilibrium.
  - a recessionary gap situation.
  - a trough.

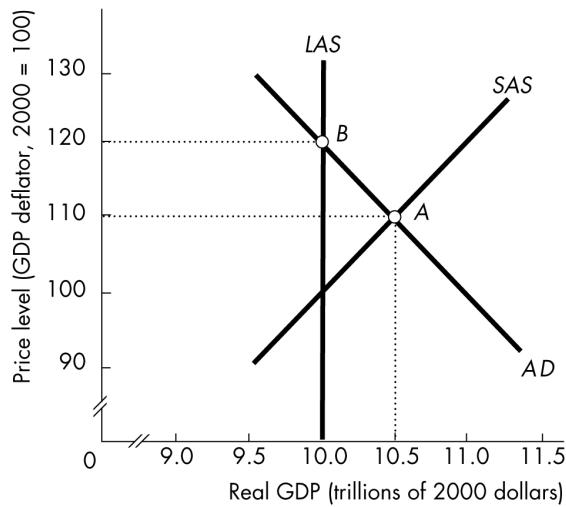
**Answer: A**

**Topic: Recessionary Gap****Skill: Analytical**

- 118) In the above figure, the short-run aggregate supply curve is *SAS* and the aggregate demand curve is *AD*. A recessionary gap exists
- if the long-run aggregate supply curve is *LAS*<sub>1</sub>.
  - if the long-run aggregate supply curve is *LAS*<sub>2</sub>.
  - if the long-run aggregate supply curve is *LAS*<sub>3</sub>.
  - All of the above answers are correct.

**Answer: C****Topic: Inflationary Gap****Skill: Analytical**

- 119) In the above figure, the short-run aggregate supply curve is *SAS* and the aggregate demand curve is *AD*. An inflationary gap exists
- if the long-run aggregate supply curve is *LAS*<sub>1</sub>.
  - if the long-run aggregate supply curve is *LAS*<sub>2</sub>.
  - if the long-run aggregate supply curve is *LAS*<sub>3</sub>.
  - All of the above answers are correct.

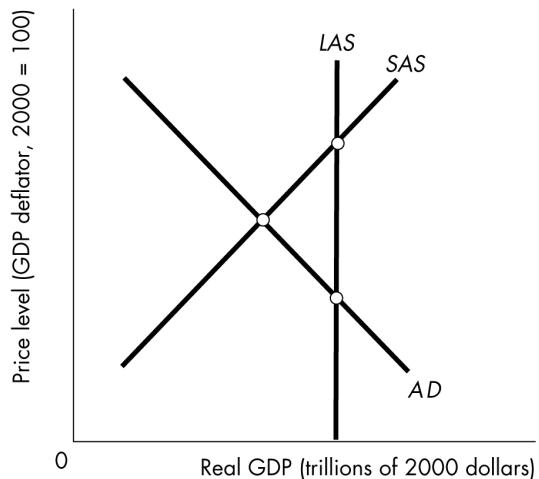
**Answer: A****Topic: Short-Run Macroeconomic Equilibrium****Skill: Conceptual**

- 120) In the above figure, if the economy is at point *A*, which of the following is true?
- Point *A* is the long-run equilibrium point.
  - The economy is in a recession.
  - Money wages can be expected to fall.
  - The economy might be at point *A* as a result of a recent cut in the tax rate.

**Answer: D****Topic: Inflationary Gap****Skill: Conceptual**

- 121) In the above figure, if the economy is at point *A*, which of the following is true?
- There is a recessionary gap.
  - There is an inflationary gap.
  - Point *A* is the long-run equilibrium point.
  - None of the above answers are correct.

**Answer: B**

**Topic: Recessionary Gap****Skill: Analytical**

- 122) In the above figure, the short-run equilibrium depicts an economy
- with an inflationary gap.
  - with a recessionary gap.
  - producing at full employment.
  - None of the above answers are correct.

**Answer: B****Topic: Long-Run Macroeconomic Equilibrium****Skill: Analytical**

- 123) In the above figure, the short-run equilibrium will
- eventually adjust to a long-run equilibrium with a higher price level.
  - will not adjust on its own.
  - eventually adjust to a long-run equilibrium with a lower price level.
  - None of the above answers are correct.

**Answer: C****Topic: Fluctuations In Aggregate Demand****Skill: Analytical**

- 124) Suppose the economy was initially in a long-run equilibrium. Then the world economy expands so that foreign incomes rise. U.S. aggregate demand \_\_\_\_\_ and eventually the money wage rate \_\_\_\_\_.
- increases; rises
  - increases; falls
  - decreases; rises
  - decreases; falls

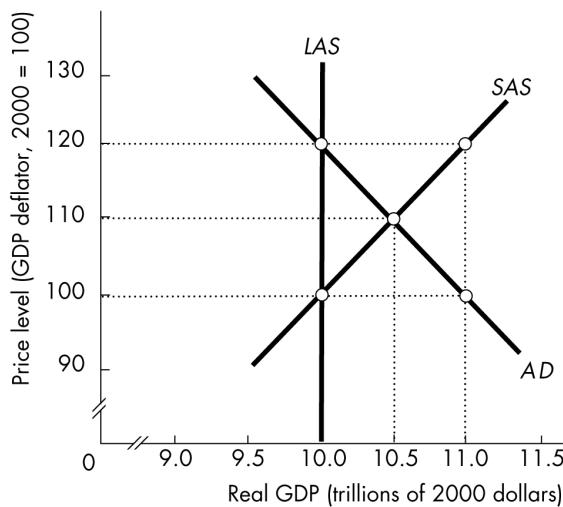
**Answer: A****Topic: Movement to the Long-Run Equilibrium****Skill: Conceptual**

- 125) In a short-run macroeconomic equilibrium, potential GDP exceeds real GDP, so the
- short-run aggregate supply curve will shift rightward as the money wage rate falls.
  - short-run aggregate supply curve will shift leftward as the money wage rate rises.
  - long-run aggregate supply curve will shift leftward as the money wage rate rises.
  - long-run aggregate supply curve will shift leftward as the money wage rate falls.

**Answer: A****Topic: Movement to the Long-Run Equilibrium****Skill: Conceptual**

- 126) In a short-run macroeconomic equilibrium, real GDP exceeds potential GDP, so the
- short-run aggregate supply curve will shift rightward as the money wage rate falls.
  - short-run aggregate supply curve will shift leftward as the money wage rate rises.
  - long-run aggregate supply curve will shift leftward as the money wage rate rises.
  - long-run aggregate supply curve will shift leftward as the money wage rate falls.

**Answer: B**

**Topic: Long-Run Macroeconomic Equilibrium****Skill: Analytical**

- 130) In the above figure, when the economy is in a long-run equilibrium, real GDP will be

- A) \$9.5 trillion.
- B) \$10.0 trillion.
- C) \$10.5 trillion.
- D) \$11.0 trillion.

**Answer: B**

Price level	Aggregate demand (trillions of 2000 dollars)	Short-run aggregate supply (trillions of 2000 dollars)	Long-run aggregate supply (trillions of 2000 dollars)
140	9.0	11.5	10.0
130	9.5	11.0	10.0
120	10.0	10.5	10.0
110	10.5	10.0	10.0
100	11.0	9.5	10.0

**Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 127) In the above figure, at the point where *AD* equals *SAS*,

- A) real GDP exceeds potential GDP.
- B) potential GDP exceeds real GDP.
- C) the economy is in a recession.
- D) the unemployment rate is zero.

**Answer: A****Topic: Movement to the Long-Run Equilibrium****Skill: Analytical**

- 128) In the above figure, as the economy adjusts toward equilibrium, the

- A) *AD* curve will shift rightward.
- B) *SAS* curve will shift rightward.
- C) *AD* curve will shift leftward.
- D) *SAS* curve will shift leftward.

**Answer: D****Topic: Long-Run Macroeconomic Equilibrium****Skill: Analytical**

- 129) In the above figure, when the economy is in a long-run equilibrium, the price level will be

- A) 90.
- B) 100.
- C) 110.
- D) 120.

**Answer: D****Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

- 131) The data in the above table indicate that the economy will be in a short-run macroeconomic equilibrium at a price level

- A) between 130 and 120.
- B) between 120 and 110.
- C) of 120.
- D) of 110.

**Answer: B****Topic: Movement to the Long-Run Equilibrium****Skill: Analytical**

- 132) From the data in the above table, when the economy is at its short-run equilibrium, as time passes the

- A) short-run aggregate supply curve shifts rightward.
- B) short-run aggregate supply curve shifts leftward.
- C) long-run aggregate supply curve shifts rightward.
- D) long-run aggregate supply curve shifts leftward.

**Answer: B**

Price level	Aggregate demand (trillions of 2000 dollars)	Short-run aggregate supply (trillions of 2000 dollars)	Long-run aggregate supply (trillions of 2000 dollars)
140	4	8	7
130	5	7	7
120	6	6	7
110	7	5	7
100	8	4	7

**Topic: Short-Run Macroeconomic Equilibrium****Skill: Analytical**

133) The data in the above table show that the economy will be in a short-run macroeconomic equilibrium at a price level of

- A) 90.
- B) 110.
- C) 100.
- D) 120.

**Answer: D****Topic: Recessionary Gap****Skill: Analytical**

134) The data in the above table show that when the price level is 120,

- A) the unemployment rate is below its full-employment level.
- B) the unemployment rate is above its full-employment level.
- C) money wages rates will rise in the future.
- D) the long-run aggregate supply curve will shift leftward in the future.

**Answer: B****Topic: Recessionary Gap****Skill: Analytical**

135) The data in the above table show that when the price level is 120, the economy

- A) is in a long-run macroeconomic equilibrium.
- B) has an inflationary gap.
- C) has a recessionary gap.
- D) will have falling money wage rates sometime in the future.

**Answer: C****Topic: Movement to the Long-Run Equilibrium****Skill: Analytical**

136) The data in the above table show that when the price level is 120, the

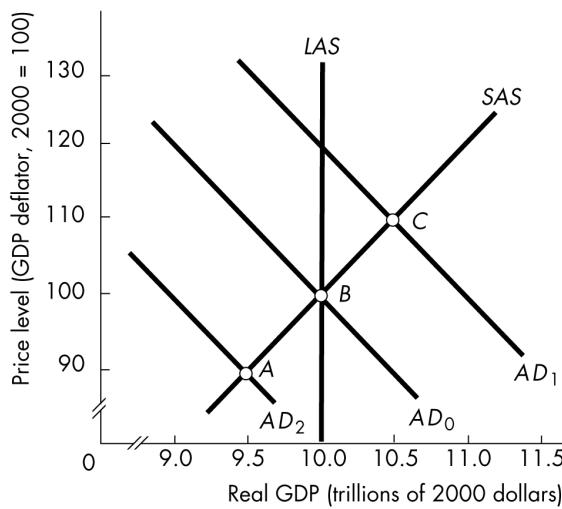
- A) money wage rate will rise in the future.
- B) money wage rate will fall in the future.
- C) short-run aggregate supply curve will shift leftward.
- D) long-run aggregate supply curve will shift leftward.

**Answer: B****Topic: Movement to the Long-Run Equilibrium****Skill: Analytical**

137) The data in the above table show that when the price level is 120, the

- A) short-run aggregate supply curve will shift rightward.
- B) short-run aggregate supply curve will shift leftward.
- C) long-run aggregate supply curve will shift rightward.
- D) long-run aggregate supply curve will shift leftward.

**Answer: A**

**Topic: Fluctuations in Aggregate Demand****Skill: Analytical**

- 138) Suppose the economy is at point *B*. If firms expect profits will be higher in the future, to what point might the economy's move in the short run?
- It stays at point *B*.
  - It shifts to a point such as *A*.
  - It shifts to a point such as *C*.
  - None of the above answers are correct because it is the *SAS* curve that shifts, not the *AD* curve.

**Answer: C****Topic: Fluctuations in Aggregate Demand****Skill: Analytical**

- 139) Suppose the economy is at point *B*. If a recession in another country decreases exports, to what point might economy move in the short run?
- It stays at point *B*.
  - It shifts to a point such as *A*.
  - It shifts to a point such as *C*.
  - None of the above answers are correct because it is the *SAS* curve that shifts, not the *AD* curve.

**Answer: B****Topic: Fluctuations in Aggregate Demand****Skill: Conceptual**

- 140) Higher resource prices shift the
- long-run aggregate supply curve leftward, decreasing real GDP and increasing potential GDP.
  - short-run aggregate supply curve leftward, raising the price level and decreasing potential GDP.
  - short-run aggregate supply curve leftward, raising the price level and decreasing real GDP so it is less than potential GDP.
  - short-run aggregate supply curve rightward, raising the price level and decreasing real GDP so it is less than potential GDP.

**Answer: C****■ U.S. Economic Growth, Inflation, and Cycles****Topic: U.S. Economic Growth****Skill: Conceptual**

- 141) The forces that generate economic growth are those that
- shift the long-run aggregate supply curve leftward.
  - shift the long-run aggregate supply curve rightward.
  - shift the aggregate demand curve leftward.
  - None of the above answers are correct.

**Answer: B****Topic: U.S. Economic Growth****Skill: Recognition**

- 142) Between 1962 and 2002, U.S. real GDP
- fell by 50 percent.
  - remained constant.
  - grew by a total of 25 percent.
  - more than doubled.

**Answer: D****Topic: Inflation****Skill: Recognition**

- 143) If the economy experiences inflation, aggregate
- demand increases faster than aggregate supply.
  - demand increases more slowly than aggregate supply.
  - supply increases faster than aggregate demand.
  - demand and supply increase at about the same rate.

**Answer: A**

**Topic: Inflation****Skill: Conceptual**

- 144) The text discusses reasons why the *AD*, *SAS* and *LAS* curves shift rightward over time. If there is inflation, which curve shifts rightward at a faster pace?
- AD* curve
  - SAS* curve
  - LAS* curve
  - The curves shift rightward at the same pace

**Answer: A****Topic: Business Cycles****Skill: Conceptual**

- 145) Which of the following statements regarding the business cycle is correct?
- The business cycle occurs because aggregate demand and short-run aggregate supply change at different rates.
  - The amount by which potential GDP exceeds real GDP when the economy is at a below-full-employment equilibrium is called an inflationary gap.
  - Real GDP can never exceed potential GDP.
  - Fluctuations in aggregate demand and in short-run aggregate supply have no effect on the business cycle.

**Answer: A****Topic: The Evolving Economy****Skill: Recognition\***

- 146) The mid-1970s in the United States were characterized by
- increases in aggregate demand and decreases in short-run aggregate supply.
  - decreases in both aggregate demand and long-run aggregate supply.
  - decreases in aggregate demand and short-run aggregate supply.
  - decreases in long-run aggregate supply and increases in short-run aggregate supply.

**Answer: A****Topic: The Evolving Economy****Skill: Recognition**

- 147) The 1990s in the United States were characterized by
- increases in aggregate demand and decreases in short-run aggregate supply.
  - a decrease in aggregate demand and an increase in short-run aggregate supply.
  - decreases in aggregate demand and short-run aggregate supply.
  - increases in long-run and short-run aggregate supply.

**Answer: D**

## ■ Macroeconomic Schools of Thought

**Topic: Keynesian View****Skill: Recognition\***

- 148) \_\_\_\_\_ economists believe that active help from fiscal and monetary policy is needed to insure that the economy is operating at full employment.
- Keynesian
  - Monetarist
  - Classical
  - All

**Answer: A****Topic: Classical View****Skill: Recognition\***

- 149) \_\_\_\_\_ economists believe that the economy is self-regulating and always at full employment.
- Keynesian
  - Monetarist
  - Classical
  - All

**Answer: C****Topic: Monetarist View****Skill: Recognition\***

- 150) \_\_\_\_\_ economists believe that the economy is self-regulating and will be at full employment as long as monetary policy is not erratic.
- Keynesian
  - Monetarist
  - Classical
  - All

**Answer: B**

## ■ Study Guide Questions

### Topic: Study Guide Question, Long-Run Aggregate Supply

#### Skill: Conceptual

- 151) Moving along which curve does the money wage rate and the price level change in the same proportions?
- The  $AD$  curve.
  - The  $SAS$  curve.
  - The  $LAS$  curve.
  - None of the above because there is no curve along which both the money wage rate and the price level change in the same proportions.

**Answer:** C

### Topic: Study Guide Question, Long-Run Aggregate Supply

#### Skill: Conceptual

- 152) Long-run aggregate supply will decrease for all of the following reasons EXCEPT
- reduced money wages.
  - decreased human capital.
  - reduction in the level of technology.
  - decreased capital.

**Answer:** A

### Topic: Study Guide Question, Changes in Money Wages

#### Skill: Conceptual

- 153) A reduction in money wages shifts
- both the  $SAS$  and  $LAS$  curves rightward.
  - both the  $SAS$  and  $LAS$  curves leftward.
  - the  $SAS$  curve rightward but leaves the  $LAS$  curve unchanged.
  - the  $LAS$  curve rightward but leaves the  $SAS$  curve unchanged.

**Answer:** C

### Topic: Study Guide Question, Aggregate Supply, Technology

#### Skill: Conceptual

- 154) An increase in the level of technology shifts
- both the  $SAS$  and  $LAS$  curves rightward.
  - both the  $SAS$  and  $LAS$  curves leftward.
  - the  $SAS$  curve rightward but leaves the  $LAS$  unchanged.
  - the  $LAS$  curve rightward but leaves the  $SAS$  curve unchanged.

**Answer:** A

### Topic: Study Guide Question, Aggregate Demand

#### Skill: Recognition

- 155) The aggregate demand curve illustrates that, as the price level rises,
- the quantity of real GDP demanded increases.
  - the quantity of real GDP demanded decreases.
  - the  $AD$  curve shifts rightward.
  - the  $AD$  curve shifts leftward.

**Answer:** B

### Topic: Study Guide Question, Aggregate Demand, Wealth Effect

#### Skill: Conceptual

- 156) As the price level falls, the quantity of real wealth \_\_\_\_\_ and the aggregate quantity of real GDP demanded \_\_\_\_\_.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer:** A

### Topic: Study Guide Question, Below Full-Employment

#### Skill: Conceptual

- 157) If the actual real GDP is less than potential real GDP, the economy is
- not in macroeconomic equilibrium.
  - at full employment.
  - in an above full-employment equilibrium.
  - in a below full-employment equilibrium.

**Answer:** D

Price level	Aggregate demand (trillions of 2000 dollars)	Short-run aggregate supply (trillions of 2000 dollars)	Long-run aggregate supply (trillions of 2000 dollars)
100	13	9	10
105	12	10	10
110	11	11	10
115	10	13	10

**Topic: Study Guide Question, Short-Run Equilibrium****Skill: Analytical**

- 158) Using the data in the above table, in the short-run macroeconomic equilibrium, the price level is \_\_\_\_ and the level of real GDP is \_\_\_\_.
- A) 105; \$10 trillion  
 B) 110; \$10 trillion  
 C) 110; \$11 trillion  
 D) 115; \$10 trillion

**Answer: C****Topic: Study Guide Question, Inflationary Gap****Skill: Analytical**

- 159) Using the data in the above table, in the short-run macroeconomic equilibrium, there is
- A) an inflationary gap of \$1 trillion.  
 B) an inflationary gap of \$2 trillion.  
 C) a recessionary gap of \$1 trillion.  
 D) a recessionary gap of \$2 trillion.

**Answer: A****Topic: Study Guide Question, Long-Run Equilibrium****Skill: Analytical**

- 160) Using the data in the above table, in the long-run macroeconomic equilibrium, the price level is \_\_\_\_ and the level of real GDP is \_\_\_\_.
- A) 115; \$10 trillion  
 B) 110; \$10 trillion  
 C) 105; \$11 trillion  
 D) 115; \$11 trillion

**Answer: A****■ MyEconLab Questions****Topic: Potential GDP****Level I: Definitions and Concepts**

- 161) At potential GDP, the economy has an unemployment rate that \_\_\_\_.

- A) equals zero  
 B) is less than the natural rate of unemployment  
 C) equals full employment  
 D) equals the natural rate of unemployment

**Answer: D****Topic: Long-Run Aggregate Supply****Level I: Definitions and Concepts**

- 162) The long-run aggregate supply curve is the relationship between the quantity of real GDP supplied and \_\_\_\_ when \_\_\_\_.

- A) the price level; real GDP equals potential GDP  
 B) real GDP demanded; the wage rate is constant  
 C) the price level; real GDP equals nominal GDP  
 D) real GDP demanded; the price level

**Answer: A****Topic: Short-Run Aggregate Supply Curve****Level I: Definitions and Concepts**

- 163) Along the short-run aggregate supply curve, \_\_\_\_.

- A) the real wage rate is constant  
 B) real GDP equals potential GDP  
 C) the money wage rate, the prices of other resources, and potential GDP remain constant  
 D) real GDP equals nominal GDP

**Answer: A****Topic: Aggregate Demand****Level I: Definitions and Concepts**

- 164) Aggregate demand is the relationship between the quantity of real GDP demanded and the \_\_\_\_.

- A) price level  
 B) money wage rate  
 C) real wage rate  
 D) nominal GDP demanded

**Answer: A****Topic: Changes in Aggregate Demand, Fiscal Policy****Level I: Definitions and Concepts**

- 165) Disposable income \_\_\_\_ when \_\_\_\_.

- A) increases; taxes increase  
 B) decreases; transfer payments increase  
 C) increases; government purchases decrease  
 D) decreases; aggregate income increases

**Answer: A**

**Topic: Changes in Aggregate Demand, Monetary Policy**

**Level 1: Definitions and Concepts**

- 166) An example of monetary policy is an increase in \_\_\_\_ by the \_\_\_\_, which \_\_\_\_ aggregate demand.
- taxes; government; increases
  - the quantity of money; Federal Reserve; decreases
  - the quantity of money; Federal Reserve; increases
  - the quantity of money; government; increases

**Answer: C**

**Topic: Short-Run Macroeconomic Equilibrium**

**Level 1: Definitions and Concepts**

- 167) Short-run macroeconomic equilibrium occurs when the quantity of real GDP demanded \_\_\_\_.
- equals potential GDP
  - equals full-employment GDP
  - does not equal full-employment GDP
  - equals the quantity of real GDP supplied

**Answer: D**

**Topic: Short-Run Macroeconomic Equilibrium**

**Level 1: Definitions and Concepts**

- 168) When the economy is at an above full-employment equilibrium, \_\_\_\_.
- nominal GDP exceeds real GDP
  - an inflationary gap exists
  - a recessionary gap exists
  - real GDP is less than potential GDP

**Answer: B**

**Topic: Long-Run Macroeconomic Equilibrium**

**Level 1: Definitions and Concepts**

- 169) At long-run macroeconomic equilibrium, \_\_\_\_.
- an inflationary gap exists
  - real GDP equals potential GDP
  - a recessionary gap exists
  - real GDP is less than potential GDP but is as close as it is possible to be

**Answer: B**

**Topic: Deflationary Gap**

**Level 1: Definitions and Concepts**

- 170) If real GDP is less than potential GDP, then the economy is \_\_\_\_ equilibrium.
- at an above full-employment
  - not in short-run macroeconomic
  - at a below full-employment
  - in long-run macroeconomic

**Answer: C**

**Topic: Long-Run Aggregate Supply Curve**

**Level 2: Using Definitions and Concepts**

- 171) When the price level rises, the long-run aggregate supply curve \_\_\_\_.
- shifts rightward
  - does not shift
  - slopes upward
  - shifts leftward

**Answer: B**

**Topic: Movements Along the SAS Curve**

**Level 2: Using Definitions and Concepts**

- 172) If the money wage and other resource prices do not change when the price level rises by 10 percent, \_\_\_\_.
- the long-run aggregate supply curve shifts leftward
  - the short-run aggregate supply curve shifts leftward
  - massive labor lay-offs occur
  - there is movement along the short-run aggregate supply curve

**Answer: D**

**Topic: Changes in Aggregate Supply**

**Level 2: Using Definitions and Concepts**

- 173) The land of Ur increases its capital stock. As a result, the long-run aggregate supply curve shifts \_\_\_\_ and so does the \_\_\_\_ curve.
- rightward; aggregate demand
  - leftward; aggregate demand
  - rightward; short-run aggregate supply
  - leftward; short-run aggregate supply

**Answer: C**

**Topic: Aggregate Demand****Level 2: Using Definitions and Concepts**

174) When the price level increases, \_\_\_\_.

- A) real GDP remains constant
- B) the quantity of real GDP demanded decreases
- C) aggregate demand increases
- D) aggregate demand decreases

**Answer: B****Topic: Aggregate Demand, Wealth Effect****Level 2: Using Definitions and Concepts**

175) As the price level falls and other things remain the same, real wealth \_\_\_\_ and \_\_\_\_.

- A) decreases; short-run aggregate supply decreases
- B) decreases; the quantity of real GDP demanded decreases
- C) increases; aggregate demand increases
- D) increases; the quantity of real GDP demanded increases

**Answer: D****Topic: Changes in Aggregate Demand, Expectations****Level 2: Using Definitions and Concepts**

176) People expect their incomes will decrease next year. As a result, the \_\_\_\_ will shift \_\_\_\_.

- A) short-run aggregate supply curve; rightward
- B) aggregate demand curve; rightward
- C) aggregate demand curve; leftward
- D) long-run aggregate supply curve; rightward

**Answer: C****Topic: Changes in Aggregate Demand****Level 2: Using Definitions and Concepts**

177) Aggregate demand will increase if the quantity of money \_\_\_\_.

- A) decreases or tax rates increase
- B) or transfer payments decrease
- C) remains constant or tax rates increase
- D) increases or tax rates decrease

**Answer: D****Topic: Business Cycle****Level 2: Using Definitions and Concepts**

178) The business cycle is actually a continuous series of different \_\_\_\_.

- A) nominal GDP values
- B) full-employment equilibria
- C) short-run macroeconomic equilibria
- D) potential GDP values

**Answer: C****Topic: Business Cycle****Level 2: Using Definitions and Concepts**179) Starting at full employment, a business cycle can be described by the following sequence:  
\_\_\_\_ equilibrium, \_\_\_\_ equilibrium,  
\_\_\_\_ equilibrium.

- A) full-employment; below full-employment; above full-employment
- B) below full-employment; full-employment; above full-employment
- C) above full-employment; below full-employment; full-employment
- D) below full-employment; full-employment; below full-employment

**Answer: B****Topic: Deflationary Gap****Level 2: Using Definitions and Concepts**

180) An economy is at full employment. Which of the following events can create a deflationary gap?

- A) An increase in foreign income
- B) An increase in taxes
- C) A decrease in the quantity of capital
- D) A decrease in money wages

**Answer: B****Topic: Short-Run Aggregate Supply****Level 3: Calculations and Predictions**

181) Which of the following events will increase short-run aggregate supply?

- A) An advance in technology
- B) An increase in resource prices
- C) An increase in the natural rate of unemployment
- D) An increase in foreign income

**Answer: A****Topic: Long-Run Aggregate Supply****Level 3: Calculations and Predictions**

182) Which of the following events will increase long-run aggregate supply?

- A) An increase in the interest rate
- B) An increase in resource prices
- C) A decrease in expected profit
- D) An advance in technology

**Answer: D**

**Topic: The Aggregate Demand Curve****Level 3: Calculations and Predictions**

183) A change in \_\_\_\_ creates a movement along the aggregate demand curve, while a change in \_\_\_\_ shifts the aggregate demand curve.

- A) expected profits; tax rates
- B) the price level; government purchases
- C) foreign income; the foreign exchange rate
- D) real wealth; human capital

**Answer: B****Topic: Short-Run Macroeconomic Equilibrium****Level 3: Calculations and Predictions**

184) Last year in the country of Union, the price level increased and real GDP increased. Such an outcome might have occurred because short-run aggregate supply \_\_\_\_ and aggregate demand \_\_\_\_.

- A) decreased; decreased
- B) increased; did not change
- C) increased; decreased
- D) did not change; increased

**Answer: D**

Price level	Real GDP demanded (dollars)	Real GDP supplied	
		Short run (dollars)	Long run (dollars)
90	700	300	600
100	600	400	600
110	500	500	600
120	400	600	600

**Topic: Short-Run Macroeconomic Equilibrium****Level 3: Calculations and Predictions**

185) The table above gives the aggregate demand and aggregate supply schedules in Lotus Land. The short-run macroeconomic equilibrium is a price level of \_\_\_\_ and a real GDP of \_\_\_\_.

- A) 90; \$400
- B) 100; \$400
- C) 110; \$500
- D) 120; \$400

**Answer: C****Topic: Recessionary Gap****Level 3: Calculations and Predictions**

186) The table above gives the aggregate demand and aggregate supply schedules in Lotus Land. In short-run equilibrium, there is \_\_\_\_.

- A) an inflationary gap of \$100
- B) a recessionary gap of \$100
- C) a recessionary gap of \$200
- D) an inflationary gap of \$200

**Answer: B****Topic: Recessionary Gap****Level 3: Calculations and Predictions**

187) The table above gives the aggregate demand and aggregate supply schedules in Lotus Land. Lotus Land is in short-run macroeconomic equilibrium. In the long run, Lotus Land will return to full-employment as \_\_\_\_.

- A) the money wage rate rises
- B) the money wage rate falls
- C) businesses cut their imports
- D) the government cuts taxes

**Answer: B****Topic: Long-Run Macroeconomic Equilibrium****Level 3: Calculations and Predictions**

188) The table above gives the aggregate demand and aggregate supply schedules in Lotus Land. With no changes in aggregate demand or long-run aggregate supply, in long-run macroeconomic equilibrium, the price level will be \_\_\_\_ and real GDP will be \_\_\_\_.

- A) 120; \$400
- B) 110; \$500
- C) 90; \$400
- D) 100; \$600

**Answer: D****Topic: Movement to the Long-Run Equilibrium****Level 3: Calculations and Predictions**

189) The country of Stanley is at an above-full employment equilibrium. Which of the following events will return Stanley to full-employment?

- A) An increase in government purchases
- B) A decrease in the interest rate
- C) An increase in the money wage rate
- D) An increase in the quantity of money

**Answer: C**

**Topic: Inflation****Level 3: Calculations and Predictions**

190) When aggregate demand persistently grows at a rate that exceeds the growth rate of long-run aggregate supply, the economy will experience \_\_\_\_\_.

- A) a slowdown in the economic growth rate
- B) rising wage rates
- C) persistent full-employment
- D) persistent inflation

**Answer: D****Topic: Changes in Aggregate Demand, Foreign Exchange Rate****Level 4: Advanced Calculations and Predictions**

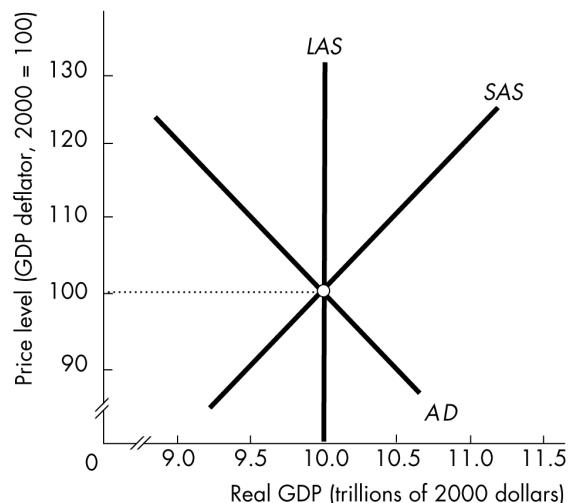
191) Suppose the value of the U.S. dollar decreases from \$1.60 Canadian to \$1.50 Canadian. U.S. exports will \_\_\_, U.S. imports will \_\_\_, and U.S. aggregate demand will \_\_\_.

- A) decrease; increase; decrease
- B) decrease; increase; increase
- C) increase; decrease; increase
- D) increase; increase; increase

**Answer: C****Topic: Changes in Aggregate Demand, Expected Profit****Level 4: Advanced Calculations and Predictions**

192) People expect that the El Nino effect will cause drought in Australia in coming years. If most firms expect their profits will fall during the next five years, Australia's \_\_\_ this year.

- A) aggregate demand will increase
- B) long-run aggregate supply will increase
- C) aggregate demand will decrease
- D) short-run aggregate supply will increase

**Answer: C****Topic: Fluctuations in Aggregate Demand****Level 4: Advanced Calculations and Predictions**

193) The figure above illustrates aggregate demand and aggregate supply in Sparta. Which of the following events will decrease Sparta's real GDP in the short run?

- A) a decrease in taxes
- B) a fall in resource prices
- C) a decrease in government purchases
- D) an increase in investment

**Answer: C****Topic: Fluctuations in Aggregate Demand****Level 4: Advanced Calculations and Predictions**

194) The figure above illustrates aggregate demand and aggregate supply in Sparta. Sparta's price level will rise above 100 if \_\_\_.

- A) government purchases decrease
- B) the quantity of money increases
- C) the quantity of capital increases
- D) taxes increase

**Answer: B****Topic: Changes in Aggregate Supply; Capital****Level 4: Advanced Calculations and Predictions**

195) An increase in the quantity of capital shifts the \_\_\_ curve \_\_\_ and the \_\_\_ curve \_\_\_.

- A) LAS; leftward; SAS; leftward
- B) LAS; rightward; SAS; rightward
- C) AD; rightward; SAS; leftward
- D) AD; leftward; SAS; rightward

**Answer: B**

**Topic: Recessionary Gap****Level 4: Advanced Calculations and Predictions**

- 196) The Great Depression , in which real GDP fell and unemployment rose, can be characterized as a \_\_\_\_\_.  
 \_\_\_\_\_.

- A) inflationary gap
- B) long-run equilibrium
- C) recessionary gap
- D) full-employment equilibrium

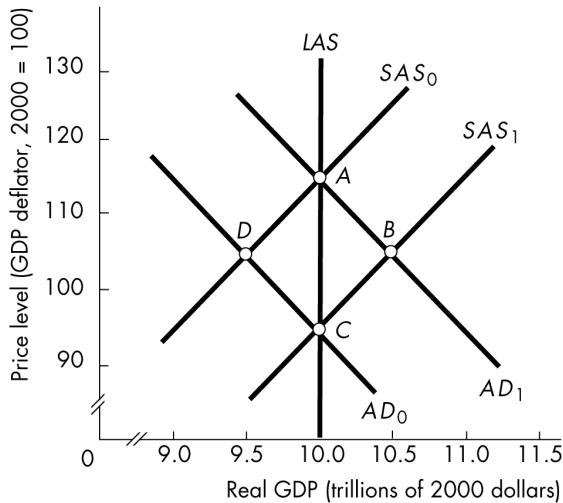
**Answer: C****Topic: Movement to the Long-Run Equilibrium****Level 4: Advanced Calculations and Predictions**

- 197) An economy currently has a inflationary gap. An increase in the money wage rate will \_\_\_\_ the inflationary gap and \_\_\_\_ the price level.  
 \_\_\_\_\_.

- A) decrease; decrease
- B) increase; increase
- C) increase; decrease
- D) decrease; increase

**Answer: D****Topic: Economic Growth****Level 4: Advanced Calculations and Predictions**

- 198) The country of Mu has continuous strong economic growth and a persistently steady price level. This situation is most likely the result of aggregate demand growing \_\_\_\_ aggregate supply.  
 \_\_\_\_\_.
- A) at much the same pace as long-run
  - B) much slower than long-run
  - C) at the same pace as short-run
  - D) much faster than long-run

**Answer: A****Topic: Fluctuations in Short-Run Aggregate Supply****Level 4: Advanced Calculations and Predictions**

- 199) The economy is initially at point *A* in the figure. An increase in \_\_\_\_ will move the economy to point \_\_\_\_ and then an increase in \_\_\_\_ will move the economy to point \_\_\_\_.

- A) taxes; *D*; government purchases; *B*
- B) the money wage rate; *B*; government purchases; *C*
- C) the money wage rate; *C*; taxes; *D*
- D) government purchases; *D*; the money wage rate; *B*

**Answer: A****Topic: Economic Growth****Level 4: Advanced Calculations and Predictions**

- 200) If aggregate demand grows only slightly faster than potential GDP, then the economy will \_\_\_\_.  
 \_\_\_\_\_.
- A) experience economic growth with high inflation
  - B) experience recession
  - C) experience economic growth with low inflation
  - D) be at a business-cycle peak

**Answer: A**

**■ The Classical Model: A Preview****Topic: Real Variables****Skill: Recognition**

- 1) Real variables
  - A) are those that determine the cost of living.
  - B) are those that determine the standard of living.
  - C) include variables such as the price level and inflation rate.
  - D) None of the above answers is correct.

**Answer: B****Topic: Nominal Variables****Skill: Recognition**

- 2) An example of a nominal variable is
  - A) the level of unemployment.
  - B) the price level.
  - C) aggregate working hours.
  - D) the real wage rate.

**Answer: B****Topic: Nominal Variables****Skill: Recognition**

- 3) Nominal variables are expressed in terms of
  - A) deflated values.
  - B) constant values.
  - C) dollar values.
  - D) base year values.

**Answer: C****Topic: Classical Dichotomy****Skill: Recognition**

- 4) The classical dichotomy is a discovery that states
  - A) real and nominal variables are actually the same thing.
  - B) when the economy is at full employment, the forces that determine the real variables are independent of those that determine the nominal variables.
  - C) throughout the business cycle, the forces that determine the real variables are independent of those that determine the nominal variables.
  - D) only nominal variables cause business cycles.

**Answer: B****Topic: Classical Dichotomy****Skill: Recognition**

- 5) The classical dichotomy holds true
  - A) when there is full employment.
  - B) only if there is inflation.
  - C) when the economy is not at full employment.
  - D) over all parts of the business cycle.

**Answer: A****Topic: Classical Dichotomy****Skill: Recognition**

- 6) The classical dichotomy applies when the economy only when the economy
  - A) is at full employment.
  - B) has less than full employment.
  - C) is in a recession.
  - D) has more than full employment.

**Answer: A**

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\* This is Chapter 24 in *Economics*.

**Topic: Classical Dichotomy****Skill: Recognition**

- 7) The classical dichotomy does not apply when the economy is
- at full employment.
  - in a business cycle recession.
  - at any time in the real world.
  - None of the above answers is correct. Because the classical dichotomy always applies.

**Answer: B****Topic: Classical Dichotomy****Skill: Conceptual**

- 8) If we want to compare why real GDP different between two nations, the classical dichotomy means that we have to examine
- only the differences in the price levels and inflation rates of the two nations.
  - only the differences in the real parts of the two nations.
  - both the real parts and the nominal variables of the two nations.
  - None of the above answers is correct.

**Answer: B****Topic: Classical Dichotomy****Skill: Conceptual**

- 9) The classical dichotomy means that the factors that determine the inflation rate are independent of the factors that determine
- real economic growth.
  - nominal GDP.
  - the nominal wage rate.
  - all nominal variables.

**Answer: A****■ Real GDP and Employment****Topic: PPF****Skill: Conceptual**

- 10) Which of the following correctly describe the *PPF* between leisure and real GDP?
- The *PPF* shows the boundary between amounts of goods and services that can be produced versus those that cannot be produced.
  - The *PPF* displays decreasing opportunity costs.
- I only.
  - II only.
  - Both I and II.
  - Neither I nor II.

**Answer: A****Topic: PPF****Skill: Conceptual**

- 11) Consider the nation's production possibilities frontier between leisure and GDP. A decrease in leisure will cause
- an increase in labor input.
  - a movement along the production possibility frontier.
- I only.
  - II only.
  - Both I and II.
  - Neither I nor II.

**Answer: C****Topic: PPF****Skill: Conceptual**

- 12) Because the leisure-real GDP production possibilities frontier is bowed outward, then
- each additional unit of real GDP costs a decreasing amount of forgone leisure.
  - as more real GDP is produced, increasingly more productive labor is being used.
  - the marginal product of labor is increasing as real GDP increases.
  - the slope of the economy's production function decreases as real GDP increases.

**Answer: D**

**Topic: Production Function****Skill: Recognition**

- 13) Moving along the production function shows the relationship between \_\_\_, holding all else constant.
- capital input and real GDP
  - labor input and real GDP
  - labor input, capital input and real GDP
  - technology and real GDP

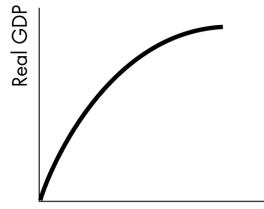
**Answer: B**

Figure A

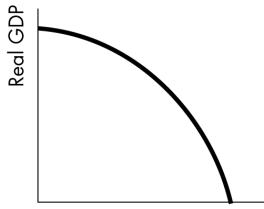


Figure B

**Topic: Production Function****Skill: Conceptual**

- 14) The production function shows that an economy increases its real GDP in the short run by
- developing new technologies.
  - increasing its physical capital stock.
  - using more labor.
  - exploring for new deposits of natural resources.

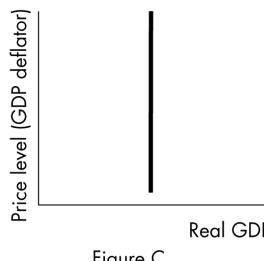
**Answer: C**

Figure C

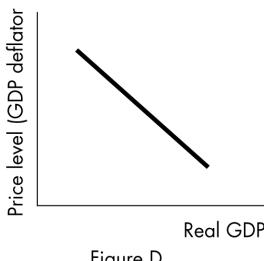


Figure D

**Topic: Production Function****Skill: Conceptual**

- 15) An increase in labor hours will lead to
- a shift of the production function but no movement along it.
  - a movement along the production function but no shift in it.
  - both a movement along and a shift in the production function.
  - neither a movement along nor a shift in the production function.

**Answer: B****Topic: Production Function****Skill: Conceptual**

- 16) Suppose that in a particular factory, holding other things equal, when employment increased from 100 to 110 workers, output increased from 100 to 200 units. If employment was increased from 110 to 120 workers holding other things equal, then output would
- increase by more than 100 because of higher labor force participation.
  - increase by less than 100 because of a rising price level.
  - increase by less than 100 because of diminishing returns.
  - increase by more than 100 because of increasing opportunity cost.

**Answer: C****Topic: Production Function****Skill: Recognition**

- 17) In the illustration above, which figure shows a production function?
- Figure A
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: A****Topic: Production Function****Skill: Recognition**

- 18) In the illustration above, Figure A shows the \_\_\_ and Figure B shows the \_\_\_.
- labor demand curve; production function
  - production possibilities frontier; production function
  - production function; production possibilities frontier
  - aggregate supply curve; production function

**Answer: C**

## ■ Labor Market and Potential GDP

### Topic: Money Wage

#### Skill: Conceptual

- 19) The money wage rate measures the  
 A) constant dollar level of real disposable income.  
 B) 2000 dollar value of a unit of labor supplied by a worker.  
 C) quantity of goods and services that can be bought with an hour of labor.  
 D) number of dollars earned by an hour of labor.

**Answer: D**

### Topic: Real Wage

#### Skill: Conceptual

- 20) The real wage rate measures the  
 A) quantity of goods and services that an hour of work will buy.  
 B) average weekly earnings in dollars of a worker.  
 C) dollar value of an hour of work.  
 D) dollar value of what a worker could earn in another job.

**Answer: A**

### Topic: Real Wage

#### Skill: Recognition

- 21) The real wage rate equals  
 A)  $(100) \times (\text{money wage rate}) / (\text{price level})$ .  
 B)  $(100) \times (\text{price level}) / (\text{money wage rate})$ .  
 C)  $(\text{money wage rate}) \times (\text{price level})$ .  
 D)  $(\text{money wage}) + (\text{number of hours worked}) / (\text{price level})$ .

**Answer: A**

### Topic: Real Wage

#### Skill: Analytical

- 22) If the money wage rate is \$15.00 per hour and the price level is 120, the real wage rate is  
 A) \$8.50 per hour.  
 B) \$10.75 per hour.  
 C) \$12.50 per hour.  
 D) \$15.00 per hour.

**Answer: C**

### Topic: Real Wage

#### Skill: Analytical

- 23) If the money wage rate is \$10.00 per hour and the price level is 60, the real wage rate is  
 A) \$16.67 per hour.  
 B) \$18.75 per hour.  
 C) \$10.00 per hour.  
 D) \$12.50 per hour.

**Answer: A**

### Topic: Real Wage

#### Skill: Analytical

- 24) If the real wage rate is \$10.00 per hour and the price level is 60, the money wage rate is  
 A) \$16.75 per hour.  
 B) \$18.50 per hour.  
 C) \$10.00 per hour.  
 D) \$6.00 per hour.

**Answer: D**

### Topic: Real Wage

#### Skill: Analytical

- 25) If the real wage rate is \$15.00 per hour and the price level is 180, the money wage rate is  
 A) \$16.67 per hour.  
 B) \$18.75 per hour.  
 C) \$27.00 per hour.  
 D) \$20.50 per hour.

**Answer: C**

### Topic: Real Wage

#### Skill: Analytical

- 26) If the real wage rate is \$12.50 per hour and the price level is 90, the money wage rate is  
 A) \$11.25 per hour.  
 B) \$13.88 per hour.  
 C) \$23.75 per hour.  
 D) \$13.40 per hour.

**Answer: A**

### Topic: Real Wage

#### Skill: Analytical

- 27) If the real wage rate is \$25.00 per hour and the price level is 115, the money wage rate is  
 A) \$26.15 per hour.  
 B) \$23.00 per hour.  
 C) \$21.75 per hour.  
 D) \$28.75 per hour.

**Answer: D**

**Topic: Real Wage****Skill: Analytical**

- 28) The real wage rate falls if the money wage rate \_\_\_\_.
- rises more rapidly than the price level
  - rises more slowly than the price level
  - is constant and the price level falls
  - and the price level change by the same proportion

**Answer: B****Topic: Real Wage****Skill: Analytical**

- 29) The real wage rate rises if the money wage rate \_\_\_\_.
- and the price level change by the same proportion
  - rises and the price level rises by the same percentage
  - rises more slowly than the price level
  - rises more rapidly than the price level

**Answer: D****Topic: Marginal Product of Labor****Skill: Recognition**

- 30) Which pieces of information do you need to calculate the  $MPL$ ?
- the change in real GDP.
  - the change in the quantity of money.
  - the change in the amount of labor input.
- I and III.
  - I only.
  - III only.
  - II and III.

**Answer: A****Topic: Marginal Product of Labor****Skill: Recognition**

- 31) The marginal product of labor is diminishing because as labor hours
- increase, capital and technology are fixed.
  - increase, output increases.
  - decrease; output falls very little.
  - decrease, capital will decrease.

**Answer: A****Topic: Marginal Product of Labor****Skill: Recognition**

- 32) The marginal product of labor curve shows a \_\_\_\_\_ relationship between \_\_\_\_.
- positive; the marginal product of labor and capital
  - positive; the marginal product of labor and the quantity of labor
  - negative; the marginal product of labor and capital
  - negative; the marginal product of labor and the quantity of labor

**Answer: D**

Quantity of labor (hours of work)	Output (units per hour)
0	0
1	9
2	16
3	21
4	24
5	25

**Topic: Marginal Product of Labor****Skill: Analytical**

- 33) Based on the previous table, the marginal product of the second hour is
- 9 units.
  - 8 units.
  - 16 units.
  - 7 units.

**Answer: D****Topic: Diminishing Returns****Skill: Conceptual**

- 34) The marginal product of labor is assumed to decrease as more labor is employed because
- each extra hour is less skilled than the previous hour.
  - the more labor employed, the more productive the workers become.
  - capital and technology are fixed at any particular point in time.
  - labor is assumed to be not equally suited for all types of alternative productive activities.

**Answer: C**

**Topic: Demand for Labor****Skill: Conceptual**

- 35) Which of the following is (are) TRUE regarding the demand for labor?
- The quantity of labor demanded depends on the real wage rate.
  - If the money wage rate increases and the price level remains the same, the quantity of labor demanded decreases.
  - If the money wage rate and the price level increase in the same proportion, the quantity of labor demanded decreases.
- I.
  - I and II.
  - II and III.
  - I, II, and III.

**Answer: B****Topic: Demand for Labor****Skill: Recognition**

- 36) The relationship between the labor employed by a firm and the real wage rate is shown by the
- supply of labor curve.
  - supply of jobs curve.
  - demand for jobs curve.
  - demand for labor curve.

**Answer: D****Topic: Demand for Labor****Skill: Recognition**

- 37) The quantity of labor demanded depends on
- the money wage rate not the real wage rate.
  - the real wage rate not the money wage rate.
  - the price of output not the money wage rate nor the real wage rate.
  - the level of income.

**Answer: B****Topic: Demand for Labor****Skill: Conceptual**

- 38) Because the marginal product of labor decreases as the quantity of labor employed increases, the quantity of labor a firm demands
- rises as the real wage rate falls.
  - rises as the money wage rate rises.
  - can either rise or fall as the real wage rate changes depending on what is happening to the money wage rate.
  - none of the above because the marginal product of labor is independent of the quantity of labor demanded.

**Answer: A****Topic: Demand for Labor****Skill: Analytical**

- 39) If the price of a firm's output falls by 5 percent and the money wages it pays remain constant, the firm's
- quantity of labor demanded will decrease.
  - quantity of labor demanded will increase.
  - quantity of labor demanded will not change.
  - supply of jobs will increase.

**Answer: A****Topic: Demand for Labor****Skill: Analytical**

- 40) If the price level falls by 5 percent and workers' money wage rates remain constant, firms'
- quantity of labor demanded will decrease.
  - quantity of labor demanded will increase.
  - supply of jobs will increase.
  - None of the above answers are correct.

**Answer: A****Topic: Demand for Labor****Skill: Analytical**

- 41) If the price level rises by 5 percent and workers' money wage rates remain constant, firms'
- quantity of labor demanded will decrease.
  - quantity of labor demanded will increase.
  - supply of jobs will decrease.
  - None of the above answers are correct.

**Answer: B**

**Topic: Demand for Labor****Skill: Analytical**

- 42) Suppose there is a rise in the price level, but no change in the money wage rate. As a result, the quantity of labor demanded
- increases.
  - decreases.
  - does not change because there is no change in the real wage rate.
  - decreases only if the money wage rate also decreases.

**Answer: A****Topic: Demand for Labor****Skill: Analytical**

- 43) Suppose there is a rise in the real wage rate. As a result, the quantity of labor demanded
- increases.
  - decreases.
  - does not change because there is no change in the money wage rate.
  - increases only if the price level also decreases.

**Answer: B****Topic: Demand for Labor****Skill: Analytical**

- 44) Suppose the money wage rate and the price level both fall by 5 percent. As a result,
- the quantity of labor demanded increases.
  - the quantity of labor demanded decreases.
  - the quantity of labor demanded does not change because there is no change in the real wage.
  - people are worse off and there is more unemployment.

**Answer: C****Topic: Demand for Labor Curve****Skill: Recognition**

- 45) The demand for labor curve slopes downwards because
- as more workers are hired, the marginal product of labor increases.
  - as more workers are hired, the marginal product of labor decreases.
  - output increases as more workers are hired.
  - as more workers are hired, output decreases.

**Answer: B****Topic: Demand for Labor Curve****Skill: Recognition**

- 46) The demand for labor curve is plotted with the \_\_\_\_\_ on the vertical axis and is \_\_\_\_\_.
- price level of goods and services; upward sloping
  - price level of goods and services; downward sloping
  - real wage rate; upward sloping
  - real wage rate; downward sloping

**Answer: D****Topic: Demand for Labor Curve****Skill: Recognition**

- 47) The demand for labor curve
- slopes upward.
  - is horizontal.
  - slopes downward.
  - is vertical.

**Answer: C****Topic: Demand for Labor Curve****Skill: Conceptual**

- 48) The labor demand curve slopes downward because
- the firm maximizes profits by hiring more labor when the real wage rate rises.
  - workers supply more hours of work when the real wage rate rises.
  - the firm maximizes profits by hiring more labor when the real wage rate falls.
  - workers supply fewer hours of work when the real wage rate rises.

**Answer: C****Topic: Supply of Labor****Skill: Conceptual**

- 49) The quantity of labor supplied depends on the
- money wage rate not the real wage rate.
  - real wage rate not the money wage rate.
  - price of output not the money wage rate nor the real wage rate.
  - level of profits.

**Answer: B**

**Topic: Supply of Labor****Skill: Recognition**

- 50) When the real wage rate rises,
- people supply less labor and take more leisure.
  - people supply more labor because the opportunity cost of leisure increases.
  - some people are likely to enter the labor force.
  - Both answers B and C are correct.

**Answer: D****Topic: Supply of Labor****Skill: Recognition**

- 51) If the real wage increases, the
- opportunity cost of not working increases and so people will want to work more.
  - opportunity cost of not working decreases so people will want to work less.
  - income effect causes people to want to work more.
  - income effect causes people to maintain their current level of work.

**Answer: A****Topic: Supply of Labor****Skill: Analytical**

- 52) If workers' money wage rates increase by 5 percent and the price level remains constant, the workers'
- quantity of labor supplied will decrease.
  - quantity of labor supplied will increase.
  - quantity of labor supplied will not change.
  - demand for jobs will decrease.

**Answer: B****Topic: Supply of Labor Curve****Skill: Recognition**

- 53) The relationship between the hours of labor supplied and the real wage rate is shown by the
- supply of labor curve.
  - supply of jobs curve.
  - demand for jobs curve.
  - demand for labor curve.

**Answer: A****Topic: Supply of Labor Curve****Skill: Recognition**

- 54) The supply of labor curve
- slopes downward.
  - is horizontal.
  - slopes upward.
  - is vertical.

**Answer: C****Topic: Supply of Labor Curve****Skill: Conceptual**

- 55) The supply of labor curve slopes upward, in part, because
- the opportunity cost of taking leisure rises when the real wage rate increases.
  - households' incomes increase when the real wage rate increases.
  - firms will demand more labor when the real wage rate falls.
  - workers are better off when the money wage rate falls and the price level rises.

**Answer: A****Topic: Supply of Labor Curve****Skill: Recognition**

- 56) Which of the following statements is correct?
- When the real wage increases, the labor supply curve shifts rightward.
  - When the real wage increases, the labor supply curve shifts leftward.
  - When the real wage decreases, the labor supply curve shifts leftward.
  - None of the above statements are correct.

**Answer: D****Topic: Supply of Labor Curve****Skill: Conceptual**

- 57) Which statement concerning the labor supply curve is correct?
- For most individuals, a higher real wage rate leads to a decrease in the quantity of labor supplied.
  - Labor force participation decreases when the real wage rate rises.
  - The quantity of labor supplied responds strongly to changes in the money wage rate.
  - A small percentage change in the real wage rate brings a small percentage change in the quantity of labor supplied.

**Answer: D**

**Topic: Supply of Labor Curve****Skill: Conceptual**

- 58) Suppose there is an increase in the price level and no change in the money wage rate. As a result,
- there is an upward movement along the labor supply curve.
  - there is a downward movement along the labor supply curve.
  - the labor supply curve shifts leftward as people demand higher wages.
  - the labor supply curve shifts rightward as people demand higher wages.

**Answer: B****Topic: Labor Market Equilibrium****Skill: Recognition**

- 59) If the quantity of labor supplied equals the quantity of labor demanded,
- a full-employment equilibrium occurs.
  - real GDP is at potential GDP.
  - the opportunity cost effect of not working equals the income effect.
  - Both answers A and B are correct.

**Answer: D****Topic: Labor Market Equilibrium****Skill: Recognition**

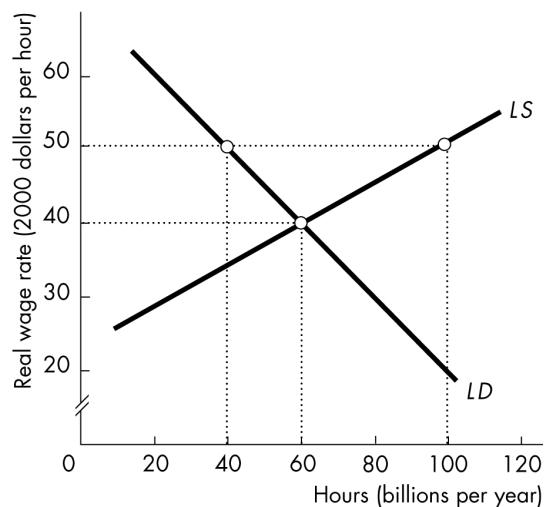
- 60) If at the prevailing real wage rate, the quantity of labor supplied exceeds the quantity demanded,
- there is a shortage of labor.
  - the real wage rate will rise to restore equilibrium.
  - the real wage rate is greater than the equilibrium real wage rate.
  - None of the above answers is correct.

**Answer: C****Topic: Labor Market Equilibrium****Skill: Conceptual**

- 61) At the full-employment equilibrium in the labor market,
- there is no unemployment.
  - there are no job vacancies.
  - there is neither a shortage nor a surplus of labor.
  - the money wage rate equals the real wage rate.

**Answer: C****Topic: Labor Market Equilibrium****Skill: Conceptual**

- 62) When the quantity of labor demanded exceeds the quantity of labor supplied the real wage rate
- rises to eliminate the labor-market shortage.
  - falls to eliminate the labor-market surplus.
  - rises to eliminate the labor-market surplus.
  - falls to eliminate the labor-market shortage.

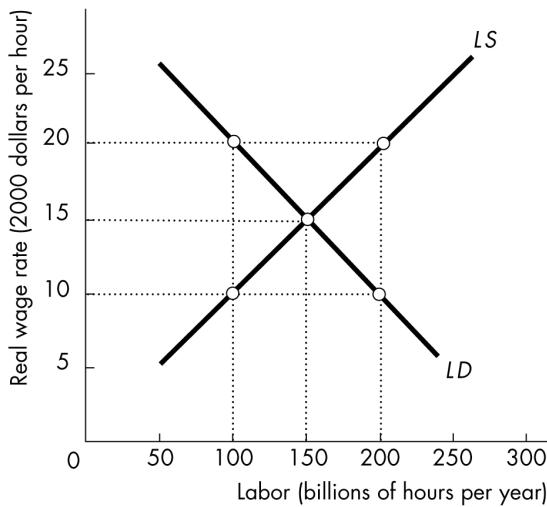
**Answer: A****Topic: Labor Market Equilibrium****Skill: Analytical**

- 63) In the above figure, at the wage rate of \$50
- there is a surplus of 100 billion hours per year.
  - there is a shortage of 100 billion hours per year.
  - there is a surplus of 60 billion hours per year.
  - there is shortage of 20 billion hours per year.

**Answer: C****Topic: Labor Market Equilibrium****Skill: Analytical**

- 64) In the above figure, what is the full-employment real wage rate and quantity of hours per year?
- \$40 and 60 billion hours per year
  - \$50 and 100 billion hours per year
  - \$35 and 100 billion hours per year
  - \$50 and 40 billion hours per year

**Answer: A**

**Topic: Labor Market Equilibrium****Skill: Analytical**

- 65) In the above figure, the equilibrium real wage rate is
- \$10 per hour.
  - \$15 per hour.
  - \$20 per hour.
  - None of the above.

**Answer: B****Topic: Labor Market Equilibrium****Skill: Analytical**

- 66) In the above figure, the equilibrium level of labor is
- 100 billion hours.
  - 150 billion hours.
  - 200 billion hours.
  - None of the above.

**Answer: B****Topic: Labor Market Equilibrium****Skill: Analytical**

- 67) In the above figure, if the real wage is \$20 per hour and there are no efficiency wages, a labor shortage will occur and the real wage will rise.
- shortage will occur and the real wage will rise.
  - shortage will occur and the real wage will fall.
  - surplus will occur and the real wage will rise.
  - surplus will occur and the real wage will fall.

**Answer: D****Topic: Labor Market Equilibrium****Skill: Analytical**

- 68) In the above figure, if the real wage is \$10 per hour, a labor shortage will occur and the real wage will rise.
- shortage will occur and the real wage will fall.
  - surplus will occur and the real wage will rise.
  - surplus will occur and the real wage will fall.

**Answer: A****Topic: Labor Market Equilibrium****Skill: Analytical**

- 69) If the labor market is in equilibrium and then the labor supply curve shifts rightward,
- there will be a shortage of labor at the original equilibrium wage rate.
  - there will be a surplus of labor at the original equilibrium wage rate.
  - the equilibrium wage rate will rise.
  - there will be a surplus of jobs at the new equilibrium.

**Answer: B****■ Unemployment at Full Employment****Topic: Unemployment at Full Employment****Skill: Recognition**

- 70) In a dynamic, ever-changing economy, the full-employment level of economic activity will entail some unemployment because
- some people are inherently lazy.
  - there is both job search and job rationing.
  - job search is lengthened by meager unemployment insurance benefits.
  - All of the above answers are correct.

**Answer: B****Topic: Job Search****Skill: Conceptual**

- 71) Job search occurs
- only when labor supply increases.
  - only when the quantity of labor demanded exceeds the quantity of labor supplied.
  - only when the quantity of labor supplied exceeds the quantity of labor demanded.
  - at all times in the labor market.

**Answer: D**

**Topic: Job Search****Skill: Conceptual**

- 72) Which of the following have an immediate effect on the amount of job search?
- real wage being paid.
  - potential GDP.
  - unemployment benefits.
- I only.
  - I and II.
  - II and III.
  - I and III.

**Answer: D****Topic: Job Search****Skill: Conceptual**

- 73) Which of the following would reduce the natural rate of unemployment?
- Legislation that provides more generous unemployment compensation benefits.
  - An increase in the proportion of households with two wage-earners.
  - Population changes that reduce the average age of the work-force and increases the proportion of job-market entrants.
  - None of the above reduce the natural rate of unemployment because they would all raise it.

**Answer: D****Topic: Job Search, Demographic Change****Skill: Conceptual**

- 74) Which demographic change was partly responsible for the decrease in the natural rate of unemployment during the 1980s?
- An increasing proportion of adult women entered the labor force.
  - The baby boom generation left school to enter the labor force.
  - There was an increase in the number of two-worker households.
  - New entrants to the labor force declined in the 1980s.

**Answer: D****Topic: Job Search, Unemployment Compensation****Skill: Conceptual**

- 75) If the maximum length of time an individual could collect unemployment compensation were sharply reduced, then
- job search unemployment would rise.
  - the measured unemployment rate would rise.
  - unemployment due to job rationing would fall.
  - the natural rate of unemployment would fall.

**Answer: D****Topic: Job Search, Unemployment Compensation****Skill: Conceptual**

- 76) If a person is unemployed and has no income, the opportunity cost of a job search is \_\_\_\_ and a worker is likely to search for a \_\_\_\_ period of time.
- high; long
  - high; short
  - low; long
  - low; short

**Answer: B****Topic: Job Search, Unemployment Compensation****Skill: Conceptual**

- 77) If unemployment compensation benefits are extended to more groups in an economy, the opportunity cost of job search will \_\_\_\_ and the natural rate of unemployment will \_\_\_\_.
- increase; increase
  - increase; decrease
  - decrease; increase
  - decrease; decrease

**Answer: C****Topic: Job Search, Structural Change****Skill: Recognition**

- 78) An important factor changing the U.S. natural rate of unemployment has been
- changes in the population's work ethic.
  - demographic change.
  - changes in the money wage.
  - changes in labor productivity.

**Answer: B**

**Topic: Job Rationing****Skill: Recognition**

- 79) Job rationing is the practice of paying workers a wage that is \_\_\_\_ the equilibrium wage, thus \_\_\_\_ the unemployment rate.

- A) below; increasing
- B) below; decreasing
- C) above; increasing
- D) above; decreasing

**Answer: C****Topic: Job Rationing****Skill: Recognition**

- 80) The practice of paying a real wage rate above the equilibrium level is known as

- A) job search.
- B) job rationing.
- C) inefficiency wages.
- D) learning-by-doing.

**Answer: B****Topic: Job Rationing****Skill: Conceptual**

- 81) Suppose the equilibrium real wage is \$35 per hour and the current real wage rises to \$40 per hour while the equilibrium real wage remains \$35 per hour. Which of the following will occur?
- I) Job search will increase.
  - II) The unemployment rate will be greater than the natural rate of unemployment.
  - III) Labor productivity will increase.

- A) I only.
- B) I and II.
- C) I and III.
- D) I, II and III.

**Answer: B****Topic: Efficiency Wage****Skill: Recognition**

- 82) Which of the following would decrease the unemployment rate?
- A) An increase in the efficiency wages firms pay.
  - B) A decrease in the efficiency wages firms pay.
  - C) An increase in the minimum wage.
  - D) An increase in unemployment compensation.

**Answer: B****Topic: Efficiency Wage****Skill: Recognition**

- 83) The efficiency wage paid by a firm is the profit-maximizing wage that balances the benefits of paying

- A) higher wages to attract higher quality workers against the costs of making higher payments to labor.
- B) lower wages to attract higher quality workers against the costs of making lower payments to labor.
- C) higher wages to attract lower quality workers against the costs of making higher payments to labor.
- D) lower wages to attract lower quality workers against the costs of making higher payments to labor.

**Answer: A****Topic: Efficiency Wage****Skill: Conceptual**

- 84) Which of the following is NOT a benefit from paying a high efficiency wage?
- A) Attracting higher quality workers.
  - B) Increasing turnover rates of workers.
  - C) Motivating greater productivity from workers.
  - D) None of the above because all the answers are benefits from a high efficiency wage.

**Answer: B****Topic: Efficiency Wage****Skill: Conceptual**

- 85) The benefits to a firm of paying efficiency wages include all of the following EXCEPT
- A) the firm might attract more productive workers.
  - B) the firm's workers will be motivated to work harder.
  - C) the firm's workers will be less likely to quit.
  - D) the firm's total wage bill will be lower.

**Answer: D**

**Topic: Efficiency Wage****Skill: Conceptual**

- 86) An efficiency wage results in increased unemployment because it
- increases the quantity of labor supplied and decreases the quantity of labor demanded.
  - increases the quantity of labor demanded and decreases the quantity of labor supplied.
  - increases both the quantity of labor supplied and the quantity of labor demanded.
  - decreases both the quantity of labor supplied and the quantity of labor demanded.

**Answer: A****Topic: Minimum Wage****Skill: Conceptual**

- 87) If the minimum wage is set above the level of the equilibrium wage,
- unemployment will rise.
  - unemployment will fall.
  - a shortage of labor will be created.
  - the government will lower the minimum wage back to equality with the equilibrium wage.

**Answer: A**

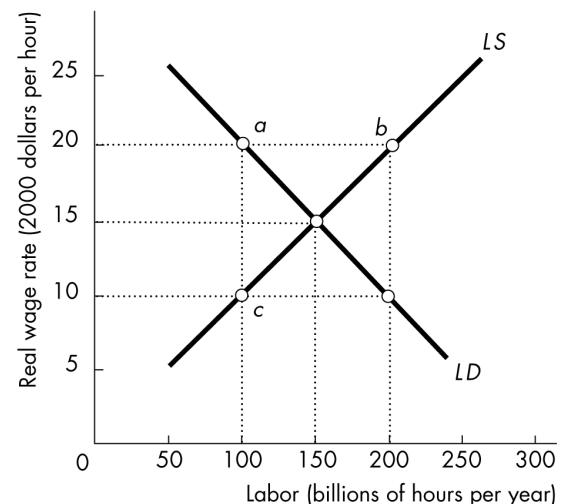
Wage rate (dollars per hour)	Labor supply (hours)	Labor demand (hours)
22	900	940
23	910	930
24	920	920
25	930	910
26	940	900
27	950	890

**Topic: Minimum Wage****Skill: Analytical**

- 88) Using the data in the above table, suppose that the minimum wage is \$23 per hour. Then
- there will be higher unemployment than if there was not a minimum wage.
  - the labor market cannot reach the equilibrium it would reach without the minimum wage.
  - the minimum wage has no effect because it is below the equilibrium wage.
  - the wage is prevented from going higher than \$23 per hour.

**Answer: C****Topic: Minimum Wage****Skill: Analytical**

- 89) Using the data in the above table, suppose that the minimum wage is \$25 per hour. Then
- the minimum wage has no effect because it is below the equilibrium wage.
  - the minimum wage has no effect because it is above the equilibrium wage.
  - the wage is forced above the equilibrium level and there is more unemployment than there would be without the minimum wage.
  - at the minimum wage, the quantity of labor demanded exceeds the quantity supplied.

**Answer: C****Topic: Labor Market Equilibrium****Skill: Analytical**

- 90) In the above figure, in the absence of efficiency wages, if the real wage is \$20 per hour, money wages could
- fall or the price level could rise to eliminate unemployment given by *ab*.
  - rise or the price level could rise to eliminate unemployment given by *ab*.
  - fall or the price level could fall to eliminate unemployment given by *ac*.
  - rise or the price level could fall to eliminate unemployment given by *ac*.

**Answer: A**

**Topic: Efficiency Wage****Skill: Analytical**

- 91) In the above figure, if the efficiency wage is \$20 per hour,
- decreasing the efficiency wage would increase unemployment.
  - decreasing the efficiency wage would decrease unemployment.
  - increasing the efficiency wage would decrease unemployment.
  - reducing the efficiency wage would have no impact on unemployment.

**Answer: B****Topic: Minimum Wage****Skill: Analytical**

- 92) In the above figure, if the minimum wage is \$20 per hour,
- decreasing the minimum wage would increase unemployment.
  - decreasing the minimum wage would decrease unemployment.
  - increasing the minimum wage would decrease unemployment.
  - reducing the minimum wage would have no impact on unemployment.

**Answer: B**

## ■ Investment, Saving and the Interest Rate

**Topic: Capital Stock****Skill: Recognition**

- 93) The capital stock in the economy is the
- quantity of plant, equipment, and inventories.
  - total financial assets of the public.
  - financial assets held by firms.
  - quantity of plant and equipment owned by governments.

**Answer: A****Topic: Capital Stock****Skill: Conceptual**

- 94) Social infrastructure capital is primarily created by
- private investment.
  - business.
  - government investment.
  - household investment.

**Answer: C****Topic: Capital Stock****Skill: Recognition**

- 95) All of the following are examples of social infrastructure EXCEPT
- publicly owned schools.
  - highways built by local governments.
  - dams built by the federal government.
  - equipment owned by firms.

**Answer: D****Topic: Capital Stock****Skill: Recognition**

- 96) The capital stock increases whenever
- gross investment exceeds net investment.
  - net investment exceeds gross investment.
  - gross investment is negative.
  - net investment is positive.

**Answer: D****Topic: Investment****Skill: Recognition**

- 97) The increase in the capital stock equals the amount of
- gross investment.
  - depreciation.
  - net investment.
  - private sector spending.

**Answer: C****Topic: Investment****Skill: Recognition**

- 98) Net investment equals
- capital stock minus depreciation.
  - gross investment minus depreciation.
  - the total quantity of plant, equipment and buildings.
  - gross investment/depreciation.

**Answer: B****Topic: Real Interest Rate****Skill: Recognition**

- 99) Which of the following is TRUE regarding the real interest rate?
- The real interest rate is the return on capital.
  - The real interest rate equals the nominal interest rate adjusted for inflation.
- I.
  - II.
  - Both I and II.
  - Neither I nor II.

**Answer: C**

**Topic: Real Interest Rate****Skill: Conceptual**

- 100) If you lend a dollar for a year and at the end of the year the price level has risen by 10 percent,
- the purchasing power of your loan has risen over the year regardless of the interest rate at which you lent it.
  - the purchasing power of your loan has remained constant over the year regardless of the interest rate at which you lent it.
  - you must have earned a nominal interest rate of 10 percent to maintain the purchasing power of your loan.
  - you must have earned a nominal interest rate of 5 percent to maintain the purchasing power of your loan.

**Answer: C****Topic: Real Interest Rate****Skill: Analytical**

- 101) If the nominal interest rate is 10 percent and inflation is 7 percent, the real interest rate is approximately
- 17 percent.
  - 3 percent.
  - 1.4 percent.
  - 3 percent.

**Answer: B****Topic: Real Interest Rate****Skill: Analytical**

- 102) If the nominal interest rate is 7 percent and the inflation rate is 2 percent, the real interest rate is approximately
- 9 percent.
  - 5 percent.
  - 3.5 percent.
  - 5 percent.

**Answer: B****Topic: Real Interest Rate****Skill: Analytical**

- 103) If the real interest rate is 3 percent and the inflation rate is 2 percent, the nominal interest rate is approximately
- 1 percent.
  - 1 percent.
  - 1.5 percent.
  - 5 percent.

**Answer: D****Topic: Real Interest Rate****Skill: Analytical**

- 104) If the real interest rate is 4 percent and the inflation rate is 3 percent, the nominal interest rate is approximately
- 7 percent.
  - 12 percent.
  - 1 percent.
  - 1.33 percent.

**Answer: A****Topic: Expected Profit Rate****Skill: Recognition**

- 105) Other things remaining the same, the greater the expected profit rate from capital,
- the less the amount of investment.
  - the greater the amount of investment.
  - the steeper is the investment demand curve.
  - the flatter is the investment demand curve.

**Answer: B****Topic: Expected Profit Rate****Skill: Recognition**

- 106) Which of the following influence the expected profit rate?
- Advances in technology.
  - Taxes.
  - Nominal interest rate.
- I.
  - I and II.
  - I and III.
  - I, II, and III.

**Answer: B****Topic: Expected Profit Rate****Skill: Conceptual**

- 107) During a business cycle expansion, expected profit rates \_\_\_\_ and firms' investment \_\_\_\_.
- fall; increases
  - rise; decreases
  - fall; decreases
  - rise; increases

**Answer: D**

**Topic: Expected Profit Rate****Skill: Conceptual**

- 108) During a recession, expected profit rates \_\_\_\_ and firms' investment \_\_\_\_.
- fall; increases
  - rise; decreases
  - fall; decreases
  - rise; increases

**Answer: C****Topic: The Real Interest Rate and Investment****Skill: Conceptual**

- 109) The opportunity cost of investment is the
- nominal interest rate on government bonds.
  - nominal interest rate on corporate bonds.
  - real interest rate.
  - nominal interest rate.

**Answer: C****Topic: The Real Interest Rate and Investment****Skill: Conceptual**

- 110) Suppose a firm borrows funds to finance investment. The opportunity cost of this investment
- is greater than if the firm used its retained earnings.
  - is less than if the firm used its retained earnings.
  - is greater than the real interest rate.
  - is equal to the real interest rate.

**Answer: D****Topic: Investment Decisions****Skill: Conceptual**

- 111) If the expected profit rate on an investment project is 20 percent per year, a firm will undertake the project as long as the
- real interest rate is less than 20 percent.
  - real interest rate is more than 20 percent.
  - nominal interest rate is more than 20 percent.
  - nominal interest rate is less than 20 percent.

**Answer: A****Topic: Investment Demand Curve****Skill: Recognition**

- 112) The investment demand curve
- is horizontal.
  - has a negative slope.
  - is vertical.
  - has a positive slope.

**Answer: B****Topic: Investment Demand Curve****Skill: Recognition**

- 113) The investment demand curve is drawn with investment on the horizontal axis and
- consumption on the vertical axis.
  - the real interest rate on the vertical axis.
  - the investment price deflator on the vertical axis.
  - time on the vertical axis.

**Answer: B****Topic: Investment Demand Curve****Skill: Conceptual**

- 114) A rise in the real interest rate
- shifts the investment demand curve rightward.
  - shifts the investment demand curve leftward.
  - creates a movement upward along the investment demand curve.
  - creates a movement downward along the investment demand curve.

**Answer: C****Topic: Investment Demand Curve****Skill: Conceptual**

- 115) A fall in the real interest rate
- shifts the investment demand curve rightward.
  - shifts the investment demand curve leftward.
  - creates a movement upward along the investment demand curve.
  - creates a movement downward along the investment demand curve.

**Answer: D****Topic: Investment Demand Curve****Skill: Conceptual**

- 116) A rise in the real interest rate
- decreases investment demand.
  - increases investment demand.
  - decreases the quantity of investment demanded.
  - increases the quantity of investment demanded.

**Answer: C****Topic: Investment Demand Curve****Skill: Conceptual**

- 117) A decrease in the real interest rate leads to a \_\_\_\_ the investment demand curve, and a decrease in the expected profit rate leads to a \_\_\_\_ the investment demand curve.
- rightward shift in; leftward shift in
  - movement down along; movement up along
  - rightward shift in; movement up along
  - movement down along; leftward shift in

**Answer: D**

**Topic: Investment Demand Curve****Skill: Conceptual**

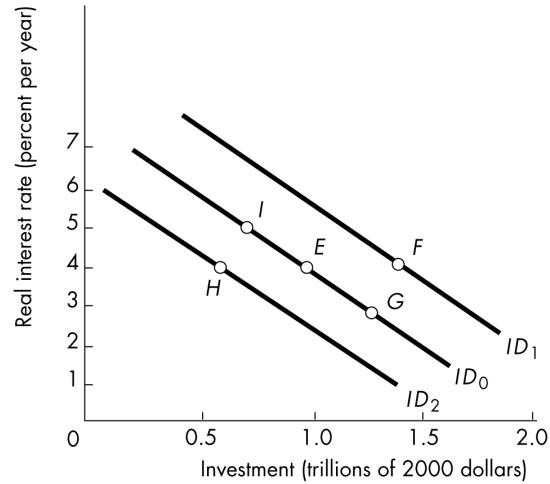
- 118) A decrease in investment demand and a leftward shift of the investment demand curve results from
- an increase in the real interest rate.
  - technological improvements.
  - tax cuts.
  - decreases in the expected profit rate during recessions.

**Answer: D****Topic: Investment Demand Curve****Skill: Conceptual**

- 119) Greater optimism about the expected profits from investment projects
- shifts the investment demand curve rightward.
  - shifts the investment demand curve leftward.
  - causes a movement upward along the investment demand curve.
  - causes a movement downward along the investment demand curve.

**Answer: A****Topic: Investment Demand Curve****Skill: Conceptual**

- 120) Which of the following shifts the investment demand curve leftward?
- A fall in the real interest rate.
  - The economy enters the expansion phase of a business cycle.
  - A decrease in the taxes paid by the business.
  - A decrease in the expected profit rate.

**Answer: D****Topic: Investment Demand Curve****Skill: Analytical**

- 121) In the above figure, a decrease in the real interest rate will result in a movement from point E to
- point F.
  - point G.
  - point H.
  - point I.

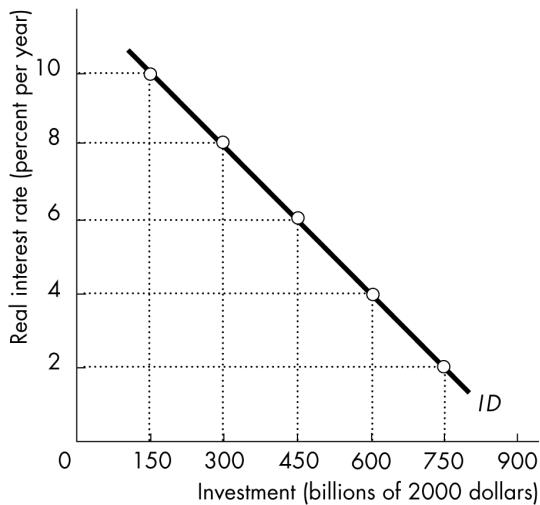
**Answer: B****Topic: Investment Demand Curve****Skill: Analytical**

- 122) In the above figure, the start of an economic expansion will affect profit expectations and result in a movement from point E to
- point F.
  - point G.
  - point H.
  - point I.

**Answer: A****Topic: Investment Demand Curve****Skill: Analytical**

- 123) In the above figure, an increase in taxes results in a movement from point E to
- point F.
  - point G.
  - point H.
  - point I.

**Answer: C**

**Topic: Investment Demand Curve****Skill: Analytical**

- 124) In the above figure, if the real interest rate is 6 percent, investment is
- \$150 billion.
  - \$300 billion.
  - \$450 billion.
  - \$600 billion.

**Answer: C****Topic: Investment Demand Curve****Skill: Analytical**

- 125) In the above figure, the investment demand curve *ID* is drawn for the average expected profit rate. If the real interest rate is constant at 6 percent and firms come to believe that the economy is headed into a recession, investment will be
- less than \$450 billion.
  - \$450 billion.
  - between \$450 billion and \$600 billion.
  - greater than \$600 billion.

**Answer: A****Topic: Investment Demand Curve****Skill: Analytical**

- 126) In the above figure, the investment demand curve *ID* is drawn for the average expected profit rate. If the real interest rate is constant at 6 percent and firms come to believe that the economy is headed into a stronger expansion, investment will be
- less than \$450 billion.
  - \$450 billion.
  - between \$300 billion and \$450 billion.
  - greater than \$450 billion.

**Answer: D****Topic: Investment Demand Curve****Skill: Analytical**

- 127) In the above figure, if the real interest rate rises from 4 to 6 percent, the quantity of investment
- decreases from \$600 billion to \$450 billion.
  - increases from \$450 billion to \$600 billion.
  - increases above \$450 billion.
  - increases above \$600 billion.

**Answer: A****Topic: Investment Demand Curve****Skill: Analytical**

- 128) In the above figure, if the real interest rate falls from 10 to 8 percent, the quantity of investment
- decreases from \$300 billion to \$150 billion.
  - increases from \$150 billion to \$300 billion.
  - decreases below \$150 billion.
  - cannot be determined.

**Answer: B****Topic: Investment Demand Curve****Skill: Analytical**

- 129) In the above figure, new expectations of booming business conditions will
- shift the investment demand curve leftward.
  - shift the investment demand curve rightward.
  - have no effect on the investment demand curve.
  - make the investment demand curve become horizontal.

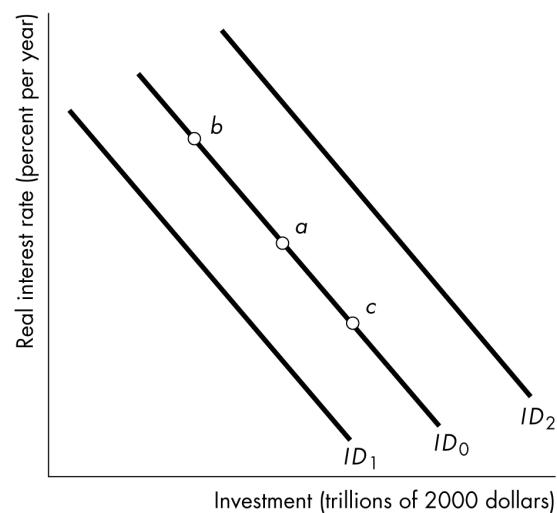
**Answer: B**

**Topic: Investment Demand Curve****Skill: Analytical**

- 130) In the above figure, the onset of a recession will
- shift the investment demand curve leftward.
  - shift the investment demand curve rightward.
  - have no effect on the investment demand curve.
  - make the investment demand curve become horizontal.

**Answer: A****Topic: Investment Demand Curve****Skill: Analytical**

- 131) In the above figure, technological progress that increases the expected profit rate will
- shift the investment demand curve leftward.
  - shift the investment demand curve rightward.
  - have no effect on the investment demand curve.
  - make the investment demand curve become horizontal.

**Answer: B****Topic: Investment Demand Curve****Skill: Analytical**

- 132) In the above figure, the economy is at point *a* on the initial investment demand curve  $ID_0$ . What happens if corporate taxes are reduced?
- There is a movement to a point such as *b* on investment demand curve  $ID_0$ .
  - The investment demand curve shifts rightward to a curve such as  $ID_2$ .
  - The investment demand curve shifts leftward to a curve such as  $ID_1$ .
  - There is a movement to a point such as *c* on investment demand curve  $ID_0$ .

**Answer: B****Topic: Investment Demand Curve****Skill: Analytical**

- 133) In the above figure, the economy is at point *a* on the initial investment demand curve  $ID_0$ . What happens if corporate taxes are increased?
- There is a movement to a point such as *b* on investment demand curve  $ID_0$ .
  - The investment demand curve shifts rightward to a curve such as  $ID_2$ .
  - The investment demand curve shifts leftward to a curve such as  $ID_1$ .
  - There is a movement to a point such as *c* on investment demand curve  $ID_0$ .

**Answer: C**

**Topic: Investment Demand Curve****Skill: Analytical**

- 134) In the above figure, the economy is at point *a* on the initial investment demand curve  $ID_0$ . What happens if firms expect their sales will increase?
- There is a movement to a point such as *b* on investment demand curve  $ID_0$ .
  - The investment demand curve shifts rightward to a curve such as  $ID_2$ .
  - The investment demand curve shifts leftward to a curve such as  $ID_1$ .
  - There is a movement to a point such as *c* on investment demand curve  $ID_0$ .

**Answer: B****Topic: Investment Demand Curve****Skill: Analytical**

- 135) In the above figure, the economy is at point *a* on the initial investment demand curve  $ID_0$ . What happens if firms expect their sales will decrease?
- There is a movement to a point such as *b* on investment demand curve  $ID_0$ .
  - The investment demand curve shifts rightward to a curve such as  $ID_2$ .
  - The investment demand curve shifts leftward to a curve such as  $ID_1$ .
  - There is a movement to a point such as *c* on investment demand curve  $ID_0$ .

**Answer: C****Topic: Investment Demand Curve****Skill: Analytical**

- 136) In the above figure, the economy is at point *a* on the initial investment demand curve  $ID_0$ . What happens if the real interest rate rises?
- There is a movement to a point such as *b* on investment demand curve  $ID_0$ .
  - The investment demand curve shifts rightward to a curve such as  $ID_2$ .
  - The investment demand curve shifts leftward to a curve such as  $ID_1$ .
  - There is a movement to a point such as *c* on investment demand curve  $ID_0$ .

**Answer: A****Topic: Saving Decisions****Skill: Recognition**

- 137) Which of the following influences household saving?
- The real interest rate.
  - Disposable income.
  - Expected future income.
- I.
  - I and II.
  - I and III.
  - I, II, and III.

**Answer: D****Topic: The Real Interest Rate and Saving****Skill: Conceptual**

- 138) Consumption expenditure by households
- decreases when the real interest rate rises.
  - increases when the real interest rate rises.
  - decreases when the real interest rate falls.
  - is unaffected by the real interest rate.

**Answer: A****Topic: The Real Interest Rate and Saving****Skill: Conceptual**

- 139) Saving by households
- decreases when the real interest rate rises.
  - increases when the real interest rate rises.
  - increases when the real interest rate falls.
  - is unaffected by the real interest rate.

**Answer: B****Topic: The Real Interest Rate and Saving****Skill: Conceptual**

- 140) An increase in the real interest rate increases the quantity of saving because the higher real interest rate
- increases the opportunity cost of current consumption.
  - increases the cost of buying capital.
  - decreases the benefit of saving.
  - reduces taxes because interest payments are tax deductible.

**Answer: A****Topic: Disposable Income and Saving****Skill: Conceptual**

- 141) Consumption expenditure increases if
- future disposable income falls.
  - current and future disposable income fall.
  - current disposable income falls.
  - current and future disposable income rise.

**Answer: D**

**Topic: Disposable Income and Saving****Skill: Conceptual**

- 142) \_\_\_\_ increases households' saving.
- A decrease in the real interest rate
  - A tax cut that increases disposable income
  - Higher expected future income
  - A stock market boom that increases the purchasing power of households' wealth

**Answer: B****Topic: Disposable Income and Saving****Skill: Conceptual**

- 143) Which of the following is true regarding disposable income and consumption expenditure?
- As disposable income increases, consumption expenditure increases.
  - As expected future income increases, current consumption expenditure increases.
- I.
  - II.
  - Both I and II.
  - Neither I nor II.

**Answer: C**

Disposable income (dollars)	Consumption expenditure (dollars)
150	200
300	290
450	380
600	470
750	560

**Topic: Disposable Income and Saving****Skill: Analytical**

- 144) In the above table, if disposable income is \$450, saving is
- \$50.
  - \$10.
  - \$70.
  - Some amount that cannot be calculated without additional information.

**Answer: C****Topic: Disposable Income and Saving****Skill: Analytical**

- 145) In the above table, saving would be \$130 if disposable income were
- \$300.
  - \$450.
  - \$600.
  - Some amount that cannot be calculated without additional information.

**Answer: C****Topic: Wealth and Saving****Skill: Recognition**

- 146) A household's wealth is
- assets – debts.
  - assets + debts
  - debts – assets
  - None of the above answers is correct.

**Answer: B****Topic: Wealth and Saving****Skill: Conceptual**

- 147) Suppose Molly has an income of \$35,000 annually and has inherited a savings account of \$20,000. Wyatt has a job that pays \$35,000 annually, but has debts totaling \$6,000. Which of the following is true?
- We can expect Wyatt and Molly to save the same proportion of their incomes this year.
  - We can expect Molly to save more than Wyatt this year.
  - We can expect Wyatt to save more than Molly this year.
  - We can expect Wyatt and Molly to have equal amounts of consumption this year.

**Answer: C****Topic: Expected Future Income and Saving****Skill: Recognition**

- 148) Savings definitely increases if
- future disposable income falls.
  - current and future disposable income fall.
  - current disposable income falls.
  - current and future disposable income rise.

**Answer: A**

**Topic: Expected Future Income and Saving****Skill: Conceptual**

- 149) If two households have the same disposable income in the current year,
- the household with the higher expected future income will consume a larger portion of its current income today.
  - the household with the lower expected future income will consume more today while it has the money.
  - the household with the lower expected future income will spend a larger portion of its current income on consumption today because it will increase its saving in the future.
  - None of the above.

**Answer: A****Topic: Saving Supply Curve****Skill: Recognition**

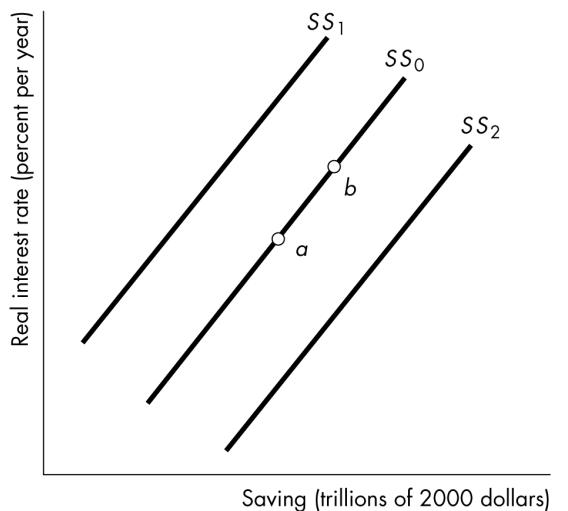
- 150) The saving supply curve
- has a positive slope.
  - is vertical.
  - is horizontal.
  - has a negative slope.

**Answer: A****Topic: Saving Supply Curve****Skill: Recognition**

- 151) The saving supply curve has saving on one axis and
- the real interest rate on the other axis.
  - wealth on the other axis.
  - consumption on the other axis.
  - disposable income on the other axis.

**Answer: A****Topic: Saving Supply Curve****Skill: Conceptual**

- 152) Which of the following will shift the saving supply curve leftward?
- a decrease in the real interest rate.
  - a decrease in real wealth.
  - a decrease in disposable income.
  - a decrease in expected future income.

**Answer: C****Topic: Saving Supply Curve****Skill: Analytical**

- 153) In the above figure, the economy is at point *a* on the initial saving supply curve  $SS_0$ . What happens if disposable income decreases?
- Nothing; the economy would remain at point *a*.
  - There would be a movement to a point such as *b* on saving supply curve  $SS_0$ .
  - The saving supply curve would shift rightward to a curve such as  $SS_2$ .
  - The saving supply curve would shift leftward to a curve such as  $SS_1$ .

**Answer: D****Topic: Saving Supply Curve****Skill: Analytical**

- 154) In the above figure, the economy is at point *a* on the initial saving supply curve  $SS_0$ . What happens if the real interest rate rises?
- Nothing; the economy would remain at point *a*.
  - There would be a movement to a point such as *b* on saving supply curve  $SS_0$ .
  - The saving supply curve would shift rightward to a curve such as  $SS_2$ .
  - The saving supply curve would shift leftward to a curve such as  $SS_1$ .

**Answer: B**

**Topic: Saving Supply Curve****Skill: Analytical**

- 155) In the above figure, the economy is at point *a* on the initial saving supply curve  $SS_0$ . What happens if real wealth decreases?
- Nothing; the economy would remain at point *a*.
  - There would be a movement to a point such as *b* on saving supply curve  $SS_0$ .
  - The saving supply curve would shift rightward to a curve such as  $SS_2$ .
  - The saving supply curve would shift leftward to a curve such as  $SS_1$ .

**Answer: C****Topic: Equilibrium in the Capital Market****Skill: Recognition**

- 156) The equilibrium real interest rate is determined by the
- investment demand curve and the saving supply curve.
  - investment demand curve and the consumption demand curve.
  - consumption demand curve and the saving supply curve.
  - government spending curve and the taxing curve.

**Answer: A****Topic: Determining the Real Interest Rate****Skill: Conceptual**

- 157) Suppose the current real interest rate is 4 percent and the equilibrium real interest rate is 3 percent. Then
- prices rise and inflation occurs.
  - there is a surplus of saving.
  - there is a shortage of saving.
  - there is neither a shortage nor surplus of saving.

**Answer: B****Topic: Determining the Real Interest Rate****Skill: Conceptual**

- 158) If the real interest rate is above the equilibrium real interest rate,
- lenders will be unable to find borrowers willing to borrow all of the available funds and the real interest rate will fall.
  - borrowers will be unable to borrow all of the funds they want to borrow and the real interest rate will rise.
  - lenders will be unable to find borrowers willing to borrow all of the available funds and the real interest rate will rise.
  - borrowers will be unable to borrow all of the funds they want to borrow and the real interest rate will fall.

**Answer: A****Topic: Determining the Real Interest Rate****Skill: Conceptual**

- 159) If the real interest rate is below the equilibrium real interest rate, then the quantity of saving supplied is
- greater than the quantity of investment demanded, and the real interest rate will rise.
  - greater than the quantity of investment demanded, and the real interest rate will fall.
  - less than the quantity of investment demanded, and the real interest rate will rise.
  - less than the quantity of investment demanded, and the real interest rate will fall.

**Answer: C****Topic: Determining the Real Interest Rate****Skill: Conceptual**

- 160) If the real interest rate is below the equilibrium real interest rate,
- lenders will be unable to find borrowers willing to borrow all of the available funds and the real interest rate will fall.
  - borrowers will be unable to borrow all of the funds they want to borrow and the real interest rate will rise.
  - lenders will be unable to find borrowers willing to borrow all of the available funds and the real interest rate will rise.
  - borrowers will be unable to borrow all of the funds they want to borrow and the real interest rate will fall.

**Answer: B**

**Topic: Determining the Real Interest Rate****Skill: Conceptual**

- 161) If the real interest rate is below the equilibrium real interest rate,
- lenders will be unable to find borrowers willing to borrow all of the available funds and the saving supply curve will shift leftward.
  - borrowers will be unable to borrow all of the funds they want to borrow and the investment demand curve will shift rightward.
  - a shortage of saving will cause the real interest rate to rise.
  - borrowers will be unable to borrow all of the funds they want to borrow and the investment demand curve will shift leftward.

**Answer: C****Topic: Determining the Real Interest Rate****Skill: Conceptual**

- 162) In the capital market, if the interest rate is above the equilibrium level
- there is a shortage of saving.
  - there is a surplus of saving.
  - expected profit rates fall.
  - government purchases decrease.

**Answer: B****Topic: Determining the Real Interest Rate****Skill: Conceptual**

- 163) If the real interest rate is above the equilibrium real interest rate,
- borrowers will be unable to borrow all of the funds they want to borrow and the investment demand curve will shift rightward.
  - borrowers will be unable to borrow all of the funds they want to borrow and the investment demand curve will shift leftward.
  - lenders will be unable to find borrowers willing to borrow all of the available funds and the real interest rate will rise.
  - a surplus of saving will cause the real interest rate to fall.

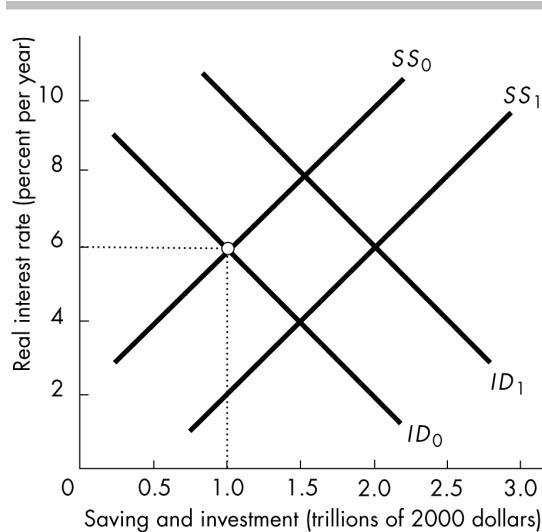
**Answer: D****Topic: Changes in the Real Interest Rate****Skill: Analytical**

- 164) An increase in income shifts the saving supply curve
- leftward and decreases the real interest rate.
  - leftward and increases the real interest rate.
  - rightward and decreases the real interest rate.
  - rightward and increases the real interest rate.

**Answer: C****Topic: Changes in the Real Interest Rate****Skill: Analytical**

- 165) Technological progress that increases the expected profit rate shifts the investment curve
- leftward and reduces the real interest rate.
  - rightward and increases the real interest rate.
  - rightward and reduces the real interest rate.
  - leftward and increases the real interest rate.

**Answer: B**

**Topic: Changes in the Real Interest Rate****Skill: Analytical**

- 167) In the above figure, the initial saving curve is  $SS_0$  and the initial investment curve is  $ID_0$ . A decrease in the taxes that firms pay would
- only shift the saving supply curve rightward to a curve such as  $SS_1$ .
  - shift the saving supply curve rightward to a curve such as  $SS_1$ , and shift the investment demand curve rightward to a curve such as  $ID_1$ .
  - only shift the investment demand curve rightward to a curve such as  $ID_1$ .
  - have no effect on either the investment demand curve or the saving supply curve.

**Answer: C****Topic: Changes in the Real Interest Rate****Skill: Analytical**

- 168) In the above figure, the initial saving curve is  $SS_0$  and the initial investment curve is  $ID_0$ . An increase in the real interest rate to 7 percent could be caused by
- an increase in investment demand.
  - a decrease in the expected profit rate.
  - an increase in people's disposable incomes.
  - an expansion that increased both saving and investment by the same amount.

**Answer: A****■ The Dynamic Classical Model****Topic: Increase in Population****Skill: Conceptual**

- 169) An increase in the economy's population
- decreases the supply of labor.
  - shifts the long-run aggregate supply curve rightward.
  - lowers the real wage rate.
  - decreases the quantity of labor employed.

**Answer: C**

**Topic: Increase in Population****Skill: Conceptual**

- 170) The real wage rate will fall if the
- labor supply curve shifts rightward and the labor demand curve does not shift.
  - labor supply curve shifts leftward and the labor demand curve does not shift.
  - labor demand curve shifts rightward and the labor supply curve does not shift.
  - labor demand curve shifts rightward more than the labor supply curve shifts rightward.

**Answer: A****Topic: Increase in Population****Skill: Analytical**

- 171) An increase in the population and hence the supply of labor causes a
- shortage of labor at the original real wage rate and the real wage rate will fall.
  - surplus of labor at the original real wage rate and the real wage rate will rise.
  - surplus of labor at the original real wage rate and the real wage rate will fall.
  - shortage of labor at the original real wage rate and the real wage rate will rise.

**Answer: C****Topic: Increase in Population****Skill: Conceptual**

- 172) Employment and (total) potential GDP increase if the
- labor supply curve shifts rightward and the labor demand curve does not shift.
  - labor demand curve shifts leftward more than the labor supply curve shifts rightward.
  - labor demand curve shifts leftward and the labor supply curve does not shift.
  - None of the above answers are correct.

**Answer: A****Topic: Increase in Productivity****Skill: Conceptual**

- 173) An increase in physical capital or a technological advance
- raises the real wage rate.
  - decreases the quantity of labor employed.
  - shifts the production function downward.
  - decreases demand for labor.

**Answer: A****Topic: Increase in Productivity****Skill: Conceptual**

- 174) An advance in technology shifts the production function upward and shifts the labor
- demand curve leftward.
  - supply curve leftward.
  - demand curve rightward.
  - supply curve rightward.

**Answer: C****Topic: Increase in Productivity****Skill: Conceptual**

- 175) All of the following contribute to raising real wages over time EXCEPT
- technological progress.
  - rising labor force participation.
  - physical capital accumulation.
  - human capital accumulation

**Answer: B****Topic: Change in Potential GDP****Skill: Analytical**

- 176) Technological change
- lowers the real wage rate.
  - decreases labor productivity.
  - has no effect on employment.
  - increases potential GDP.

**Answer: D****Topic: Shifts in Labor Demand and Labor Supply****Skill: Analytical**

- 177) If both the supply of labor and the demand for labor increase, then
- potential GDP decreases.
  - long-run aggregate supply increases.
  - full employment decreases.
  - the real wage rate increases.

**Answer: B**

**Topic: Population and Productivity in the United States****Skill: Conceptual**

- 178) In the United States, real wage rates have risen because the
- labor demand curve has shifted rightward more than the labor supply curve has shifted rightward.
  - labor demand curve has shifted leftward more than the labor supply curve has shifted rightward.
  - labor demand curve has shifted leftward and the labor supply curve has not shifted.
  - labor supply curve has shifted rightward and the labor demand curve has not shifted.

**Answer: A****Topic: Population and Productivity in the United States****Skill: Conceptual**

- 179) In the United States, real wage rates and employment have both increased because the
- labor supply curve has shifted rightward and the labor demand curve has not shifted.
  - labor demand curve has shifted leftward more than the labor supply curve has shifted rightward.
  - labor demand curve has shifted leftward and the labor supply curve has not shifted.
  - labor demand curve has shifted rightward more than the labor supply curve has shifted rightward.

**Answer: D****Topic: Population and Productivity in the United States****Skill: Conceptual**

- 180) In the United States, which of the following occurred between 1981 and 2001?
- Total labor hours and working-age population increased.
  - Increases in labor productivity lead to increases in the real wage rate.
  - Higher real wage rates increased the labor-force participation rate.
  - All of the above answers are correct.

**Answer: D****Topic: Population and Productivity in the United States****Skill: Conceptual**

- 181) In the United States, which of the following occurred between 1981 and 2001?
- Capital accumulation and technological change both increased the productivity of labor and the demand for labor increased.
  - The real wage rate decreased because the increase in the demand for labor was less than the increase in the supply of labor.
  - The effects on the supply of labor from the increased in population were greater than the effects on the demand for labor from capital accumulation and technological change.
  - Technological change decreased the demand for labor.

**Answer: A****Topic: Population and Productivity in the United States****Skill: Conceptual**

- 182) In the United States, over the last 15 years, labor has become \_\_\_\_ causing firms to \_\_\_\_.
- more productive; demand more labor
  - more productive; demand less labor
  - less productive; demand more labor
  - less productive; pay higher wages to get more productive workers

**Answer: A****■ Study Guide Questions****Topic: Study Guide Question, Real Wage****Skill: Analytical**

- 183) The money wage rate is \$10 per hour and the price level is 100. If the price level falls to 50 and the money wage rate does not change, what happens to the real wage rate?
- The real wage rate doubles.
  - The real wage rate rises, but does not double.
  - The real wage rate does not change.
  - The real wage rate falls.

**Answer: A**

**Topic: Study Guide Question, Real Wage****Skill: Analytical**

- 184) Suppose that the money wage rate is \$22 per hour and that the price level is 100. If the money wage rate falls to \$11 per hour and the price level does not change, what happens to the real wage rate?
- The real wage rate doubles.
  - The real wage rate rises but does not double.
  - The real wage rate does not change.
  - The real wage rate falls.

**Answer: D****Topic: Study Guide Question, Real Wage****Skill: Analytical**

- 185) Suppose that the money wage rate is \$22 per hour and that the price level is 100. If the money wage rate falls to \$11 per hour and the price level falls to 50, what happens to the real wage rate?
- The real wage rate doubles.
  - The real wage rate rises but does not double.
  - The real wage rate does not change.
  - The real wage rate falls.

**Answer: C****Topic: Study Guide Question, Marginal Product of Labor****Skill: Analytical**

- 186) Five workers produce total output of \$200; six workers produce total output of \$222. The marginal product of the sixth worker equals
- \$40.
  - \$37.
  - \$22.
  - None of the above answers is correct.

**Answer: C****Topic: Study Guide Question, Demand for Labor****Skill: Conceptual**

- 187) A decrease in the real wage rate
- shifts the labor demand curve rightward.
  - shifts the labor demand curve leftward.
  - shifts the labor supply curve leftward.
  - none of the above because a change in the real wage rate does not shift either the labor demand or labor supply curve.

**Answer: D****Topic: Study Guide Question, Demand for Labor****Skill: Conceptual**

- 188) The demand curve for labor is downward sloping because the
- marginal product of labor diminishes as more workers are employed.
  - supply curve of labor is upward sloping.
  - demand curve shifts when capital increases.
  - None of the above answers are correct because the demand curve for labor is upward sloping.

**Answer: A****Topic: Study Guide Question, Demand for Labor****Skill: Conceptual**

- 189) The demand for labor curve
- is downward sloping because marginal product of labor diminishes as more workers are employed.
  - is upward sloping and the supply curve of labor is downward sloping.
  - is upward sloping because marginal product of labor diminishes as more workers are employed.
  - shifts rightward when the real wage rate rises.

**Answer: A****Topic: Study Guide Question, Supply of Labor****Skill: Conceptual**

- 190) As the real wage rate increases, the quantity of labor supplied increases
- only because people already working increase the quantity of labor they supply.
  - only because the higher wage rate increases labor force participation.
  - because people already working increase the quantity of labor they supply *and* because the higher wage rate increases labor force participation.
  - None of the above answers is correct because an increase in the real wage rate decreases the quantity of labor supplied.

**Answer: C**

**Topic: Study Guide Question, Demand and Supply of Labor****Skill: Conceptual**

- 191) A fall in the real wage rate
- shifts the labor demand curve rightward.
  - shifts the labor demand curve leftward.
  - shifts the labor supply curve rightward.
  - does not shift the labor demand or labor supply curve.

**Answer: D****Topic: Study Guide Question, Increase in Productivity****Skill: Conceptual**

- 192) An increase in productivity
- labor demand curve rightward.
  - labor demand curve leftward.
  - labor supply curve rightward.
  - labor supply curve leftward

**Answer: A****Topic: Study Guide Question, Population****Skill: Conceptual**

- 193) A decrease in population shifts the
- labor demand curve rightward.
  - labor demand curve leftward.
  - labor supply curve rightward.
  - labor supply curve leftward

**Answer: D****Topic: Study Guide Question, Job Rationing****Skill: Conceptual**

- 194) One possible factor leading to unemployment is that
- both the minimum wage and efficiency wages are below the equilibrium wage rate.
  - both the minimum wage and efficiency wages are above the equilibrium wage rate.
  - the minimum wage is above the equilibrium wage rate and efficiency wages are below the equilibrium wage rate.
  - the minimum wage is below the equilibrium wage rate and efficiency wages are above the equilibrium wage rate.

**Answer: B****Topic: Study Guide Question, Full Employment****Skill: Conceptual**

- 195) If the economy is at full employment, the
- entire population is employed.
  - entire labor force is employed.
  - long-run aggregate supply curve is upward sloping.
  - quantity of labor supplied equals the quantity of labor demanded.

**Answer: D****Topic: Study Guide Question, Investment Demand Curve****Skill: Recognition**

- 196) A fall in the real interest rate
- results in a movement along the investment demand curve.
  - shifts the investment demand curve rightward.
  - shifts the investment demand curve leftward.
  - has no effect on the investment demand curve

**Answer: A****Topic: Study Guide Question, Saving Supply Curve****Skill: Recognition**

- 197) A decrease in disposable income shifts the \_\_\_\_\_.
- investment demand curve rightward.
  - investment demand curve leftward.
  - saving supply curve leftward.
  - saving supply curve rightward.

**Answer: A****■ MyEconLab Questions****Topic: Production Possibilities****Level I: Definitions and Concepts**

- 198) The production possibilities frontier shows the boundary between \_\_\_\_\_.
- real GDP and the quantity of labor employed
  - those combinations of goods and services that can be produced and those that cannot
  - leisure and work
  - those combinations of goods and services that can be consumed and those that cannot

**Answer: B**

**Topic: Production Function****Level I: Definitions and Concepts**

199) The \_\_\_\_ shows how real GDP varies as the quantity of labor employed varies, other things remaining the same.

- A) labor supply curve
- B) production function
- C) short-run aggregate supply curve
- D) labor demand curve

**Answer: B**

**Topic: Productivity****Level I: Definitions and Concepts**

200) Factors that influence labor productivity include \_\_\_\_\_.

- A) the inflation rate, the real wage rate, and the exchange rate
- B) the labor demand curve
- C) physical capital, the real wage rate, and technology
- D) physical capital, human capital, and technology

**Answer: D**

**Topic: Demand for Labor****Level I: Definitions and Concepts**

201) The demand for labor is the relationship between \_\_\_\_\_, when all other influences on firms' hiring plans remain the same.

- A) the quantity of labor demanded and the real wage rate
- B) real GDP and the quantity of labor demanded
- C) the quantity of labor demanded and the money wage rate
- D) the labor hours hired by all the firms in the economy and real GDP

**Answer: A**

**Topic: Real Wage****Level I: Definitions and Concepts**

202) Which of the following statements is correct?

- A) A real wage rate is equal to a money wage rate multiplied by the price of a good.
- B) A real wage rate is equal to a money wage rate minus the price of a good.
- C) The price of a good is equal to the real wage rate minus the money wage rate.
- D) A real wage rate is equal to a money wage rate divided by the price of a good.

**Answer: D**

**Topic: Marginal Product of Labor****Level I: Definitions and Concepts**

203) The marginal product of labor is \_\_\_\_\_, when all other influences on production remain the same.

- A) the additional real GDP produced when the quantity of labor supplied increases
- B) the additional real GDP produced by an additional hour of labor
- C) the real GDP produced by labor
- D) real GDP divided by the quantity of labor

**Answer: B**

**Topic: Supply of Labor****Level I: Definitions and Concepts**

204) The number of labor hours that all the households in the economy plan to work is the \_\_\_\_\_.

- A) long-run aggregate supply
- B) supply of labor
- C) quantity of labor supplied
- D) long-run aggregate labor supply

**Answer: B**

**Topic: The Labor Market and Full Employment****Level I: Definitions and Concepts**

205) When the quantity of labor demanded equals the quantity of labor supplied, \_\_\_\_\_.

- A) the short-run aggregate supply curve is vertical
- B) real GDP produced equals potential GDP
- C) the real wage rate is \$25 an hour
- D) job search is zero

**Answer: B**

**Topic: Unemployment at Full Employment****Level I: Definitions and Concepts**

206) The unemployment rate at full employment is \_\_\_\_\_.

- A) the natural rate of unemployment
- B) between 0 and 1 percent
- C) continually decreasing as the economy grows
- D) zero

**Answer: A**

**Topic: Investment Demand****Level I: Definitions and Concepts**

207) Investment demand is the relationship between investment and the \_\_\_\_\_ other things remaining the same.

- A) real interest rate
- B) nominal interest rate
- C) inflation rate
- D) price level

**Answer: A**

**Topic: Saving Supply****Level 1: Definitions and Concepts**

- 208) The saving supply is the relationship between saving and \_\_\_\_ other things remaining the same.
- real GDP
  - the price level
  - the real interest rate
  - the inflation rate

**Answer: C****Topic: Saving Supply****Level 1: Definitions and Concepts**

- 209) As the \_\_\_\_ rises, saving \_\_\_\_ other things remaining the same.
- nominal interest rate; increases
  - real interest rate; increases
  - inflation rate; increases
  - real interest rate; decreases

**Answer: B****Topic: Production Function****Level 2: Using Definitions and Concepts**

- 210) When the quantity of labor hours increases with no change in labor productivity, \_\_\_\_.
- the PPF between real GDP and leisure shifts outward
  - the PPF between real GDP and leisure shifts inward
  - a movement up along the production function occurs
  - a movement down along the production function occurs

**Answer: C****Topic: Human Capital****Level 2: Using Definitions and Concepts**

- 211) \_\_\_\_ is the knowledge and skill that people have obtained from education and on-the-job training.
- Learning-by-doing
  - Human capital
  - Capital
  - Technology

**Answer: B****Topic: Demand for Labor****Level 2: Using Definitions and Concepts**

- 212) When the real wage rate falls, \_\_\_\_.
- the labor demand curve shifts rightward
  - the labor demand curve shifts leftward
  - a shortage of labor decreases
  - the quantity of labor demanded increases

**Answer: D****Topic: Marginal Product of Labor****Level 2: Using Definitions and Concepts**

- 213) As the quantity of labor employed increases, the \_\_\_\_.
- marginal product of labor diminishes
  - marginal product of labor does not change
  - real wage rate rises
  - money wage rate rises

**Answer: A****Topic: Supply of Labor****Level 2: Using Definitions and Concepts**

- 214) When the real wage rate rises, most households will have an \_\_\_\_.
- income effect that is stronger than the opportunity cost effect
  - opportunity cost effect that is equal to the income effect
  - income effect but will not have an opportunity cost effect
  - opportunity cost effect but will not have an income effect

**Answer: B****Topic: Labor Market Equilibrium****Level 2: Using Definitions and Concepts**

- 215) When the population increases with no change in labor productivity, employment \_\_\_\_ and potential GDP \_\_\_\_.
- decreases; decreases
  - increases; increases
  - decreases; increases
  - increases; decreases

**Answer: B****Topic: Job Search****Level 2: Using Definitions and Concepts**

- 216) The time spent on job search rises when \_\_\_\_.
- unemployment compensation decreases
  - unemployment compensation increases
  - the efficiency wage rate is lowered
  - more young people enter the labor force.

**Answer: B****Topic: Job Rationing****Level 2: Using Definitions and Concepts**

- 217) Job rationing creates a \_\_\_\_.
- shortage of labor
  - a wage rate below the equilibrium wage rate
  - a decrease in the natural rate of unemployment
  - surplus of labor

**Answer: D**

**Topic: Efficiency Wage****Level 2: Using Definitions and Concepts**

218) An efficiency wage \_\_\_\_.

- A) results in a high labor turnover
- B) is equal to the minimum wage
- C) does not motivate employees
- D) maximizes the firm's profit

**Answer: D****Topic: Minimum Wage****Level 2: Using Definitions and Concepts**

219) A minimum wage \_\_\_\_.

- A) set below the equilibrium wage leads to unemployment
- B) discourages job rationing
- C) set above the equilibrium wage leads to unemployment.
- D) must be set below \$5.15 an hour to be effective

**Answer: C****Topic: Investment Demand Curve****Level 2: Using Definitions and Concepts**

220) A rise in the real interest rate \_\_\_\_ the investment demand curve, and a decrease in the expected profit rate \_\_\_\_ the investment demand curve.

- A) shifts; creates a movement along
- B) shifts; shifts
- C) creates a movement along; creates a movement along
- D) creates a movement along; shifts

**Answer: C****Topic: Saving Supply Curve****Level 2: Using Definitions and Concepts**

221) A decrease in disposable income \_\_\_\_.

- A) has no effect on the saving supply curve
- B) shifts the saving supply curve rightward
- C) shifts the saving supply curve leftward
- D) results in movement up the saving supply curve

**Answer: B****Topic: Determining the Real Interest Rate****Level 2: Using Definitions and Concepts**

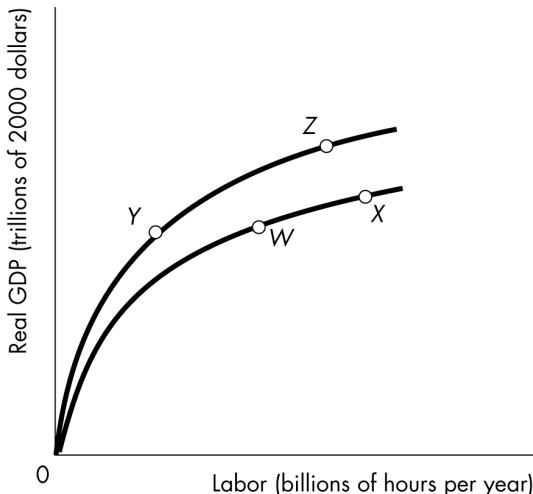
222) If the quantity of saving supplied exceeds the quantity of investment demanded, then \_\_\_\_.

- A) the real interest rate will rise
- B) firms will decrease their investment demand
- C) people will save more
- D) the real interest rate will fall

**Answer: D****Topic: Production Possibilities****Level 3: Calculations and Predictions**

223) When the amount of time that people spend on leisure changes with no change in labor productivity \_\_\_\_.

- A) a movement along the PPF between real GDP and leisure as well as a movement along the production function occur
- B) the PPF between real GDP and leisure shifts outward and the production function shifts outward
- C) the PPF between real GDP and leisure shifts outward and a movement along the production function occurs
- D) a movement along the PPF between real GDP and leisure occurs and the production function shifts outward

**Answer: A****Topic: Production Function****Level 3: Calculations and Predictions**

224) The country of Kemper is on its production function at point W in the above figure. The government of Kemper passes a law that makes 4 years of college mandatory for all citizens. The economy will

- A) move to point such as Y.
- B) remain at point W.
- C) move to point such as X.
- D) move to point such as Z.

**Answer: D**

**Topic: Production Function****Level 3: Calculations and Predictions**

- 225) The country of Kemper is on its production function at point *W* in the above figure. If the population increases with no change in capital or technology, the economy will
- move to point such as *Y*.
  - remain at point *W*.
  - move to point such as *X*.
  - move to point such as *Z*.

**Answer: C****Topic: Production Function****Level 3: Calculations and Predictions**

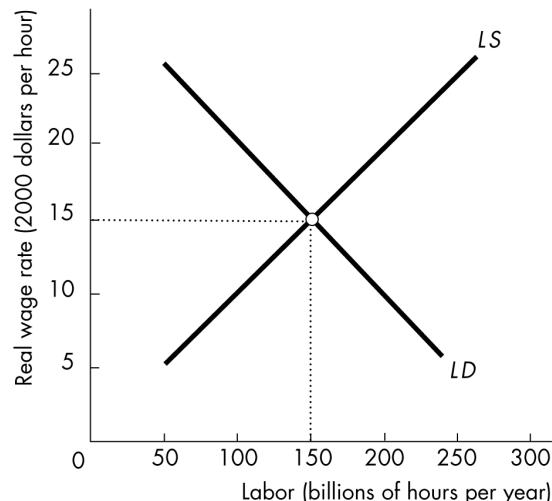
- 226) When the quantity of labor employed increases with no change in the nation's production function, the marginal product of labor
- remains the same
  - diminishes
  - increases
  - might change but more information is needed to determine if it increases or diminishes.

**Answer: B****Topic: Marginal Product of Labor****Level 3: Calculations and Predictions**

- 227) The marginal product curve is the same as the \_\_\_\_\_.
- supply of labor curve
  - demand for labor curve
  - production possibility frontier
  - production function

**Answer: B****Topic: Marginal Product of Labor****Level 3: Calculations and Predictions**

- 228) A firm has a marginal product that is less than the real wage rate. To maximize profit, the firm will \_\_\_\_\_.
- hire less labor
  - shift its labor demand curve rightward
  - produce more output
  - hire more labor

**Answer: A****Topic: Labor Market Equilibrium****Level 3: Calculations and Predictions**

- 229) In the figure, when the real wage rate is \$10 an hour, \_\_\_\_.
- a shortage of labor exists and the real wage rate will rise
  - the demand for labor will increase
  - the demand for labor will decrease
  - a surplus of labor exists and the real wage rate will fall

**Answer: A****Topic: Job Rationing****Level 3: Calculations and Predictions**

- 230) In a market with job rationing, \_\_\_\_.
- job search is less than it is at a full-employment equilibrium
  - the quantity of labor demanded increases
  - the quantity of labor supplied decreases
  - job search is greater than it is at a full-employment equilibrium

**Answer: D**

Quantity of leisure (billions of hours per year)	Real GDP (trillions of 2000 dollars per year)
100	9.5
150	9.0
200	8.0
250	6.5
300	4.5

**Topic: Production Possibilities****Level 4: Advanced Calculations and Predictions**

231) The table above shows the relationship between leisure and real GDP in the country of Progress. The citizens of Progress have 400 billion hours each year to spend between leisure and labor. If the quantity of labor increases from 150 billion hours to 200 billion hours a year, real GDP \_\_\_\_.

- A) decreases by \$1.5 trillion
- B) increases by \$8.0 trillion
- C) increases by \$1.5 trillion
- D) equals \$9.0 trillion

**Answer: C****Topic: Production Possibilities****Level 4: Advanced Calculations and Predictions**

232) The table above shows the relationship between leisure and real GDP in the country of Progress. The citizens of Progress have 400 billion hours each year to spend between leisure and labor. When the citizens of Progress decide to decrease leisure, the marginal product of labor \_\_\_\_.

- A) does not change
- B) increases
- C) might increase or decrease
- D) decreases

**Answer: D****Topic: Marginal Product****Level 4: Advanced Calculations and Predictions**

233) The table above shows the relationship between leisure and real GDP in the country of Progress. The citizens of Progress have 400 billion hours each year to spend between leisure and labor. If the quantity of labor increases from 150 billion hours to 200 billion hours a year, the marginal product of labor is \_\_\_\_.

- A) \$1.5 trillion
- B) \$8.0 trillion
- C) \$15 an hour
- D) \$30 an hour

**Answer: D**

Real wage rate (2000 dollars per hour)	Quantity of labor demanded (billions of hours per year)	Quantity of labor supplied (billions of hours per year)
15	70	10
20	60	20
25	50	30
30	40	40
35	30	50

**Topic: Labor Market Equilibrium****Level 4: Advanced Calculations and Predictions**

234) The table above shows the labor market for the country of Pickett. When the labor market is in equilibrium, the real wage rate is \_\_\_ and \_\_\_ of labor a year are employed.

- A) any value less than \$25 an hour; any value greater than 40 billion hours
- B) any value greater than \$30 an hour; any value more than 40 billion hours
- C) any value greater than or equal to \$25 an hour; any value less than 40 billion hours
- D) \$30 an hour; 40 billion hours

**Answer: D****Topic: Job Search****Level 4: Advanced Calculations and Predictions**

235) The table shows the labor market for the country of Pickett. At a real wage rate that results in job rationing, job search \_\_\_ and \_\_\_.

- A) decreases; a shortage of labor exists
- B) increases; unemployment increases above the natural rate
- C) decreases; unemployment increases above the natural rate
- D) increases; a shortage of labor exists

**Answer: B**

Real wage rate (2000 dollars per hour)	Quantity of labor demanded (billions of hours per year)	Quantity of labor supplied (billions of hours per year)
15	70	10
20	60	20
25	50	30
30	40	40
35	30	50

Real GDP (trillions of 2000 dollars)	Quantity of labor (billions of hours per year)
3	20
9	30
14	40
18	50
21	60

**Topic: The Labor Market and Full Employment****Level 4: Advanced Calculations and Predictions**

236) The tables above show the labor market and the production function schedule for the country of Pickett. Potential GDP is \_\_\_\_.

- A) \$40 trillion
- B) \$6 trillion
- C) \$14 trillion
- D) \$25 trillion

**Answer: C**

**Topic: The Labor Market and Full Employment****Level 4: Advanced Calculations and Predictions**

237) The tables above show the labor market and the production function schedule for the country of Pickett. An increase in population changes the labor supply by 20 billion hours at each real wage rate. Potential GDP \_\_\_\_.

- A) does not change
- B) decreases to \$3 trillion
- C) increases to \$50 trillion
- D) increases to \$18 trillion

**Answer: D**

**Topic: Demand for Labor****Level 4: Advanced Calculations and Predictions**

238) When an increase in the capital stock occurs,

- A) the labor demand curve and the labor supply curve both shift rightward
- B) the labor demand curve shifts rightward and the labor supply curve does not shift
- C) a movement along the labor demand curve occurs
- D) the labor demand curve and the labor supply curve both shift leftward

**Answer: B**

**Topic: Job Search****Level 4: Advanced Calculations and Predictions**

239) When the real wage rate is greater than the equilibrium wage rate, job search \_\_\_\_ and unemployment \_\_\_\_ the natural rate.

- A) increases; equals
- B) increases; is greater than
- C) decreases; is greater than
- D) decreases; is less than

**Answer: B**



## ■ Long-Term Growth Trends

**Topic: Long-Term Growth Trends**

**Skill: Recognition**

- 1) To understand the growth of average living standards, we need data on the growth rate of
  - A) retail prices.
  - B) wholesale prices.
  - C) real GDP.
  - D) real GDP per person.

**Answer: D**

**Topic: Long-Term Growth Trends**

**Skill: Recognition**

- 2) The best measure of long-term economic growth potential is changes in
  - A) nominal GDP.
  - B) real GDP.
  - C) nominal GDP per person.
  - D) real GDP per person.

**Answer: D**

**Topic: Growth in the U.S. Economy**

**Skill: Recognition**

- 3) Over the last 100 years, the average U.S. growth rate in potential GDP per person was about
  - A) 2 percent per year.
  - B) 6 percent per year.
  - C) 12.5 percent per year.
  - D) 1 percent per year.

**Answer: A**

**Topic: Growth in the U.S. Economy**

**Skill: Recognition**

- 4) Which of the following statements regarding U.S. economic growth is NOT correct?
  - A) From 1903 to 2003, on the average real GDP per person grew 2 percent a year.
  - B) The average annual growth rate of real GDP per person was lower prior to 1929 than after World War II.
  - C) In the 1920s and 1960s, the annual growth rate of real GDP per person was about equal to its long-run average.
  - D) The growth rate of real GDP per person accelerated between 1973 to 1984.

**Answer: D**

**Topic: Real GDP Growth in the World Economy**

**Skill: Recognition**

- 5) Since 1963, the country with the highest level of real GDP per person is
  - A) Japan.
  - B) Germany.
  - C) the United States.
  - D) Canada.

**Answer: C**

**Topic: Real GDP Growth in the World Economy**

**Skill: Recognition**

- 6) During the 1990s, which of the following countries experienced the slowest rate of growth in real GDP per person?
  - A) Japan
  - B) France
  - C) United States
  - D) Canada

**Answer: A**

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\* This is Chapter 25 in *Economics*.

**Topic: Real GDP Growth in the World Economy****Skill: Recognition**

- 7) Since 1963, the industrialized country with the highest average growth rate of real GDP per person is
- Japan.
  - Germany.
  - the United States.
  - Canada.

**Answer: A****Topic: Real GDP Growth in the World Economy****Skill: Recognition**

- 8) Underdeveloped countries in which real GDP per person has not grown as fast as in the United States since 1960 include
- Japan and Germany.
  - countries in Africa and Central and South America.
  - Hong Kong, Singapore, Taiwan, and South Korea.
  - Canada.

**Answer: B****Topic: Real GDP Growth in the World Economy****Skill: Recognition**

- 9) Which of the following statements about world growth during the last half of the 20th century is correct?
- In every decade, Japan has experienced faster growth than the United States.
  - Growth rates in South American countries have exceeded those in North America.
  - Real GDP per person in Hong Kong and Singapore are approaching that in the United States.
  - Due to rapid growth, real GDP per person in China is now about 50 percent of that in the United States.

**Answer: C****Topic: Real GDP Growth in the World Economy****Skill: Recognition**

- 10) Since 1963, which of the following countries had average growth rates in real GDP per person higher than that of the United States?
- Singapore.
  - Hong Kong.
  - South Korea.
  - All of the above answers are correct.

**Answer: D****Topic: Real GDP Growth in the World Economy****Skill: Recognition**

- 11) Over the past forty years, there has been substantial closure of the gap in real GDP per person between which of the following groups of countries?
- The United States and Central and South America
  - Africa and Western Europe
  - Central and South America and Africa
  - The United States and Japan

**Answer: D****Topic: Real GDP Growth in the World Economy****Skill: Conceptual**

- 12) Convergence of the income gap has been most dramatic between
- Hong Kong and the United States.
  - the Central European countries and the United States.
  - Africa and the United States.
  - South America and the United States.

**Answer: A****■ The Causes of Economic Growth:  
A First Look****Topic: Preconditions for Economic Growth****Skill: Recognition**

- 13) Economic growth requires preconditions, which include
- property rights.
  - markets.
  - a monetary exchange system.
  - All of the above answers are correct.

**Answer: D****Topic: Preconditions for Economic Growth****Skill: Recognition**

- 14) All of the following are necessary preconditions for economic growth EXCEPT
- restrictions on private ownership of productive factors.
  - markets.
  - property rights.
  - monetary exchange.

**Answer: A**

**Topic: Preconditions for Economic Growth****Skill: Recognition**

- 15) Which of the following is NOT one of the basic preconditions for economic growth?
- Markets
  - Property rights
  - Investment in human capital
  - Monetary exchange

**Answer: C****Topic: Preconditions for Economic Growth****Skill: Recognition**

- 16) Which of the following is NOT a necessary precondition for economic growth?
- Markets and prices
  - Property rights
  - Monetary exchange
  - Democracy

**Answer: D****Topic: Preconditions for Economic Growth****Skill: Recognition**

- 17) All of the following are social institutions that create the incentives necessary for growth EXCEPT
- technology
  - markets
  - monetary exchange
  - property rights

**Answer: A****Topic: Preconditions for Economic Growth****Skill: Recognition**

- 18) Which of the following characteristics is NOT a precondition for economic growth?
- monetary exchange
  - markets
  - active fiscal and monetary policy
  - property rights

**Answer: C****Topic: Preconditions for Economic Growth****Skill: Recognition**

- 19) Experience indicates that economic growth
- depends on democratic political institutions.
  - is impossible under authoritarian political systems.
  - is greatest where government carefully manages and regulates the economy.
  - doesn't depend on any one particular political system.

**Answer: D****Topic: Preconditions for Economic Growth****Skill: Conceptual**

- 20) Which of the following are necessary for economic growth?
- Incentive systems.
  - Established and enforced rights to own physical properties.
  - Liberal democracies.
- I.
  - I and II.
  - II and III.
  - I, II, and III.

**Answer: B****Topic: Preconditions for Economic Growth, Markets****Skill: Conceptual**

- 21) A basic precondition for economic growth is incentives, provided through
- tax abatements and tax credits
  - markets.
  - government control of essential industries.
  - government control over credit markets.

**Answer: B****Topic: Preconditions for Economic Growth, Markets****Skill: Conceptual**

- 22) Markets are an important precondition for economic growth because markets
- restrict the amount of information flowing to buyers and sellers so that market participants don't get confused.
  - limit individuals' abilities to profit from their productive activities and so redirect individual self-interest into socially acceptable channels.
  - enable people to specialize and trade.
  - all of the above are correct

**Answer: C**

**Topic: Preconditions for Economic Growth, Markets**

**Skill: Conceptual**

- 23) Markets provide all of the following benefits to society EXCEPT
- allowing buyers and sellers to acquire information.
  - permitting market prices to send signals to buyers and sellers.
  - enabling people to specialize.
  - eliminating incentives to change the quantities supplied and demanded.

**Answer: D**

**Topic: Preconditions for Economic Growth, Property Rights**

**Skill: Recognition**

- 24) Property rights are
- social arrangements that govern the ownership, use, and disposal of goods and factors.
  - the rights to use money in exchange for goods and services.
  - rights that do not include the right to own financial assets.
  - rights that include the right to own financial, but not physical, assets.

**Answer: A**

**Topic: Preconditions for Economic Growth, Property Rights**

**Skill: Conceptual**

- 25) Continuing economic growth requires all of the following activities EXCEPT
- investment in human capital.
  - saving and investment in new capital.
  - widespread restrictions on property rights.
  - technological progress.

**Answer: C**

**Topic: Preconditions for Economic Growth, Monetary Exchange**

**Skill: Recognition**

- 26) Monetary exchange
- facilitates transactions of all kinds.
  - is not necessary for economic growth.
  - in combination with technology, decreases incentives.
  - hampers specialization and trade because exchange rates must be agreed upon.

**Answer: A**

**Topic: Preconditions for Economic Growth, Incentives**

**Skill: Conceptual**

- 27) An incentive system facilitates economic growth by
- rewarding people for specializing in activities in which they have a comparative advantage.
  - discouraging investment.
  - rewarding people for pursuing high-cost activities.
  - discouraging the use of money.

**Answer: A**

**Topic: Persistent Economic Growth**

**Skill: Recognition**

- 28) Which of the following has NOT been one of the primary sources of economic growth over the last 200 years?
- investment in new capital.
  - resource conservation.
  - investment in human capital.
  - discoveries of new technology.

**Answer: B**

**Topic: Saving and Investment in New Capital**

**Skill: Conceptual**

- 29) Labor productivity rises
- if the amount of capital per worker increases.
  - in the absence of technological progress.
  - if firms invest in hiring more workers rather than buying more capital.
  - if the amount of capital per worker decreases.

**Answer: A**

**Topic: Saving and Investment in New Capital**

**Skill: Conceptual**

- 30) If capital per worker rises,
- labor productivity decreases.
  - no technological progress occurs.
  - labor productivity increases.
  - firms respond by raising their prices.

**Answer: C**

**Topic: Saving and Investment in New Capital****Skill: Conceptual**

- 31) If the quantity of capital per worker in the economy increases,
- the amount of money held by workers increases.
  - labor productivity increases.
  - the stock of human capital necessarily increases.
  - the stock of financial assets held by the public increases.

**Answer: B****Topic: Investment in Human Capital****Skill: Recognition**

- 32) Human capital is, in part, the
- amount of money held by a worker.
  - stock of knowledge of a worker.
  - stock of plant and equipment.
  - stock of financial assets held by the public.

**Answer: B****Topic: Investment in Human Capital****Skill: Recognition**

- 33) The stock of knowledge of a worker is known as
- monetary capital.
  - human capital.
  - physical capital.
  - financial capital.

**Answer: B****Topic: Investment in Human Capital****Skill: Conceptual**

- 34) The more education that workers have, the \_\_\_\_\_ is their human capital and \_\_\_\_\_ is their productivity.
- larger; higher
  - larger; smaller
  - smaller; larger
  - smaller; smaller

**Answer: A****Topic: Investment in Human Capital****Skill: Conceptual**

- 35) During World War II, the increasing productivity of workers who built Liberty Ships was due primarily to
- human capital accumulation through schooling and training.
  - learning-by-doing.
  - discoveries of new and better technologies.
  - investments by shipyards in new capital equipment.

**Answer: B****Topic: Investment in Human Capital****Skill: Conceptual**

- 36) Which of the following statements regarding human capital is INCORRECT?
- Human capital is the accumulated skill and knowledge of human beings.
  - Education is the only vehicle for the creation of human capital because training simply reinforces what has already been learned.
  - The accumulation of human capital is the source of both increased productivity and technological advance.
  - Writing and mathematics, the most basic of human skills, are crucial elements in economic progress.

**Answer: B****Topic: Investment in Human Capital****Skill: Conceptual**

- 37) Workers who pursue an education directly increase their
- financial capital.
  - physical capital.
  - human capital.
  - saving.

**Answer: C****Topic: Discovery of New Technologies****Skill: Conceptual**

- 38) Which of the following statements regarding technological change is true?
- Formal research and development and informal trial and error are the source of technological change.
  - Technological change impacts the productivity of physical capital but not human capital.
  - Technological change is usually embodied in human capital.
  - Technological change has played a minimal role in economic growth.

**Answer: A**

## ■ Growth Accounting

### Topic: Growth Accounting

#### Skill: Recognition

- 39) Growth accounting is designed to measure the amount of economic growth resulting from
- only technological progress.
  - only increased labor.
  - only increased capital and labor.
  - technological progress, increased labor, and increased capital.

**Answer: D**

### Topic: Growth Accounting

#### Skill: Conceptual

- 40) The purpose of growth accounting is to determine
- how rapidly GDP grows.
  - how rapidly the capital stock grows.
  - how much of GDP growth is a result of increases in capital, how much is the result of increase in labor, and how much is the result of increases in technology.
  - the most accurate ways of measuring depreciation.

**Answer: C**

### Topic: Growth Accounting

#### Skill: Conceptual

- 41) Separating the sources of economic growth is the purpose behind
- the national income accounts.
  - the production possibilities curve.
  - macroeconomics.
  - growth accounting.

**Answer: D**

### Topic: Aggregate Production Function

#### Skill: Recognition

- 42) The key tool of growth accounting is the aggregate
- demand curve.
  - supply curve.
  - production function.
  - expenditure function.

**Answer: C**

### Topic: Aggregate Production Function

#### Skill: Recognition

- 43) The aggregate production function is based upon three main variables:
- labor, capital and technology.
  - labor, technology and money.
  - capital, technology and land.
  - land, labor and laws.

**Answer: A**

### Topic: Aggregate Production Function

#### Skill: Recognition

- 44) The aggregate production function describes how
- inputs and technology are combined to produce output.
  - wages and other input costs combine into total cost.
  - wages and productivity affect economic growth.
  - saving and investment affect labor productivity.

**Answer: A**

### Topic: Aggregate Production Function

#### Skill: Conceptual

- 45) The equation  $Y=F(L, K, T)$  where  $Y$  = real GDP,  $L$  = labor,  $K$  = capital, and  $T$  = technology
- is known as the labor function.
  - is known as the aggregate production function.
  - shows that the faster technology grows, the faster real GDP grows.
  - Both answers B and C are correct.

**Answer: D**

### Topic: Aggregate Production Function

#### Skill: Conceptual

- 46) If  $Y$  = real GDP, and  $L$ ,  $K$  and  $T$  represent the quantities of labor, capital and technology respectively, then the most appropriate representation of the aggregate production function is
- $L = F(K, Y, T)$ .
  - $Y = F(T, K)$ .
  - $Y = F(K, T, L)$ .
  - $T = F(Y, T, L)$ .

**Answer: C**

**Topic: Labor Productivity****Skill: Recognition**

- 47) Labor productivity is measured by
- real GDP.
  - capital per hour of labor.
  - real GDP per hour of labor.
  - real GDP per unit of capital.

**Answer: C****Topic: Labor Productivity****Skill: Recognition**

- 48) Labor productivity equals
- $Y/L$ .
  - $K/L$ .
  - $T/L$ .
  - the percentage change in the labor input  $L$ .

**Answer: A****Topic: Labor Productivity****Skill: Recognition**

- 49) Labor productivity equals
- real GDP divided by the capital stock.
  - real GDP divided by the working-age population.
  - total wages divided by real GDP.
  - real GDP divided by aggregate labor hours.

**Answer: D****Topic: Labor Productivity****Skill: Recognition**

- 50) Labor productivity is
- the average amount of real GDP produced per worker times the number of workers.
  - the average amount of real GDP produced per worker times the number of people.
  - the average amount of real GDP produced per hour of labor.
  - the rate of change in the amount of real GDP produced per hour of labor.

**Answer: C****Topic: Labor Productivity****Skill: Recognition**

- 51) Which of the following directly creates growth in labor productivity?
- Growth in capital per hour of labor.
  - Technological change.
  - Population growth.
- I.
  - II.
  - I and II.
  - I and III.

**Answer: C****Topic: Labor Productivity****Skill: Recognition**

- 52) An assumption underlying growth accounting is that growth in output per hour of labor is determined by growth in
- only technological progress.
  - both capital per hour of labor and technological progress.
  - only capital per hour of labor.
  - hours of labor.

**Answer: B****Topic: Labor Productivity****Skill: Recognition**

- 53) Productivity growth
- was high in the 1960s, slowed after 1973, and accelerated after 1983.
  - was low in the 1960s, speeded up after 1973, and slowed after 1983.
  - was constant from 1960 to the present.
  - consistently fell between 1960 and the present.

**Answer: A****Topic: Labor Productivity****Skill: Recognition**

- 54) Productivity growth
- consistently fell from 1960 to the present
  - consistently rose from 1960 to the present.
  - was constant from 1960 to the present.
  - was high in the 1960s, slowed after 1973, and speeded up after 1983.

**Answer: D**

**Topic: Labor Productivity****Skill: Recognition**

- 55) Labor productivity, real GDP per labor hour, increases if
- saving and investment cause an increase in the quantity of capital per worker.
  - there is an increase in the accumulation of human capital.
  - new technologies are continuously discovered.
  - All of the above answers are correct.

**Answer: D****Topic: Labor Productivity****Skill: Conceptual**

- 56) Which statement regarding productivity growth is NOT correct?
- Labor productivity is defined as real GDP per hour of labor.
  - Productivity growth in the United States was more rapid in the 1960s than the 1970s.
  - Labor productivity growth is due mostly to growth in capital per hour of labor.
  - The 1990s exhibited above-average productivity growth.

**Answer C****Topic: The Productivity Curve****Skill: Recognition**

- 57) The productivity curve is a relationship between
- real GDP per hour of labor and capital per hour of labor, with technology held constant.
  - nominal GDP per hour of labor and capital per hour of labor, with technology held constant.
  - real GDP per hour of labor and capital per hour of labor whenever technological growth occurs.
  - capital per hour of labor and technological growth.

**Answer: A****Topic: The Productivity Curve****Skill: Recognition**

- 58) The productivity curve is a relationship between \_\_\_\_\_ and \_\_\_\_\_.
- real GDP; hours of labor
  - real GDP; capital
  - real GDP per hour of labor; capital
  - real GDP per hour of labor; capital per hour of labor

**Answer D****Topic: The Productivity Curve****Skill: Recognition**

- 59) A diagram of a productivity curve has
- output per hour of labor on the  $y$ -axis and capital per hour of labor on the  $x$ -axis.
  - output per hour of labor on the  $y$ -axis and hours of labor on the  $x$ -axis.
  - capital per hour of labor on the  $y$ -axis and output per hour of labor on the  $x$ -axis.
  - output per hour of labor on the  $y$ -axis and real wages per hour on the  $x$ -axis.

**Answer: A****Topic: The Productivity Curve****Skill: Conceptual**

- 60) The productivity curve
- has a positive slope.
  - has a negative slope.
  - is vertical.
  - is horizontal.

**Answer: A****Topic: The Productivity Curve****Skill: Conceptual**

- 61) While moving along a fixed productivity curve, what is being held constant?
- capital growth.
  - technological progress.
  - labor growth.
  - None of the above because all the factors given above change when moving along a productivity curve.

**Answer: B****Topic: The Productivity Curve****Skill: Conceptual**

- 62) Growth accounting divides the growth of labor productivity into two components, which are
- growth in capital per hour of labor and technological change.
  - real GDP per hour of labor and real GDP per dollar of capital.
  - real GDP per person and the amount of capital per worker.
  - the labor/capital ratio and the price of labor relative to the price of capital.

**Answer: A**

**Topic: The Productivity Curve****Skill: Conceptual**

- 63) Suppose that an IBM worker rearranges existing machines and labor and improves production in the process. Using the productivity curve graphed against the capital stock per hour of labor, this invention would be described as
- a movement upward along the curve.
  - a movement downward along the curve.
  - a shift of the curve upward.
  - a shift of the curve downward.

**Answer: C****Topic: The Productivity Curve****Skill: Conceptual**

- 64) Using the productivity curve, growth accounting measures the contributions of capital accumulation and technological change to growth in
- real GDP per hour of labor.
  - real GDP per unit of capital.
  - nominal GDP per unit of capital.
  - nominal GDP per hour of labor.

**Answer: A****Topic: The Productivity Curve****Skill: Analytical**

- 65) If capital per hour of labor increases, output per hour of labor
- decreases for a given level of technology.
  - increases because the level of technology increases.
  - increases for a given level of technology.
  - decreases because the level of technology decreases.

**Answer: C****Topic: The Productivity Curve****Skill: Analytical**

- 66) If capital per hour of labor decreases, output per hour of labor
- decreases because the level of technology decreases.
  - increases because the level of technology increases.
  - increases for a given level of technology.
  - decreases for a given level of technology.

**Answer: D****Topic: The Productivity Curve, Technological Advance****Skill: Analytical**

- 67) The productivity curve shows that an increase in technological progress results in
- an increase in the level of real GDP per hour of labor at any level of capital per hour of labor.
  - no change in the level of real GDP per hour of labor at *any* level of capital per hour of labor.
  - a decrease in the level of real GDP per hour of labor at any level of capital per hour of labor.
  - an increase in the quantity of labor.

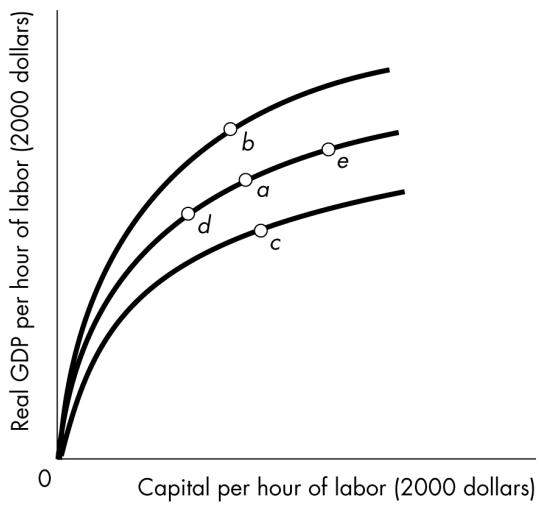
**Answer: A****Topic: The Productivity Curve, Technological Advance****Skill: Analytical**

- 68) If the level of technology rises, output per worker
- increases for any level of capital per hour of labor.
  - increases because the level of capital per worker increases.
  - decreases for a given level of capital per worker.
  - decreases because the level of capital per worker decreases.

**Answer: A****Topic: The Productivity Curve****Skill: Recognition**

- 69) Which of the following is used most directly in growth accounting?
- the production possibilities curve.
  - the aggregate expenditures curve.
  - the productivity curve.
  - the aggregate supply curve.

**Answer: C**

**Topic: The Productivity Curve****Skill: Analytical**

- 70) The curves in the above figure are referred to as
- saving supply curves.
  - productivity curves.
  - labor demand curves.
  - investment demand curves.

**Answer: B****Topic: The Productivity Curve****Skill: Analytical**

- 71) In the above figure, the movement from point *a* to point *e* shows the effect of
- the two-thirds rule.
  - an increase in the capital stock.
  - an increase in labor productivity.
  - an advance in technology.

**Answer: B****Topic: The Productivity Curve****Skill: Analytical**

- 72) In the above figure, an increase in the capital stock per hour of labor is represented by a movement such as from
- point *a* to point *e*.
  - point *a* to point *b*.
  - point *a* to point *c*.
  - point *a* to point *d*.

**Answer: A****Topic: The Productivity Curve****Skill: Analytical**

- 73) In the above figure, a decrease in the capital stock per hour of labor is represented by movement such as from
- point *a* to point *e*.
  - point *a* to point *b*.
  - point *a* to point *c*.
  - point *a* to point *d*.

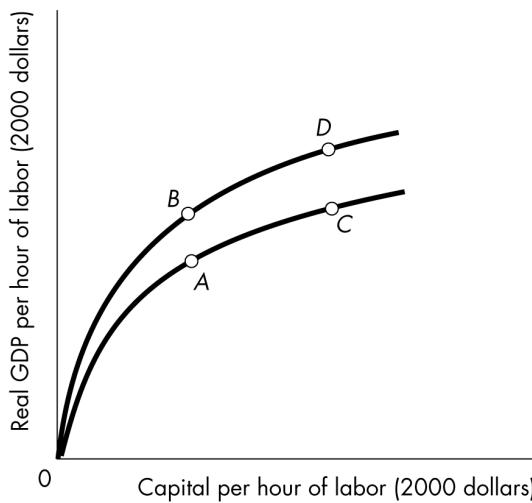
**Answer: D****Topic: The Productivity Curve, Technological Advance****Skill: Analytical**

- 74) In the above figure, a technological innovation is represented by a movement such as from
- point *a* to point *e*.
  - point *a* to point *b*.
  - point *a* to point *c*.
  - point *a* to point *d*.

**Answer: B****Topic: Law of Diminishing Returns****Skill: Analytical**

- 75) In the above figure, as the amount of capital per hour of labor increases and the economy moves from point *d* to point *a* to point *e*,
- real GDP per hour increases at a decreasing rate.
  - the law of diminishing returns is violated.
  - real GDP per hour decreases at an increasing rate.
  - real GDP per hour decreases.

**Answer: A**

**Topic: The Productivity Curve****Skill: Analytical**

- 76) According to the figure above, which of the following best describes the effect of an increase in the quantity of capital per hour of labor?
- A* to *B*.
  - B* to *D*.
  - C* to *D*.
  - C* to *A*.

**Answer: B****Topic: The Productivity Curve, Technological Advance****Skill: Analytical**

- 77) According to the figure above, which of the following best describes the effect of an increase in technology?
- C* to *D*.
  - B* to *A*.
  - A* to *C*.
  - D* to *B*.

**Answer: A****Topic: Law of Diminishing Returns****Skill: Recognition**

- 78) The shape of the productivity curve reflects the
- effects of capital accumulation.
  - effects of technological progress.
  - law of diminishing returns.
  - effects of population growth.

**Answer: C****Topic: Law of Diminishing Returns****Skill: Recognition**

- 79) The law of diminishing returns states that, as
- the quantity of one input used in production increases, all else being the same, output increases.
  - technology increases, all else being the same, output increases.
  - the quantity of one input used in production increases, all else being the same, output increases by ever larger amounts.
  - the quantity of one input used in production increases, all else being the same, output increases by ever smaller amounts.

**Answer: D****Topic: Law of Diminishing Returns****Skill: Recognition**

- 80) According to the law of diminishing returns, an additional unit of
- capital produces more output than an additional unit of labor.
  - labor decreases output.
  - labor produces more output than the previous unit.
  - labor produces less output than the previous unit.

**Answer: D****Topic: Law of Diminishing Returns****Skill: Conceptual**

- 81) The law of diminishing returns states that if
- only one input is increased, output decreases by progressively smaller amounts.
  - only one input is increased, output increases by progressively smaller amounts.
  - all inputs in production double, so does output per labor hour.
  - all inputs in production increase, output per labor hour increases but does not necessarily double.

**Answer: B**

**Topic: Law of Diminishing Returns****Skill: Conceptual**

- 82) Suppose that capital per hour of labor rises by 1 unit and consequently that output per hour of labor rises by 0.3 unit. Then, if capital per hour of labor rises by another 1 unit, the law of diminishing returns implies that output per hour of labor will rise by
- 1 unit.
  - 0.3 unit.
  - less than 0.3 unit.
  - between 0.3 and 1 unit.

**Answer: C****Topic: Law of Diminishing Returns****Skill: Analytical**

- 83) Suppose that capital per hour of labor rises by 10 units, increasing output per hour of labor by 1 unit. Then a further 10 unit increase in capital per hour of labor will
- increase output per hour of labor by more than 1 unit.
  - increase output per hour of labor by 1 unit.
  - increase output per hour of labor by less than 1 unit.
  - decrease output per hour of labor by less than 1 unit.

**Answer: C****Topic: The One-Third Rule****Skill: Recognition**

- 84) According to MIT economist Robert Solow, in the absence of a change in technology, a 1 percent increase in capital per hour of labor
- has no significant effect on real GDP per hour of labor.
  - brings about a three percent increase in real GDP per hour of labor.
  - brings about a 1/3 (0.33 percent) percent increase in real GDP per hour of labor.
  - brings about a percentage increase in real GDP per hour of labor equal to the real interest rate.

**Answer: C****Topic: The One-Third Rule****Skill: Recognition**

- 85) The one-third rule states that, holding technology constant, for every 1 percent increase in
- hours worked, output will increase by 0.33 percent.
  - real wages, hours of work increase by 0.33 percent.
  - capital per hour of labor, output per hour of labor will increase by 0.33 percent.
  - real wages, hours of work decrease by 0.33 percent.

**Answer: C****Topic: The One-Third Rule****Skill: Conceptual**

- 86) Suppose that capital per hour of labor has increased by 9 percent. If output per hour of labor has risen by 10 percent, the one-third rule states that, holding technology constant, capital per hour of labor accounts for
- 7 percent of the growth rate in output per hour of labor, with technology accounting for the remaining 3 percent.
  - 4 percent of the growth rate in output per hour of labor, with technology accounting for the remaining 6 percent.
  - 2 percent of the growth rate in output per hour of labor, with technology accounting for the remaining 8 percent.
  - 3 percent of the growth rate in output per hour of labor, with technology accounting for the remaining 7 percent.

**Answer: D****Topic: The One-Third Rule****Skill: Analytical**

- 87) According to Robert Solow's one-third rule, if both capital per hour of labor and real GDP per hour of labor grow by 3 percent a year, then we can conclude that
- the one-third rule has been violated.
  - capital growth contributed one-third of one percent to GDP growth
  - technological change contributed 2 percent to growth in GDP per hour of labor.
  - most of the growth in GDP per hour of labor was due to growth in capital per hour of labor.

**Answer C**

**Topic: The One-Third Rule****Skill: Analytical**

- 88) Suppose that real GDP grew by 6 percent last year and the capital per hour of labor grew 9 percent. Using the one-third rule, by how much did the increase in capital per hour of labor increase real GDP per hour of labor?
- 6 percent
  - 4 percent
  - 3 percent
  - 2 percent

**Answer: C****Topic: The One-Third Rule****Skill: Analytical**

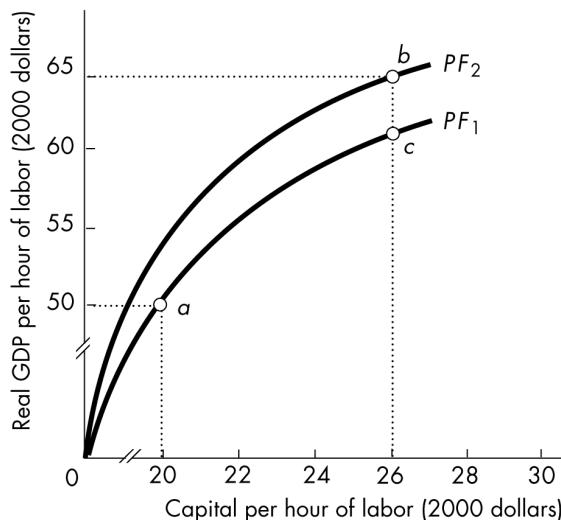
- 89) Assume that capital per hour of labor grows 4 percent and real GDP per hour of labor grows 3 percent. According to the one-third rule, what part of the 3 percent growth of real GDP per hour of labor is attributable to the growth of capital?
- 1 percent
  - 1.33 percent
  - 1.67 percent
  - 2.67 percent

**Answer: B****Topic: The One-Third Rule****Skill: Analytical**

- 90) Suppose that capital per hour of labor grew enough to increase GDP per hour of labor by 3 percent. Then, using the one-third rule, the growth in capital per hour of labor must have been
- 1 percent.
  - 9 percent.
  - 3 percent.
  - 0 percent.

**Answer: B****Topic: The One-Third Rule****Skill: Analytical**

- 91) Suppose that capital per hour of labor grew by 9 percent while GDP per hour of labor grew by 4 percent. Then the contribution of technology to growth in GDP per hour of labor is
- 1 percent.
  - 5 percent.
  - 1 percent.
  - 9 percent.

**Answer: A****Topic: The Productivity Curve****Skill: Conceptual**

- 92) In the above figure showing two productivity curves, a decrease in the amount of capital per hour of labor would result in a movement such as from
- $a$  to  $b$ .
  - $a$  to  $c$ .
  - $b$  to  $c$ .
  - $c$  to  $a$ .

**Answer: D****Topic: Law of Diminishing Returns****Skill: Conceptual**

- 93) The shape of the productivity curves above indicates that this economy experiences
- diminishing returns.
  - increasing returns.
  - constant returns.
  - can't tell from the given information.

**Answer: A**

**Topic: The One-Third Rule****Skill: Analytical**

- 94) In 2004, the economy whose productivity curves are pictured in the above figure was at point *a*. By the year 2007, the economy moved to point *b*. GDP per hour of labor increased by 30 percent. How much did the increase in capital per hour of labor contribute to the growth in GDP per hour of labor?
- A) 30 percent  
 B) 20 percent  
 C) 10 percent  
 D) 6 percent

**Answer: C****Topic: The One-Third Rule****Skill: Analytical**

- 95) In 2004, the economy whose productivity curves are pictured in the above figure was at point *a*. By the year 2007, the economy moved to point *b*. GDP per hour of labor increased by 15 percent. How much did technology contribute to the growth in GDP per hour of labor?
- A) 30 percent  
 B) 20 percent  
 C) 10 percent  
 D) 6 percent

**Answer: B****Topic: Productivity Growth Slowdown****Skill: Conceptual**

- 96) A productivity growth slowdown can be the result of
- A) a higher growth rate of capital per hour.  
 B) a lower growth rate of technological progress.  
 C) reduced energy prices.  
 D) a higher growth rate of technological progress.

**Answer: B****Topic: Productivity Growth Slowdown****Skill: Conceptual**

- 97) An increase in energy prices could account for the productivity growth slowdown because
- A) research was devoted to developing energy saving capital goods instead of increasing productivity.  
 B) higher gas prices reduced saving.  
 C) research was devoted to developing energy saving capital goods, and thus the productivity curve shifted downward.  
 D) the capital stock increased as a result of higher energy prices.

**Answer: A****Topic: Achieving Faster Growth****Skill: Conceptual**

- 98) All of the following would increase the growth rate of the economy EXCEPT
- A) raising the saving rate.  
 B) stimulating research and development.  
 C) discouraging international trade.  
 D) None of the above answers is correct because they all would increase the growth rate.

**Answer: C****Topic: Achieving Faster Growth, Saving****Skill: Conceptual**

- 99) A higher saving rate leads to faster growth because
- A) more saving produces greater additions to capital per hour of labor, raising output per person.  
 B) capital would wear out faster.  
 C) people would consume more of an economy's output.  
 D) population growth would accelerate.

**Answer: A****Topic: Achieving Faster Growth, Saving****Skill: Conceptual**

- 100) If the saving rate increases, a country's growth rate of output per hour of labor \_\_\_\_ and capital per hour of labor \_\_\_\_.
- A) increases; increases  
 B) increases; decreases  
 C) decreases; increases  
 D) decreases; decreases

**Answer: A**

**Topic: Achieving Faster Growth, Saving**  
**Skill: Conceptual**

- 101) One policy that would increase the saving rate would be
- raising taxes on the returns to saving.
  - raising taxes on the returns to investment.
  - taxing consumption.
  - raising taxes on saving.

**Answer: C**

## ■ Growth Theories

**Topic: Classical Growth Theory**

**Skill: Conceptual**

- 102) Which of the following is associated with classical growth theory?
- Growth in real GDP can continue indefinitely.
  - Technological growth increases as the population grows.
  - Population explosions bring real GDP per person back to subsistence levels.
- I.
  - II.
  - III.
  - I and III.

**Answer: C**

**Topic: Classical Growth Theory**

**Skill: Recognition**

- 103) The subsistence real wage rate is the
- minimum real wage rate necessary to sustain life.
  - real wage rate that produces an excess supply of labor.
  - real wage rate that produces an excess demand for labor.
  - real wage rate that causes technological progress to occur.

**Answer: A**

**Topic: Classical Growth Theory**

**Skill: Recognition**

- 104) Classical growth theory asserts that
- an increase in the labor supply raises real wages.
  - the economy can grow indefinitely.
  - real wages fall over time and, as they fall, they increase the population growth rate.
  - population growth is determined by the level of income per person.

**Answer: D**

**Topic: Classical Growth Theory**

**Skill: Conceptual**

- 105) Classical growth theory predicts that
- technological progress increases the demand for labor, driving down real wages, and then population growth rises, driving up real wages to their subsistence level.
  - technological progress decreases the demand for labor.
  - technological progress increases the demand for labor, driving up real wages, and then population growth rises, driving down real wages to their subsistence level.
  - the supply of labor decreases as real wages rise.

**Answer: C**

**Topic: Classical Growth Theory**

**Skill: Conceptual**

- 106) According to the classical growth theory of Thomas Malthus,
- labor productivity increases continuously.
  - the population growth rate is fixed.
  - technological advances lead to permanent increases in real GDP per person.
  - increases in real GDP per person are only temporary.

**Answer: D**

**Topic: Classical Growth Theory**

**Skill: Conceptual**

- 107) Population increases are the limiting factor in the growth process in
- classical growth theory.
  - neoclassical growth theory.
  - the new growth theory.
  - real growth theory.

**Answer: A**

**Topic: Classical Growth Theory**

**Skill: Conceptual**

- 108) Classical economists believed that technological progress would make the labor force
- more productive, shifting the labor demand curve rightward and raising real wage rates.
  - less productive, shifting the labor demand curve leftward and raising real wage rates.
  - more productive, shifting the labor demand curve leftward and lowering real wage rates.
  - less productive, shifting the labor demand curve leftward and lowering real wage rates.

**Answer: A**

**Topic: Classical Growth Theory****Skill: Conceptual**

- 109) Classical growth theory proposes that real GDP growth is \_\_\_\_ and that real GDP per person will \_\_\_\_ the subsistence level.

- A) permanent; temporarily be above
- B) permanent; always be above
- C) temporary; temporarily be above
- D) temporary; be above and below

**Answer: C****Topic: Classical Growth Theory****Skill: Conceptual**

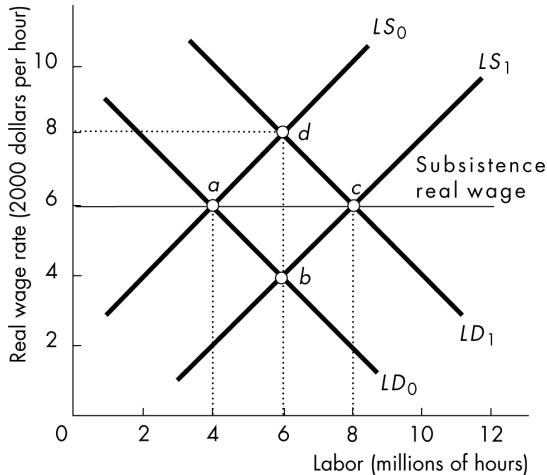
- 110) Classical economists believed that

- A) real wages would rise above their subsistence level in the long run.
- B) real wages would never rise above their subsistence level in the long run.
- C) the labor supply would increase because real wages would fall as a result of technological progress.
- D) the population growth would decrease as real wages rise.

**Answer: B****Topic: Classical Growth Theory****Skill: Recognition**

- 111) Economics became known as the “Dismal Science” because of the

- A) tendency of competitive markets to keep prices and profits low.
- B) classical growth theory prediction of subsistence wages in the long run.
- C) neoclassical growth theory prediction that growth would not persist in the long run.
- C) trouble students have earning good grades in their Introductory Economics classes.

**Answer: B****Topic: Classical Growth Theory****Skill: Analytical**

- 112) In the above figure, suppose the economy is initially on  $LD_0$  and  $LS_0$ . According to the classical growth theory, an advance in technology would initially

- A) shift the  $LS$  curve from  $LS_0$  to  $LS_1$ .
- B) increase the subsistence real wage.
- C) increase the real wage.
- D) increase the population.

**Answer: C****Topic: Classical Growth Theory****Skill: Analytical**

- 113) In the above figure, suppose the economy is initially on  $LD_0$  and  $LS_0$ . As a result of an increase in technology, classical growth theory predicts

- A) the subsistence real wage will rise.
- B) the subsistence real wage will fall.
- C) there will be an increase in population.
- D) the real wage will first fall, then rise.

**Answer: C****Topic: Classical Growth Theory****Skill: Analytical**

- 114) In the above figure, suppose the economy is initially at point  $a$ . According to classical growth theory, an increase in technology will

- A) move the economy from  $a$  to  $d$  to  $c$ .
- B) move the economy from  $a$  to  $b$  to  $c$ .
- C) move the economy from  $a$  to  $b$  to  $a$ .
- D) not move the economy from  $a$ .

**Answer: A**

**Topic: Neoclassical Growth Theory****Skill: Recognition**

- 115) According to the neoclassical growth theory,
- increases in labor productivity are only temporary.
  - technological change depends on people's choices.
  - Forces other than GDP growth determine population growth.
  - Higher saving rates generate permanently faster growth in GDP per person.

**Answer: C****Topic: Neoclassical Growth Theory, Target Rate****Skill: Conceptual**

- 116) If the target interest rate is above the real interest rate,
- households increase saving.
  - households' saving is unaffected.
  - the demand for capital by firms increases.
  - households decrease saving.

**Answer: A****Topic: Neoclassical Growth Theory, Target Rate****Skill: Conceptual**

- 117) If the target interest rate is 6 percent and the real interest rate is
- 4 percent, saving will increase.
  - 7 percent, saving will decrease.
  - 7 percent, saving will increase.
  - 6 percent, saving will decrease.

**Answer: C****Topic: Neoclassical Growth Theory****Skill: Conceptual**

- 118) Neoclassical growth theory assumes that technological progress
- is determined by investment.
  - is determined by saving.
  - responds to economic incentives.
  - is a purely chance event.

**Answer: D****Topic: Neoclassical Growth Theory****Skill: Recognition**

- 119) Neoclassical growth theory proposes that
- technological progress increases the population growth rate and drives down real wages.
  - real GDP per person grows because technological change increases the demand for capital.
  - real GDP growth is caused by growth in the population.
  - discoveries result from choices that increase profits.

**Answer: B****Topic: Neoclassical Growth Theory****Skill: Conceptual**

- 120) Neoclassical growth theory assumes the productivity curve exhibits
- increasing returns to hours of labor.
  - increasing returns to capital per hour of labor.
  - diminishing returns to only hours of labor.
  - diminishing returns to capital per hour of labor.

**Answer: D****Topic: Neoclassical Growth Theory****Skill: Conceptual**

- 121) Neoclassical growth theory predicts that
- advances in technology increase the productivity of capital, which leads to an increase in investment and rising per capita GDP.
  - advances in technology are a result of discoveries motivated by the pursuit of profits.
  - growth in real GDP can increase without any increase in investment demand.
  - growth in real GDP can continue indefinitely.

**Answer: A****Topic: Neoclassical Growth Theory****Skill: Conceptual**

- 122) According to neoclassical growth theory, the productivity curve shifts upward if
- the target real interest rate increases.
  - capital per hour of labor increases.
  - technological progress occurs.
  - the target real interest rate decreases.

**Answer: C**

**Topic: Neoclassical Growth Theory****Skill: Conceptual**

- 123) Neoclassical growth theory predicts that
- the growth rates of all nations will diverge.
  - the growth rates of all nations will converge.
  - output is constant over time.
  - capital is constant over time.

**Answer: B****Topic: New Growth Theory****Skill: Recognition**

- 124) According to the new growth theory of Paul Romer,
- the rate of technological progress is determined by chance.
  - knowledge is not subject to diminishing returns.
  - the productivity curve does not shift upward over time.
  - the concept of a productivity curve is not necessary.

**Answer: B****Topic: New Growth Theory****Skill: Recognition**

- 125) Which theory emphasizes the significance of new discoveries that can be used by many people at the same time?
- Neoclassical growth theory.
  - New growth theory.
  - Classical growth theory.
  - None of the above answers are correct.

**Answer: B****Topic: New Growth Theory****Skill: Recognition**

- 126) The notion that technological change is not random but instead is driven by the pursuit of profits is an essential element of
- classical growth theory.
  - neoclassical growth theory.
  - the new growth theory.
  - perpetual growth theory.

**Answer: C****Topic: New Growth Theory****Skill: Recognition**

- 127) Because of the choices people make in the pursuit of profit, new growth theory argues that
- technology growth slows down in the long-run.
  - population growth increases will bring the real wage rate back to subsistence level.
  - the capital stock experiences diminishing returns.
  - the economy can enjoy a period of indefinite growth.

**Answer: D****Topic: New Growth Theory****Skill: Recognition**

- 128) New growth theory predicts that
- economic growth is only temporary.
  - economic growth can last indefinitely.
  - economic growth is eroded by changes in taxes.
  - government policies can do nothing to foster increased growth.

**Answer: B****Topic: New Growth Theory****Skill: Conceptual**

- 129) A central proposition of the new growth theory is that
- growth will cease but prosperity will persist.
  - knowledge is not subject to diminishing returns.
  - government direction and oversight is necessary for consistent growth.
  - growth is often just an illusion fostered by growth accounting.

**Answer: B****Topic: New Growth Theory****Skill: Conceptual**

- 130) Which of the following is NOT associated with the new growth theory?
- Natural resources.
  - Research.
  - Technology.
  - Innovation.

**Answer: A**

**Topic: New Growth Theory****Skill: Conceptual**

131) New growth theory proposes that real GDP per person grows because of \_\_\_\_ and that growth \_\_\_\_.

- A) the pursuit of profit; can persist indefinitely
- B) productivity shocks; can persist indefinitely
- C) technological change; can only increase above the subsistence level temporarily
- D) productivity shocks; occurs randomly

**Answer: A**

**Topic: Sorting Out the Growth Theories****Skill: Conceptual**

132) Which one of the following statements about growth theories is correct?

- A) In the new growth theory, knowledge is not subject to diminishing returns.
- B) In neoclassical growth theory, technological progress is the result of rapid increases in saving and investment in capital per person.
- C) In classical growth theory, real GDP per person is unrelated to the subsistence wage rate.
- D) In classical growth theory physical resources are unlimited.

**Answer: A**

## ■ Study Guide Questions

**Topic: Study Guide Question, Productivity Growth Slowdown****Skill: Recognition**

133) When did productivity grow most rapidly?

- A) 1960 to 1973
- B) 1973 to 1983
- C) 1983 to 1997
- D) 1960 to 1983

**Answer: A**

**Topic: Study Guide Question, Productivity Growth Slowdown****Skill: Conceptual**

134) Helping create the 1973-1983 slowdown in productivity growth was

- A) a large increase in capital per hour of labor.
- B) large increases in the price of oil.
- C) passing fewer environmental protection laws.
- D) All of the above helped create the slowdown in productivity growth.

**Answer: B**

**Topic: Study Guide Question, The Productivity Curve****Skill: Conceptual**

135) A decrease in the amount of capital per hour of labor leads to

- A) an upward shift in the productivity curve.
- B) a downward shift in the productivity curve.
- C) a movement along the productivity curve to a higher level of output per hour of labor.
- D) a movement along the productivity curve to a lower level of output per hour of labor.

**Answer: D**

**Topic: Study Guide Question, The Productivity Curve, Technological Advance****Skill: Conceptual**

136) An increase in the level of technology results in

- A) the productivity curve shifting upward.
- B) the productivity curve shifting downward.
- C) a movement along the productivity curve to a higher level of output per hour of labor.
- D) a movement along the productivity curve to a lower level of output per hour of labor.

**Answer: A**

**Topic: Study Guide Question, The One-Third Rule****Skill: Analytical**

137) With no technological change, a 7 percent increase in capital per hour of labor causes approximately a \_\_\_\_ percent increase in output per hour of labor.

- A) 14.
- B) 7.
- C) 7/3.
- D) 1/3.

**Answer: C**

**Topic: Study Guide Question, The One-Third Rule****Skill: Analytical**

- 138) Suppose that capital per hour of labor increases by 15 percent and that real GDP per hour of labor increases by 10 percent. What is the contribution to the increase in real GDP per hour of labor from the change in capital per hour of labor?
- It increased real GDP per hour of labor by 15 percent.
  - It increased real GDP per hour of labor by 10 percent.
  - It increased real GDP per hour of labor by 5 percent.
  - It increased real GDP per hour of labor by 3.3 percent.

**Answer: C****Topic: Study Guide Question, The One-Third Rule****Skill: Analytical**

- 139) Suppose that capital per hour of labor increases by 18 percent while real GDP per hour of labor increases by 10 percent. What is the contribution to the increase in real GDP per hour of labor from changing technology?
- It increased real GDP per hour of labor by 18 percent.
  - It increased real GDP per hour of labor by 12 percent.
  - It increased real GDP per hour of labor by 4 percent.
  - It increased real GDP per hour of labor by 3.33 percent.

**Answer: C****Topic: Study Guide Question, Classical Theory****Skill: Recognition**

- 140) Which theory of economic growth concludes that in the long run people will be paid only a subsistence real wage?
- The classical theory
  - The neoclassical theory
  - The new theory
  - All of the theories

**Answer: C****Topic: Study Guide Question, Classical Theory****Skill: Conceptual**

- 141) A factor that turned out to be a weakness of the classical theory of growth is its
- emphasis on saving and investment.
  - assumption that the growth rate of the population increases when income increases.
  - reliance on constant growth in technology.
  - neglect of the subsistence real wage.

**Answer: B****Topic: Study Guide Question, Neoclassical Growth Theory****Skill: Recognition**

- 142) An assumption of the neoclassical theory of growth is that
- people earn only a subsistence real wage.
  - all technological advances are the result of chance.
  - the marginal product of all types of capital increases as more capital is accumulated.
  - knowledge has diminishing returns.

**Answer: B****Topic: Study Guide Question, Neoclassical Theory****Skill: Conceptual**

- 143) If the real interest rate exceeds the target interest rate, saving is \_\_\_\_\_ and capital per hour of labor \_\_\_\_\_.
- high; increases
  - high; decreases
  - low; increases
  - low; decreases

**Answer: A****Topic: Study Guide Question, Neoclassical Theory****Skill: Conceptual**

- 144) In the neoclassical theory of growth, growth in \_\_\_\_\_ is the result of luck.
- saving
  - income
  - technology
  - the real interest rate

**Answer: C**

**Topic: Study Guide Question, New Growth Theory****Skill: Conceptual**

- 145) A key assumption of new growth theory is that
- all technological change is the result of luck.
  - higher incomes lead to a higher birth rate.
  - a successful innovator has the opportunity to earn a temporary, above-average profit.
  - the target interest rate is lower than the real interest rate.

**Answer: C****Topic: Study Guide Question, New Growth Theory****Skill: Conceptual**

- 146) Which theory of economic growth concludes that growth can continue indefinitely?
- The classical theory
  - The neoclassical theory
  - The new theory
  - All of the theories

**Answer: C****Topic: Study Guide Question, New Growth Theory****Skill: Conceptual**

- 147) In the new growth theory, as long as the real interest rate is greater than the target rate,
- the population growth rate increases.
  - saving is less than investment.
  - international trade is necessary.
  - more capital is accumulated.

**Answer: D****■ MyEconLab Questions****Topic: Long-Term Growth Trends****Level I: Definitions and Concepts**

- 148) Over the past 100 years, real GDP per person in the United States has grown at an average of \_\_\_\_ percent a year.
- 1
  - 2
  - 3
  - 4

**Answer: B****Topic: Preconditions for Economic Growth****Level I: Definitions and Concepts**

- 149) The preconditions for economic growth include all the following except \_\_\_\_.
- money so that all sorts of transactions can take place
  - property rights that are properly enforced by the rule of law
  - markets that enable people to do business with each other.
  - big governments that spend more and more of the nation's income

**Answer: D****Topic: Growth Accounting****Level I: Definitions and Concepts**

- 150) The calculation of the contribution of an increase in labor and capital and the contribution of technological change to real GDP growth is called \_\_\_\_\_.
- growth calculation in the twentieth century
  - growth accounting
  - productivity accounting
  - technological and capital calculation

**Answer: B****Topic: Labor Productivity****Level I: Definitions and Concepts**

- 151) Labor productivity \_\_\_\_.
- is labor per unit of capital
  - increases when aggregate labor hours increase
  - is real GDP per unit of capital
  - is real GDP per hour of labor

**Answer: D****Topic: The Productivity Curve****Level I: Definitions and Concepts**

- 152) The productivity curve shows the relationship between how \_\_\_\_ per hour of labor changes as the amount of \_\_\_\_ per hour of labor changes when technology \_\_\_\_.
- GDP; capital; advances
  - real GDP; the real wage; advances
  - the real wage; labor productivity; remains unchanged
  - real GDP; capital; remains unchanged

**Answer: D**

**Topic: Classical Growth Theory****Level 1: Definitions and Concepts**

- 153) The view that population growth occurs when real GDP per person exceeds the amount necessary to sustain life is part of the \_\_\_\_.
- classical growth theory
  - modern theory of population growth
  - neoclassical growth theory
  - new growth theory

**Answer: A****Topic: Classical Growth Theory****Level 1: Definitions and Concepts**

- 154) If the real wage rate is greater than the subsistence real wage rate, then classical growth theory assumes that \_\_\_\_.
- the population will grow
  - the population will grow indefinitely
  - the real wage rate will be 4 shillings a day
  - the real wage rate will be maintained

**Answer: A****Topic: Neoclassical Growth Theory****Level 1: Definitions and Concepts**

- 155) In neoclassical growth theory, technological change \_\_\_\_.
- occurs by chance
  - is influenced by population growth
  - is influenced by the rate of economic growth
  - occurs at a steady rate

**Answer: A****Topic: Aggregate Production Function****Level 1: Definitions and Concepts**

- 156) The aggregate production function shows how \_\_\_\_ changes when \_\_\_\_ change.
- GDP; labor and capital
  - GDP; capital and technology
  - real GDP; labor, capital, and technology
  - real GDP; capital and technology

**Answer: A****Topic: New Growth Theory****Level 1: Definitions and Concepts**

- 157) \_\_\_\_ predicts that real GDP per person can grow indefinitely.
- New growth theory
  - Classical growth theory
  - Profit growth theory
  - Neoclassical growth theory

**Answer: A****Topic: Real GDP Growth in the World Economy****Level 2: Using Definitions and Concepts**

- 158) By measuring \_\_\_\_ we can see that the economies of Hong Kong and Singapore are catching up to the economies of North America but that the economies of Central and South America are not.
- inflation per person
  - real GDP per person
  - the population
  - real GDP

**Answer: B****Topic: Preconditions for Economic Growth****Level 2: Using Definitions and Concepts**

- 159) Ongoing economic growth requires all of the following except \_\_\_\_.
- investment in human capital
  - the discovery of new technologies
  - saving and investment in new capital
  - population growth

**Answer: D****Topic: Labor Productivity****Level 2: Using Definitions and Concepts**

- 160) When aggregate labor hours increase and real GDP increases, \_\_\_\_.
- labor productivity decreases
  - technology increases
  - labor productivity probably changes but more information is needed to determine if it increases or decreases
  - labor productivity increases

**Answer: C****Topic: The Productivity Curve****Level 2: Using Definitions and Concepts**

- 161) The slope of the productivity curve \_\_\_\_ as more capital per hour of labor is employed because \_\_\_\_ increases more slowly than does capital per hour of labor.
- increases; aggregate hours worked
  - decreases; real GDP per hour of labor
  - increases; real GDP
  - decreases; real GDP

**Answer: B**

**Topic: Law of Diminishing Returns****Level 2: Using Definitions and Concepts**

- 162) The law of diminishing returns states that as the quantity of one input increases and all other inputs remain the same, output will \_\_\_\_.
- increase as capital increases
  - increase but by ever smaller increments
  - increase but eventually decrease
  - gradually decrease

**Answer: B****Topic: The One-Third Rule****Level 2: Using Definitions and Concepts**

- 163) The one-third rule states that a one percent increase in \_\_\_\_ per hour of labor with \_\_\_\_ in technology results in a one-third of one percent increase in \_\_\_\_ per hour of labor.
- the real wage; no change; capital
  - capital; an increase; real GDP
  - capital; no change; real GDP
  - the real wage; an increase; capital

**Answer: C****Topic: Classical Growth Theory****Level 2: Using Definitions and Concepts**

- 164) Classical growth economists believed that the real wage rate \_\_\_\_ the subsistence real wage rate.
- could sometimes be above
  - would always be above
  - would always equal
  - None of the above answers is correct.

**Answer: A****Topic: Neoclassical Growth Theory****Level 2: Using Definitions and Concepts**

- 165) Neoclassical growth theory predicts that China's economic growth rate will \_\_\_\_.
- decrease when the interest rate increases
  - continue at around 10 percent a year
  - always remain above the U.S. economic growth rate
  - eventually converge to the U.S. economic growth rate.

**Answer: D****Topic: New Growth Theory****Level 2: Using Definitions and Concepts**

- 166) In new growth theory, \_\_\_\_ does not experience diminishing returns.
- knowledge capital
  - the demand for labor
  - the marginal product of labor
  - the demand for capital

**Answer: A****Topic: Achieving Faster Growth, International Trade****Level 2: Using Definitions and Concepts**

- 167) To increase the pace of economic growth we must increase the growth rate of \_\_\_\_ or increase the growth rate of \_\_\_\_.
- capital per hour of labor; technological progress
  - aggregate work hours; consumption
  - aggregate supply; the price level
  - aggregate demand; the real wage rate

**Answer: A****Topic: Long-Term Growth Trends****Level 3: Calculations and Predictions**

- 168) Between 1901 and 2001, the average growth rate of real GDP per person in the United States was 2 percent a year. During this period, \_\_\_\_ grew at a faster rate than \_\_\_\_.
- GDP; the population
  - the population; real GDP
  - real GDP; the population
  - inflation; real GDP

**Answer: C****Topic: The Productivity Curve****Level 3: Calculations and Predictions**

- 169) An increase in the quantity of capital per hour of labor with no change in population creates a \_\_\_\_ the productivity curve, and technological change creates a \_\_\_\_ the productivity curve.
- movement along; movement along
  - shift of; movement along
  - shift of; shift of
  - movement along; shift of

**Answer: D**

**Topic: Law of Diminishing Returns****Level 3: Calculations and Predictions**

- 170) When capital per hour of labor increases by \$10,000, real GDP per hour of labor increases by \$8,000. According to the law of diminishing returns, if capital per hour of labor increases by an additional \$10,000, real GDP per hour of labor will \_\_\_\_.
- increase by more than \$8,000
  - increase by \$8,000
  - increase by less than \$8,000
  - increase but more information is needed to determine if the increase is more than, less than, or equal to \$8,000.

**Answer: C****Topic: The One-Third Rule****Level 3: Calculations and Predictions**

- 171) In Lotusland, real GDP per hour of labor grows at 6 percent a year when capital per hour of labor increases by 6 percent a year. The one-third rule tells us that capital per hour of labor increased real GDP per hour of labor by \_\_\_\_.

- 6 percent a year
- 3 percent a year
- 2 percent a year
- 12 percent a year

**Answer: C****Topic: The One-Third Rule****Level 3: Calculations and Predictions**

- 172) In Lotusland, real GDP per hour of labor grows at 6 percent a year when capital per hour of labor increases by 6 percent a year. The one-third rule tells us that technological change increased real GDP per hour of labor by \_\_\_\_.

- 3 percent a year
- 12 percent a year
- 6 percent a year
- 4 percent a year

**Answer: D****Topic: The One-Third Rule****Level 3: Calculations and Predictions**

- 173) In Dreamland, capital per hour of labor increased by 3 percent a year and technological change increased real GDP per hour of labor by 1 percent a year. Real GDP per hour of labor increased by \_\_\_\_.

- 2 percent a year
- 6 percent a year
- 5 percent a year
- 4 percent a year

**Answer: A****Topic: The One-Third Rule****Level 3: Calculations and Predictions**

- 174) In Gamma, as capital per hour of labor grows by 6 percent a year and technology does not change, \_\_\_\_ and real GDP per hour of labor increases by \_\_\_\_ percent a year.

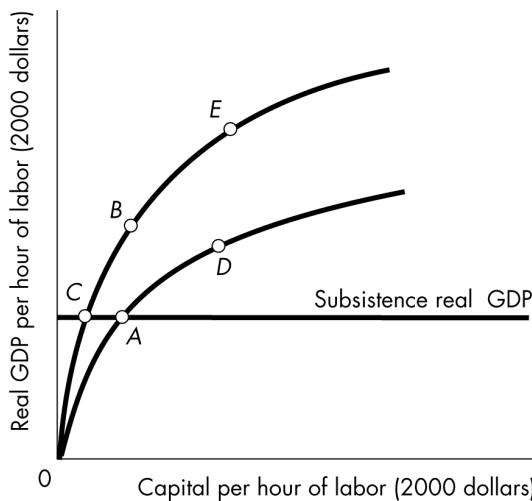
- Gamma moves along its productivity curve; 3
- Gamma's productivity curve shifts upward; 2
- Gamma moves along its productivity curve; 6
- Gamma moves along its productivity curve; 2

**Answer: D****Topic: The One-Third Rule****Level 3: Calculations and Predictions**

- 175) In Lotusland, real GDP per hour of labor grows at 5 percent a year when technology increases real GDP per hour of labor by 5 percent a year. Capital per hour of labor grows by \_\_\_\_ percent a year.

- 0
- 10
- 15
- 30

**Answer: A**

**Topic: Classical Growth Theory****Level 3: Calculations and Predictions**

- 176) The economy is at point *A* in the figure. Classical growth theory predicts that with technological advance, the economy will move first to point \_\_\_\_ and then to point \_\_\_\_.

- A) *C; B*
- B) *B; C*
- C) *D; E*
- D) *D; A*

**Answer: B****Topic: Classical Growth Theory****Level 3: Calculations and Predictions**

- 177) An assumption of classical growth theory is that when \_\_\_\_ the population growth rate \_\_\_\_.
- A) the real wage rate exceeds the subsistence real wage rate; increases
  - B) people become more skilled; decreases
  - C) the real wage rate decreases; increases
  - D) saving declines; decreases

**Answer: A****Topic: Long-Term Growth Trends****Level 4: Advanced Calculations and Predictions**

- 178) Real GDP per person in the country of Flax is \$10,000. Each year real GDP per person grows 10 percent. At the end of 2 years, real GDP per person is \_\_\_\_.

- A) \$11,000
- B) \$12,000
- C) \$10,100
- D) \$12,100

**Answer: D****Topic: Long-Term Growth Trends****Level 4: Advanced Calculations and Predictions**

- 179) Real GDP per person in the country of Flip is \$10,000, and the growth rate is 10 percent a year. Real GDP per person in the country of Flap is \$20,000 and the growth rate is 5 percent a year. When will real GDP per person be greater in Flip than in Flap?

- A) in 2 years
- B) in 15 years
- C) never
- D) in 10 years

**Answer: B****Topic: Preconditions for Economic Growth****Level 4: Advanced Calculations and Predictions**

- 180) Economic growth can begin when people \_\_\_\_, but in order to continue, there must be an incentive system which encourages people to pursue activities \_\_\_\_.

- A) specialize and trade; such as investment in human capital
- B) have comparative advantage; having absolute advantage
- C) are educated; in which they have a comparative advantage
- D) increase working hours; that use more capital

**Answer: A**

**Topic: The One-Third Rule****Level 4: Advanced Calculations and Predictions**

- 181) The one-third rule predicts that if capital per hour of labor increases by 6 percent and real GDP per hour of labor increases by 6 percent, then the increase in capital per hour of labor increases real GDP per hour of labor by \_\_\_\_ and technological change increases real GDP per hour of labor by \_\_\_\_.
- A) 6 percent; 0 percent  
 B) 2 percent; 4 percent  
 C) 4 percent; 2 percent  
 D) 0 percent; 6 percent

**Answer: B**

Year	Capital per hour of labor (seashells)	Labor productivity (seashells)
2002	600.0	400.0
2003	654.0	424.0
2004	719.4	466.4

**Topic: The One-Third Rule****Level 4: Advanced Calculations and Predictions**

- 182) The table above shows capital per hour of labor and labor productivity for the beach economy of Whitepool. In the year 2003, how many seashells does the increase in capital per hour of labor contribute and how many seashells of growth does technological change contribute to the growth in real GDP per hour of labor?
- A) 12 seashells; 12 seashells  
 B) 24 seashells; 0 seashells  
 C) 3 seashells; 3 seashells  
 D) 54 seashells; -30 seashells

**Answer: A****Topic: The One-Third Rule****Level 4: Advanced Calculations and Predictions**

- 183) The table above shows capital per hour of labor and labor productivity for the beach economy of Whitepool. In the year 2004, what is the contribution of the increase in capital per hour of labor and the contribution of technological change to the growth in real GDP per hour of labor?
- A) 10 percent; 0 percent  
 B)  $3\frac{1}{3}$  percent;  $6\frac{2}{3}$  percent  
 C) 0 percent; 10 percent  
 D) 5 percent; 5 percent

**Answer: B****Topic: The One-Third Rule****Level 4: Advanced Calculations and Predictions**

- 184) In 2003, capital per hour of labor was \$250 and real GDP per hour of labor was \$50. In 2004, real GDP per hour of labor was \$55. If there was no change in technology between 2003 and 2004, then capital per hour of labor in 2004 was \_\_\_\_.
- A) \$252  
 B) \$325  
 C) \$275  
 D) \$280

**Answer: B****Topic: Neoclassical Growth Theory****Level 4: Advanced Calculations and Predictions**

- 185) An economy is in a long-run equilibrium. The real interest rate and the target rate of return are 6 percent a year. Then technology advances and the real interest rate rises to 10 percent. Neoclassical growth theory predicts that economic growth will continue \_\_\_\_.
- A) until the real interest rate and subsistence wage rate are equal  
 B) until the real interest rate falls to 6 percent a year  
 C) only after the real interest rate returns to 6 percent a year  
 D) indefinitely

**Answer: B****Topic: New Growth Theory****Level 4: Advanced Calculations and Predictions**

- 186) According to new growth theory \_\_\_\_.
- A) ever-advancing productivity keeps the rate of return below the target rate of return  
 B) knowledge does not experience diminishing returns  
 C) growth rates and income levels per person around the globe will converge  
 D) knowledge is subject to the law of diminishing returns

**Answer: B**

**Topic: Achieving Faster Growth, International Trade****Level 4: Advanced Calculations and Predictions**

187) A country would achieve faster growth by \_\_\_\_.

- A) encouraging free trade
- B) increasing the cost of education
- C) increasing union membership
- D) taxing income and not consumption

**Answer: A**



## ■ What Is Money?

**Topic: What Is Money?**

**Skill: Recognition\***

- 1) The functions of money are
  - A) medium of exchange and the ability to buy goods and services.
  - B) medium of exchange, unit of account, and means of payment.
  - C) pricing, contracts, and means of payment.
  - D) medium of exchange, unit of account, and store of value.

**Answer: D**

**Topic: What Is Money?**

**Skill: Recognition**

- 2) Which of the following does NOT describe a function of money?
  - A) a unit of account.
  - B) a hedge against inflation.
  - C) a medium of exchange.
  - D) a store of value.

**Answer: B**

**Topic: What Is Money?**

**Skill: Recognition**

- 3) Which of the following is a primary function of money?
  - A) to serve as a unit of account.
  - B) to serve as an encouragement to work.
  - C) to reduce the burden of excessive imports.
  - D) to raise funds for the government.

**Answer: A**

**Topic: Medium of Exchange**

**Skill: Recognition\***

- 4) Barter is
  - A) another type of money.
  - B) printing too much money.
  - C) the exchange of goods and services directly for other goods and services.
  - D) the exchange of goods and services for any type of money.

**Answer: C**

**Topic: Medium of Exchange**

**Skill: Recognition**

- 5) The most direct way in which money eliminates the need for a double coincidence of wants is through its use as a
  - A) medium of exchange.
  - B) standard of deferred payment.
  - C) store of value.
  - D) unit of account.

**Answer: A**

**Topic: Medium of Exchange**

**Skill: Conceptual**

- 6) In a barter system, we would see
  - A) many different units of money.
  - B) money and goods exchanged for each other.
  - C) wide-spread depository institutions.
  - D) goods traded directly for other goods and services.

**Answer: D**

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\* This is Chapter 26 in *Economics*.

**Topic: Medium of Exchange****Skill: Conceptual**

- 7) When you buy a hamburger for lunch, you are using money as a
- store of value.
  - standard of deferred payment.
  - medium of exchange.
  - unit of accounting.

**Answer: C****Topic: Unit of Account****Skill: Recognition\***

- 8) The unit of account function occurs when money serves as a
- means of payment.
  - medium of exchange.
  - pricing mechanism.
  - double coincidence of wants.

**Answer: C****Topic: Unit of Account****Skill: Conceptual**

- 9) Which of the following applies to the use of money as a unit of account?
- A unit of account is an agreed measure for stating the prices of goods and services.
  - Using money as a unit of account creates a simplified pricing system.
  - Economies choose many goods as units of account.
- I only.
  - II only.
  - I and III.
  - I and II.

**Answer: D****Topic: Unit of Account****Skill: Conceptual**

- 10) A \$25,000 price tag on a new car is an example of money as
- medium of exchange.
  - a unit of account.
  - a store of value.
  - a time deposit.

**Answer: B****Topic: Store of Value****Skill: Conceptual**

- 11) Which of the following is an example of using money as a store of value?
- paying for a new dress with a credit card.
  - paying cash for a new automobile.
  - paying rent with a check on a demand deposit.
  - keeping \$200 on hand for an emergency.

**Answer: D****Topic: Money in the United States Today****Skill: Recognition\***

- 12) In the United States today, money consists of
- currency only.
  - deposits at banks only.
  - coins only.
  - currency and deposits at banks.

**Answer: D****Topic: Money in the United States Today****Skill: Recognition**

- 13) Which of the following correctly completes this statement? Money in the United States includes
- the sum of all money incomes.
  - the cash in banks plus the sum of all checks written.
  - the currency and bank deposits held by the non-banking public.
  - the sum of currency, deposits, and bonds held by the public and by the banking industry.

**Answer: C****Topic: Money in the United States Today****Skill: Recognition\***

- 14) Checking deposits at banks are
- money.
  - not money because they are an intangible.
  - money only because they are insured by the FDIC.
  - not money until they are converted into currency.

**Answer: A**

**Topic: Money in the United States Today, M1****Skill: Recognition\***

- 15) M1 is a measure of
- money and includes both currency and checking deposits.
  - liquidity and in which the most liquid asset is money.
  - money and includes both savings deposits and currency.
  - money and includes both savings deposits and money market mutual funds.

**Answer: A****Topic: Money in the United States Today, M1****Skill: Recognition**

- 16) Which of the following is NOT included in the M1 definition of money?
- Currency held outside banks.
  - Time deposits.
  - Traveler's checks.
  - Checking deposits at savings and loans.

**Answer: B****Topic: Money in the United States Today, M1****Skill: Recognition\***

- 17) The largest component of M1 is
- currency.
  - checking deposits.
  - coins.
  - savings deposits.

**Answer: B****Topic: Money in the United States Today, M2****Skill: Recognition**

- 18) The definition of M2 includes
- M1.
  - savings deposits.
  - time deposits.
  - All of the above.

**Answer: D****Topic: Money in the United States Today, M2****Skill: Conceptual**

- 19) Which of the following is NOT included in the M2 definition of money?
- Currency held by banks.
  - Money market mutual fund balances.
  - Savings deposits.
  - Checkable deposits.

**Answer: A****Topic: Money in the United States Today, M1 and M2****Skill: Conceptual\***

- 20) Comparing M1 and M2 we know that
- M1 is larger because it contains currency.
  - M2 is approximately equal to M1.
  - M2 is larger because it contains M1 and other assets.
  - M2 is larger because it contains more liquid assets than does M1.

**Answer: C****Topic: Liquidity****Skill: Recognition**

- 21) Liquidity is the
- speed with which the price of an asset changes as its intrinsic value changes.
  - inverse of the velocity of money.
  - same as the velocity of money.
  - ease with which an asset can be converted into money.

**Answer: D****Topic: Liquidity****Skill: Recognition\***

- 22) Liquidity is the
- degree to which an asset acts as money without a loss of value.
  - ease with which an asset can be converted into a means of payment with little loss of value.
  - degree to which money can be converted into an asset with little loss of value.
  - ease with which credit cards are accepted as a means of payment.

**Answer: B****Topic: Liquidity****Skill: Recognition**

- 23) An individual wanting the most liquid asset possible will hold
- currency.
  - a savings account.
  - checkable deposits at a bank.
  - U.S government bonds.

**Answer: A**

**Topic: Liquidity****Skill: Recognition**

- 24) Given the list of assets below, which is the most liquid?
- \$500 worth of General Motors common stock.
  - \$500 worth of General Motors bonds.
  - a \$500 traveler's check.
  - a one-ounce gold coin.

**Answer: C****Topic: Checks Are Not Money****Skill: Conceptual**

- 25) Checks are
- money, as are credit cards.
  - not money, but credit cards are.
  - money, but credit cards are not.
  - not money, and neither are credit cards.

**Answer: D****Topic: Checks Are Not Money****Skill: Conceptual\***

- 26) Checks are
- the largest component of the money supply.
  - not money.
  - only part of M2 but not part of M1.
  - part of M1 but not part of M2.

**Answer: B****Topic: Credit Cards Are Not Money****Skill: Conceptual\***

- 27) Checks \_\_\_\_ money and checking deposits \_\_\_\_ money.
- are; are
  - are; are not
  - are not; are
  - are not; are not

**Answer: C****Topic: Checks Are Not Money****Skill: Conceptual**

- 28) Checks are NOT money because they
- are issued by banks, not by the government.
  - are merely instructions to transfer money.
  - have value in exchange but little intrinsic value.
  - are not backed by either gold or silver.

**Answer: B****Topic: Credit Cards Are Not Money****Skill: Conceptual\***

- 29) Credit cards are
- money but are not a large part of the money supply.
  - not money.
  - money and are the largest part of the money supply.
  - not money because they are not made of paper.

**Answer: B****Topic: Credit Cards Are Not Money****Skill: Conceptual**

- 30) Using a credit card can best be likened to
- taking out a loan.
  - a barter exchange.
  - using any other form of money because you immediately get to take the goods home.
  - writing a check on your demand deposit account.

**Answer: A****Topic: Credit Cards Are Not Money****Skill: Conceptual**

- 31) Credit cards are NOT money because they
- have a value in exchange but little intrinsic value.
  - are not issued by the government.
  - do not serve as a unit of account.
  - are ID cards that make borrowing easier.

**Answer: D****■ Depository institutions****Topic: Depository institutions****Skill: Recognition**

- 32) Which of the following institutions is NOT a depository institution?
- The U.S. Treasury.
  - A commercial bank.
  - A money market mutual fund.
  - A thrift institution, such as a savings and loan association.

**Answer: A**

**Topic: Depository institutions****Skill: Recognition**

- 33) A firm that takes deposits from households and firms and makes loans to other households and firms is a
- usurer.
  - depository institution.
  - credit company.
  - stockbroker.

**Answer: B****Topic: Depository Institutions\*****Skill: Recognition\***

- 34) A depository institution is best defined as
- as the lender of last resort.
  - an insurance agency, such as the FDIC.
  - the most powerful body within the Federal Reserve.
  - as an institution that accepts deposits and makes loans.

**Answer: D****Topic: Commercial Banks****Skill: Recognition**

- 35) The major role of a commercial bank is to
- make mortgage loans.
  - sell shares and use the proceeds to buy stocks.
  - receive deposits and make loans.
  - restrain the growth of the quantity of money.

**Answer: C****Topic: Commercial Banks****Skill: Recognition**

- 36) Your checking account is
- an asset for you and a liability for your bank.
  - a liability for you and an asset for your bank.
  - an asset for both you and your bank.
  - a liability for both you and your bank.

**Answer: A****Topic: Commercial Banks****Skill: Conceptual**

- 37) Commercial banks do not
- buy U.S. government Treasury bills.
  - accept deposits from their customers.
  - make loans to creditworthy individuals and businesses.
  - determine what assets are money.

**Answer: D****Topic: Commercial Banks****Skill: Recognition**

- 38) Banks are in business
- because they keep all their assets as reserves.
  - to maximize their reserves.
  - to make a profit.
  - to make as many loans as possible.

**Answer: C****Topic: Commercial Banks****Skill: Recognition**

- 39) Which of the following components is a liability on a bank's balance sheet?
- reserves
  - deposits
  - loans
  - bonds held

**Answer: B****Topic: Commercial Banks****Skill: Recognition**

- 40) Which of the following balance sheet items is a liability of a commercial bank?
- the bank's holdings of U.S. government bonds
  - the bank's holdings of Brazilian government bonds
  - the public's deposits with the bank
  - reserves of the bank at the Federal Reserve

**Answer: C****Topic: Commercial Banks****Skill: Recognition**

- 41) For a commercial bank, the term "reserves" refers to
- a banker's concern ("reservation") in making loans to an individual without a job.
  - the profit that the bank retains at the end of the year.
  - the cash in its vaults and deposits at the Federal Reserve.
  - the net interest that it earns on loans.

**Answer: C**

**Topic: Commercial Banks****Skill: Recognition**

- 42) Which of the following balance sheet items is an asset of a commercial bank?
- the bank's borrowings from the Federal Reserve
  - the public's deposits with the bank
  - certificates of deposit the public has with the bank
  - the bank's loans to firms

**Answer: D****Topic: Commercial Banks****Skill: Recognition**

- 43) Which of the following is NOT an asset of commercial banks?
- Vault cash
  - Deposits at Federal Reserve Banks
  - Loans from Federal Reserve Banks
  - U.S. government treasury bills

**Answer: C****Topic: Commercial Banks****Skill: Conceptual**

- 44) Of the following, the riskiest assets held by commercial banks are
- reserves.
  - U.S. government bonds.
  - U.S. government Treasury bills.
  - commercial loans.

**Answer: D****Topic: Commercial Banks****Skill: Conceptual**

- 45) An asset category that carries the highest interest rate is
- checkable deposit accounts.
  - loans.
  - cash in the bank vault.
  - savings deposits.

**Answer: B****Topic: Commercial Banks****Skill: Conceptual**

- 46) Which of the following are assets to a bank?
- U.S. Government Treasury bills
  - Investment securities
  - Consumer loans
- I and II.
  - I and III.
  - II and III.
  - I, II, and III.

**Answer: D****Topic: Banks' Reserves****Skill: Conceptual**

- 47) A bank's reserves include
- the cash in its vault plus the value of its depositors' accounts.
  - the cash in its vault plus its deposits held at a Federal Reserve bank.
  - the cash in its vault plus any gold held for the bank at Fort Knox.
  - its common stock holdings, the cash in its vault, and any deposits at a Federal Reserve bank.

**Answer: B****Topic: Banks' Reserves****Skill: Conceptual**

- 48) Which of the following statements concerning commercial banks is true?
- Banks need to maintain cash reserves equal to their deposits.
  - Most banks maintain cash reserves equal to a fraction of deposits.
  - Cash reserves earn the highest rate of return of any asset for a bank.
  - Since the advent of the Federal Reserve, banks do not need to maintain cash reserves.

**Answer: B****Topic: Banks' Reserves****Skill: Conceptual**

- 49) Bank managers lend the excess reserves created when new deposits come in because they want to
- create new money in the economy.
  - earn a profit.
  - deplete required reserves.
  - deplete desired reserves.

**Answer: B****Topic: Thrift Institutions****Skill: Recognition\***

- 50) Examples of thrift institutions include
- savings deposits and checking deposits.
  - commercial banks, savings and loan associations, and insurance companies.
  - savings and loan associations, savings banks, and credit unions.
  - money market mutual funds, commercial banks, and credit unions.

**Answer: C**

**Topic: Credit Union****Skill: Recognition\***

- 51) A credit union is
- a combination of credit card corporations.
  - an depository institution owned by depositors who are members of a particular group.
  - a thrift institution that issues credit cards.
  - a commercial bank owned by its depositors.

**Answer: B****Topic: Money Market Mutual Funds****Skill: Recognition**

- 52) Money market mutual funds invest in
- residential mortgages.
  - commercial real estate.
  - long-term government securities.
  - highly liquid assets.

**Answer: D****Topic: Money Market Mutual Funds****Skill: Conceptual**

- 53) A money market mutual fund is
- essentially the same as a demand deposit account.
  - a time deposit of \$100,000 or less.
  - a time deposit of more than \$100,000.
  - a depository institution that issues shares and buys securities such as U.S. Treasury bills.

**Answer: D****Topic: The Economic Functions of Depository institutions****Skill: Recognition\***

- 54) Depository institutions
- make profit from the spread between the interest rate they pay on deposits and the interest rate they receive on loans.
  - earn profit according to how much the Federal Reserve pays them.
  - earn money by charging the government for their services.
  - earn zero profit but receive compensation by the government because there services are so valuable.

**Answer: A****Topic: Economic Functions of Depository institutions****Skill: Conceptual**

- 55) Which of the following is NOT a service of depository institutions?
- Minimizing the cost of obtaining funds.
  - Accepting reserve account deposits.
  - Pooling risk.
  - Creating liquidity.

**Answer: B****Topic: The Economic Functions of Depository institutions****Skill: Recognition\***

- 56) Liquidity can
- not be created.
  - be created by borrowing short and lending long.
  - only be created by the government.
  - be created by borrowing long and lending short.

**Answer: B****Topic: The Economic Functions of Depository institutions****Skill: Recognition**

- 57) The practice of borrowing short and lending long
- pools risk.
  - minimizes the cost of monitoring borrowers.
  - creates liquidity.
  - All of the above answers are correct.

**Answer: C****Topic: The Economic Functions of Depository institutions****Skill: Recognition**

- 58) Which of the following is NOT an economic benefit of depository institutions?
- They borrow long and lend short
  - They create liquidity
  - They pool risk
  - They reduce the cost of monitoring borrowers

**Answer: A**

**Topic: The Economic Functions of Depository institutions**

**Skill: Recognition**

- 59) Liquidity is
- the property of an asset being instantly convertible into a means of payment with little loss in value.
  - the degree of movement in an asset's interest rate.
  - the same thing as a checking deposit.
  - the net flow of gold into the U.S. Treasury.

**Answer: A**

**Topic: Economic Functions of Depository institutions**

**Skill: Conceptual**

- 60) Depository institution create liquidity when they
- buy assets that are liquid.
  - borrow short and lend long.
  - have liabilities that are illiquid.
  - borrow long and lend short.

**Answer: B**

**Topic: Economic Functions of Depository institutions**

**Skill: Conceptual**

- 61) Which of the following allow banks to minimize the cost to a business of borrowing?
- Borrowing long and lending short.
  - Raising funds from a large number of depositors.
  - Creating money by lending all their reserves.
- I only.
  - II only.
  - I and III.
  - II and III.

**Answer: B**

**Topic: Economic Functions of Depository institutions**

**Skill: Conceptual**

- 62) When banks use specialized resources to monitor borrowers, they are
- pooling risk.
  - lowering the cost of creating liquidity.
  - minimizing the cost of assessing borrowers' creditworthiness.
  - lending to only high-risk borrowers.

**Answer: C**

**Topic: Economic Functions of Depository institutions**

**Skill: Recognition\***

- 63) The risk of making a loan is
- earning profits that are too high and cause higher taxes.
  - the risk that lender does not pay.
  - the risk that the borrower does not pay.
  - called "default risk" when taxes are not paid.

**Answer: C**

**Topic: Economic Functions of Depository institutions**

**Skill: Recognition\***

- 64) Pooling of risk occurs when depository institutions
- make assets more liquid.
  - specialize in loaning only to good borrowers.
  - bring lenders together.
  - lend to a variety of different borrowers.

**Answer: D**

**Topic: Economic Functions of Depository institutions**

**Skill: Recognition**

- 65) When a depository institution pools risk, it
- buys short and lends long.
  - borrow reserves from the Federal Reserve.
  - spreads loan losses across many depositors so that no one depositor faces a high degree of risk.
  - makes loans to just one firm.

**Answer: C**

**Topic: Economic Functions of Depository institutions**

**Skill: Conceptual**

- 66) By borrowing money from many depositors and lending money to a variety of borrowers, depository institutions
- spread risk efficiently.
  - can expose themselves to a great deal of risk.
  - decrease the quantity of money.
  - move money from M1 to M2.

**Answer: A**

**Topic: Financial Regulation****Skill: Recognition**

- 67) Which of the following regulations do NOT apply to banks as depository institutions?
- equity capital requirements
  - lending rules
  - zero profit rule
  - reserve requirements

**Answer: C****Topic: Financial Regulation****Skill: Recognition**

- 68) A rule specifying the minimum amount of an owner's own financial resources that must be put into a depository institution is called a
- reserve requirement.
  - deposit requirement.
  - lending requirement.
  - equity capital requirement.

**Answer: D****Topic: Financial Regulation****Skill: Recognition**

- 69) A rule specifying the minimum percentage of deposits that must be held in currency or other safe, liquid assets is called a
- reserve requirement.
  - deposit requirement.
  - lending requirement.
  - equity capital requirement.

**Answer: A****Topic: Financial Regulation****Skill: Recognition**

- 70) A regulation that set the minimum percentage of deposits that must be held in currency or other safe, liquid assets is known as a
- equity capital requirement.
  - reserve requirement.
  - deposit rule.
  - lending rule.

**Answer: B****Topic: Financial Regulation****Skill: Recognition**

- 71) Balance sheet regulations that set depository reserve requirements
- establish the minimum amount of an owner's own resources that must be in the bank.
  - restrict the types of deposits that a financial institution may accept.
  - place restrictions on the proportions of different types of loans a bank may make.
  - set minimum percentages of deposits that must be held as liquid assets.

**Answer: D****Topic: Financial Regulation****Skill: Recognition**

- 72) Deposit insurance seeks to reduce the adverse effects of
- excessive safety.
  - banks merging with one another.
  - excessive financial innovation.
  - customers losing their deposits if their bank fails.

**Answer: D****Topic: Financial Regulation****Skill: Recognition**

- 73) The Federal Deposit Insurance Corporation (FDIC)
- has ended bank failures.
  - ensures that the reserves of member banks never fall below the legal requirement.
  - insures depositors against bank failure.
  - was bankrupt as of 2003.

**Answer: C****Topic: Financial Regulation****Skill: Recognition\***

- 74) The FDIC is the
- U.S. central bank.
  - Federation of District Investments Corporation.
  - federal agency that insures bank deposits.
  - Federal Deductions and Investment Corporation.

**Answer: C**

**Topic: Financial Regulation****Skill: Recognition**

- 75) Which of the following apply to the FDIC's deposit insurance policies?
- Depository institutions have the option of paying insurance premiums to the FDIC.
  - The Bank Insurance Fund insures deposits in commercial banks.
  - The Saving Association Insurance Fund insures deposits in credit unions.
- A) only I is true.  
 B) I and II are true.  
 C) II and III are true.  
 D) I, II, and III are true.

**Answer: C****Topic: Financial Regulation****Skill: Conceptual**

- 76) Some economists argue that deposit insurance contributed to problems in the savings and loan industry because
- depositors did not withdraw funds from risky S&Ls because depositors' funds were insured.
  - deposit insurance causes S&L managers to make very low risk loans.
  - S&L failures were eliminated by deposit insurance.
  - deposit insurance created incentives for S&Ls to make no loans at all.

**Answer: A****Topic: Financial Regulation****Skill: Conceptual\***

- 77) Deposit insurance
- has only a positive impact on depository institutions.
  - does not insure deposits of credit unions.
  - is paid for by taxpayers and not banks or depositors.
  - can lead depository institutions to make more risky loans.

**Answer: D****Topic: Financial Regulation****Skill: Recognition**

- 78) Some of the balance sheet regulations that banks face include
- equity capital requirements.
  - reserve requirements.
  - the Riegle-Neal interstate banking regulation.
  - Both answers A and B are correct.

**Answer: D****Topic: Financial Regulation****Skill: Recognition**

- 79) Equity capital requirements are
- reserves that banks must hold in safe assets.
  - rules covering the types of assets that banks may purchase.
  - rules covering the types of deposits that banks may offer.
  - the minimum amount of an owner's financial resources that must be placed in a depository institution.

**Answer: D****Topic: Financial Regulation****Skill: Recognition**

- 80) Reserve requirements are
- minimum percentages of deposits that banks must hold in safe assets.
  - the minimum amount of an owner's financial resources that must be placed in a depository institution.
  - rules covering the types of deposits that banks may offer.
  - rules covering the types of assets that banks may purchase.

**Answer: A****Topic: Financial Regulation****Skill: Recognition**

- 81) Lending rules are
- minimum percentages of deposits that banks must hold in safe assets.
  - the minimum amount of an owner's financial resources that must be placed in a depository institution.
  - rules covering the types of deposits that banks may offer.
  - rules covering the proportions of different types of loans that banks may make.

**Answer: D**

**Topic: Financial Deregulation****Skill: Conceptual**

- 82) Which of the following actions was NOT part of the financial deregulation of the 1980s and 1990s?
- eliminating reserve requirements on all but the smallest banks
  - allowing interest payments on checking accounts
  - permitting interstate branch banking
  - permitting thrift institutions to compete with commercial banks for a wider range of lending business

**Answer: A****Topic: Financial Deregulation****Skill: Conceptual\***

- 83) In the 1980s and 1990s,
- banks were regulated to a much greater extent than ever before.
  - there was little change in the regulations banks faced.
  - banks were generally deregulated.
  - the Riegle-Neal Act was passed, which lead to a modest increase in the regulation banks faced.

**Answer: C****Topic: Financial Innovation****Skill: Recognition**

- 84) Financial innovation is
- the process of turning assets into a more liquid form.
  - the development of new financial products and services.
  - responsible for credit cards being included as part of money.
  - causing a decrease in bank profits.

**Answer: B****Topic: Financial Innovation****Skill: Recognition**

- 85) Which of the following is NOT an example of financial market innovation?
- Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.
  - Widespread use of credit cards.
  - Payment of interest on checking accounts.
  - The creation of variable rate mortgages.

**Answer: A****Topic: Financial Innovation****Skill: Conceptual**

- 86) The development of new financial products such as NOW accounts and variable rate mortgages has been spurred by all of the following EXCEPT
- high inflation and high interest rates.
  - new technology in long-distance communication.
  - attempts to circumvent bank regulations such as Regulation Q.
  - decreasing competition from nonbank depositary institutions.

**Answer: D****Topic: Financial Innovation****Skill: Conceptual**

- 87) As a result of financial innovation, which of the following is TRUE?
- Variable interest rate mortgages were created.
  - The use of credit cards increased.
  - Many money market mutual funds collapsed.
- I and II.
  - II and III.
  - I and III.
  - I, II, and III.

**Answer: A****■ How Banks Create Money****Topic: Reserves: Actual and Required****Skill: Recognition**

- 88) The reserve ratio is a bank's reserves as a fraction of its
- total assets.
  - total loans.
  - currency.
  - total deposits.

**Answer: D****Topic: Reserves: Actual and Required****Skill: Recognition**

- 89) A bank's required reserves equal its
- loans divided by the required reserve ratio.
  - loans multiplied by the required reserve ratio.
  - deposits divided by the required reserve ratio.
  - deposits multiplied by the required reserve ratio.

**Answer: D**

**Topic: Reserves: Actual and Required****Skill: Recognition**

- 90) Excess reserves are
- desired reserves minus actual reserves.
  - required reserves minus actual reserves.
  - liquidity funds minus actual reserves.
  - actual reserves minus required reserves.

**Answer: D****Topic: Reserves and Loans****Skill: Conceptual**

- 91) Banks make additional loans when required reserves
- exceed actual reserves, a situation of negative excess reserves.
  - are less than actual reserves, a situation of negative excess reserves.
  - exceed actual reserves, a situation of positive excess reserves.
  - are less than actual reserves, a situation of positive excess reserves.

**Answer: D****Topic: Reserves and Loans****Skill: Conceptual**

- 92) Whenever actual reserves exceed required reserves, the bank
- can lend out additional funds.
  - needs to call in loans.
  - will go out of business.
  - must increase the amount of its required reserves by obtaining more cash.

**Answer: A****Topic: Reserves and Loans****Skill: Conceptual**

- 93) The banking system in the United States creates money through the combination of excess reserves and
- banks loaning excess reserves.
  - commodity money.
  - banks' assets being more than their liabilities.
  - stringent Federal Reserve regulations.

**Answer: A****Topic: Reserves and Loans****Skill: Analytical**

- 94) You deposit \$4,000 in currency in your checking account. The bank holds 20 percent of all deposits as reserves. As a direct result of your deposit, your bank will create
- \$200 of new money.
  - \$800 of new money.
  - \$1,600 of new money.
  - \$3,200 of new money.

**Answer: D****Topic: Reserves and Loans****Skill: Analytical**

- 95) You withdraw \$2,000 from your account. Your bank has a desired reserve ratio of 20 percent. This transaction, by itself, will directly reduce
- the quantity of money by \$1,600.
  - deposits by \$1,600.
  - the quantity of money by \$2,000.
  - deposits by \$2,000.

**Answer: D**

Assets	Liabilities	
Reserves	\$30	Deposits
Loans	\$970	\$1,000
Total	\$1,000	Total

**Topic: Reserves: Required and Actual****Skill: Analytical**

- 96) The above table gives the initial balance sheet for Mega Bank. Mega Bank holds no excess reserves. Based on the initial balance sheet, what is the required reserve ratio for Mega Bank?
- 3 percent.
  - 10 percent.
  - 30 percent.
  - 1.4 percent.

**Answer: A**

**Topic: Reserves: Required and Actual****Skill: Analytical**

- 97) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits \$50 of currency into his checking account. The required reserve ratio is 3 percent. After Barney's deposit, but before any other actions occur, MegaBank will have excess reserves of
- \$15.00.
  - \$33.00.
  - \$48.50.
  - \$50.00.

**Answer: C****Topic: Reserves and Loans****Skill: Analytical**

- 98) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits \$50 of currency into his checking account. The required reserve ratio is 3 percent. After Barney's deposit, but before any other actions occur, what volume of loans will be made by MegaBank if the bank wants more profit and holds no excess reserves?
- \$15.00.
  - \$33.00.
  - \$48.50.
  - \$50.00.

**Answer: C****■ The Federal Reserve System****Topic: The Federal Reserve System****Skill: Recognition**

- 99) The "Fed" is the abbreviation for
- Congress, the President, and the Supreme Court.
  - the U.S. Treasury.
  - the Federal Council on Economic Activity.
  - the Federal Reserve System.

**Answer: D****Topic: The Federal Reserve System****Skill: Recognition**

- 100) The U.S. central bank is formally called the
- Federal Central Bank.
  - Federal Reserve System.
  - Open Market Committee.
  - U.S. Treasury.

**Answer: B****Topic: The Federal Reserve System****Skill: Recognition**

- 101) Which of the following is the central bank of the United States?
- Comptroller of the Currency
  - Treasury Department
  - Federal Reserve System
  - Office of the Budget

**Answer: C****Topic: The Federal Reserve System****Skill: Recognition**

- 102) The Federal Reserve System
- regulates the nation's financial institutions.
  - conducts the nation's monetary policy.
  - Both answers A and B are correct.
  - Neither answer A nor B is correct.

**Answer: C****Topic: The Federal Reserve System****Skill: Recognition**

- 103) The Bank of Japan is Japan's central bank. As part of its duties, the Bank of Japan would
- provide banking services to Japan's citizens and firms.
  - provide banking services to foreigners.
  - adjust the quantity of money in circulation in Japan.
  - change tax rates.

**Answer: C****Topic: The Federal Reserve System****Skill: Conceptual**

- 104) As a "central bank," which of the following is true regarding the Fed?
- The Fed is a public authority that regulates the nation's banks.
  - The Fed is not allowed to provide services to commercial banks like Citibank.
  - The Fed is required to provide banking services to private citizens.
- I.
  - II.
  - I and II.
  - I and III.

**Answer: A**

**Topic: The Federal Reserve System****Skill: Recognition**

105) The Federal Reserve System

- A) has officers that are elected, like members of Congress.
- B) adjusts the amount of currency in circulation.
- C) is headquartered in San Francisco.
- D) was recently declared unconstitutional by the Supreme Court.

**Answer: B****Topic: Monetary Policy****Skill: Recognition**

106) Control of the nation's quantity of money is handled by

- A) Congress.
- B) the Federal Reserve System.
- C) the President of the United States.
- D) Congress, the Federal Reserve System, and all member commercial banks.

**Answer: B****Topic: Monetary Policy****Skill: Recognition**

107) Monetary policy is conducted

- A) only by the Federal Reserve.
- B) by the Federal Reserve and the President of the United States.
- C) by the Federal Reserve, the President of the United States, and Congress.
- D) by the Federal Reserve with veto power residing with the President of the United States.

**Answer: A****Topic: Monetary Policy****Skill: Conceptual**

108) Controlling the quantity of money and interest rates to influence aggregate economic activity is called

- A) foreign policy.
- B) monetary policy.
- C) fiscal policy.
- D) bank antitrust policy.

**Answer: B****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

109) The nation is divided into \_\_\_\_ Federal Reserve districts, each having a Federal Reserve Bank.

- A) 10
- B) 52
- C) 12
- D) 7

**Answer: C****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

110) Which of the following institutions is not part of the structure of the Federal Reserve system?

- A) The Federal Open Market Committee
- B) The Federal Reserve Banks
- C) The Board of Governors
- D) The Federal Government

**Answer: D****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

111) Members of the Federal Reserve System's Board of Governors

- A) are elected for life.
- B) hold 14-year staggered terms.
- C) are a special subcommittee of the Senate.
- D) are elected at large by district banks.

**Answer: B****Topic: The Federal Reserve System****Skill: Recognition**

112) This group consists of seven members appointed by the President of the U.S. for 14-year terms:

- A) the presidents of the Federal Reserve Banks.
- B) the members of the Federal Open Market Committee.
- C) the members of the Board of Governors.
- D) None of the above answers are correct.

**Answer: C**

**Topic: The Federal Reserve System****Skill: Recognition**

- 113) The Board of Governors of the Federal Reserve System does NOT
- consist of seven members with fourteen-year terms.
  - include the presidents of the twelve Federal Reserve Banks.
  - utilize a system of rotations so that a position comes open every two years.
  - consist of members whose appointments have been approved by the Senate.

**Answer: B****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

- 114) Six of the directors of each Federal Reserve bank are
- appointed by the President of the United States.
  - appointed by the Fed's Board of Governors.
  - the state governors in that district.
  - elected by commercial banks in the Federal Reserve district.

**Answer: D****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

- 115) Three of the directors of each Federal Reserve bank are
- appointed by the President of the United States.
  - appointed by the Fed's Board of Governors.
  - the state governors in that district.
  - elected by commercial banks in the Federal Reserve district.

**Answer: B****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

- 116) The Federal Open Market Committee
- consists of the Fed chairman and the 12 regional bank presidents.
  - is the main policy-making organ of the Federal Reserve.
  - is headed by the president of the New York Federal Reserve Bank.
  - meets every week to review the state of the economy.

**Answer: B****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

- 117) Which Federal Reserve Bank president is always on the Federal Open Market Committee?
- New York.
  - Chicago.
  - St. Louis.
  - Boston.

**Answer: A****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

- 118) The Federal Open Market Committee of the Federal Reserve System is responsible for
- maintaining competition among the nation's commercial banks.
  - determining monetary policy actions.
  - establishing the official price of gold.
  - defining the foreign exchange value of the dollar.

**Answer: B****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

- 119) The Federal Open Market Committee
- meets weekly to set Fed policy.
  - has 7 voting members.
  - always includes the president of the Federal Reserve Bank of New York as a member.
  - does not include any members of the Board of Governors.

**Answer: C****Topic: The Structure of the Federal Reserve System****Skill: Recognition**

- 120) The main policy-making organ of the Federal Reserve System is the
- Board of Governors.
  - Federal Reserve bank presidents.
  - Federal Open Market Committee.
  - Joint Congressional Committee on Monetary Policy.

**Answer: C**

**Topic: The Structure of the Federal Reserve System**

**Skill: Recognition**

- 121) The main policy-making body of the Federal Reserve System is the
- Board of Governors.
  - Federal Open Market committee.
  - Federal Reserve Banks.
  - member commercial banks.

**Answer: B**

**Topic: The Structure of the Federal Reserve System**

**Skill: Recognition**

- 122) The main policy designer of the Federal Reserve system is (are) the
- 12 district banks.
  - President and Congress.
  - Federal Open Market Committee.
  - Council of Economic Advisors.

**Answer: C**

**Topic: The Structure of the Federal Reserve System**

**Skill: Recognition**

- 123) The main policy making group that makes decisions about the nation's monetary policy is the
- Federal Reserve Banks.
  - Federal Open Market Committee.
  - Board of Governors.
  - federal government.

**Answer: B**

**Topic: The Fed's Power Center**

**Skill: Conceptual**

- 124) The largest influence on the Fed's monetary policy actions is
- distributed equally among the district banks.
  - held by the Board of Governors.
  - held by the chairman of the Board of Governors, who sets the policy agenda.
  - held by the New York Federal Reserve Bank because it implements policy.

**Answer: C**

**Topic: The Fed's Power Center**

**Skill: Recognition**

- 125) The current chairman of the Federal Reserve System is
- Milton Friedman.
  - Paul Volcker.
  - John Keynes.
  - Alan Greenspan.

**Answer: D**

**Topic: The Fed's Power Center**

**Skill: Recognition**

- 126) Since 1992, \_\_\_\_ served as chairman of the Federal Reserve.
- Paul Volcker
  - Alan Greenspan
  - President Clinton and then President Bush
  - the president of the Federal Reserve Bank of New York

**Answer: B**

**Topic: The Fed's Power Center**

**Skill: Recognition**

- 127) The chairman of the Federal Reserve's Board of Governors
- controls the agenda of the Federal Open Market Committee meetings.
  - is the main point of contact between the Fed and the President of the U.S.
  - receives frequent background briefings on monetary policy issues from a large staff of economists and technical experts.
  - All of the above answers are correct.

**Answer: D**

**Topic: The Fed's Power Center**

**Skill: Recognition**

- 128) Most of the day-to-day power in monetary policy decisions lies with
- the President of the United States
  - the Senate Banking Committee
  - the chairman of the Board of Governors
  - large commercial banks

**Answer: C**

**Topic: The Fed's Policy Tools****Skill: Conceptual**

- 129) Which of the following is a tool that is used by the Fed to control the quantity of money?
- open market operations
  - excess reserves
  - government purchases multiplier
  - real interest rates

**Answer: A****Topic: The Fed's Policy Tools****Skill: Conceptual**

- 130) The most frequently used monetary policy tool is
- raising or lowering tax rates.
  - changing reserve requirements.
  - changing the discount rate.
  - buying or selling government securities in the open market.

**Answer: D****Topic: The Fed's Policy Tools****Skill: Recognition**

- 131) Which of the following is NOT a monetary policy tool of the Federal Reserve?
- changes in required reserves
  - discount rate changes
  - deposit insurance
  - open market operations

**Answer: C****Topic: The Fed's Policy Tools****Skill: Recognition**

- 132) Which of the following is NOT one of the Fed's monetary policy tools?
- the discount rate
  - the required reserve ratio
  - the income tax rate
  - buying and selling U.S. government securities

**Answer: C****Topic: The Fed's Policy Tools****Skill: Recognition**

- 133) Which of the following tools is NOT a policy tool of the Fed?
- the discount rate
  - the tax rate on interest income
  - the reserve ratio
  - open market operations

**Answer: B****Topic: The Fed's Policy Tools****Skill: Recognition**

- 134) Which of the following is NOT a monetary policy tool?
- discount rate
  - open market operations
  - required reserve ratio
  - federal funds rate

**Answer: D****Topic: The Fed's Policy Tools****Skill: Recognition**

- 135) Which of the following is NOT a policy tool of the Federal Reserve System?
- Open market operations.
  - The tax rate imposed on interest income.
  - The interest rate charged on loans to member banks.
  - The amount of required reserves held by member banks.

**Answer: B****Topic: The Fed's Policy Tools****Skill: Conceptual**

- 136) If the Fed sought to increase the quantity of money then the Fed should
- raise the discount rate and buy securities in the open market.
  - raise the required reserve ratio and sell securities in the open market.
  - lower the discount rate and raise the required reserve ratio.
  - lower the discount rate and buy securities in the open market.

**Answer: D****Topic: The Fed's Policy Tools****Skill: Conceptual**

- 137) What do "increasing the reserve requirement ratio" and "increasing the discount rate" have in common?
- Both are ways the Fed can increase the quantity of money.
  - Both are ways the Fed can decrease the quantity of money.
  - Both are forms of open market operations.
  - Both are ways to increase the Fed's liabilities.

**Answer: B**

**Topic: The Fed's Policy Tools, Required Reserve Ratio****Skill: Recognition**

- 138) The minimum percentage of deposits that a depository institution must hold and cannot use for lending is known as the
- minimum rate.
  - required reserve ratio.
  - money multiplier.
  - discount rate.

**Answer: B****Topic: The Fed's Policy Tools, Required Reserve Ratio****Skill: Recognition**

- 139) The required reserve ratio ranges from
- 0 to 3 percent.
  - 0 to 7 percent.
  - 3 to 30 percent.
  - 0 to 10 percent.

**Answer: D****Topic: The Fed's Policy Tools, Discount Rate****Skill: Recognition**

- 140) The discount rate is the interest rate
- that banks charge their best customers.
  - that the Fed charges on loans of reserves to commercial banks.
  - on interbank lending.
  - that bank insurers pay on insured deposits.

**Answer: B****Topic: The Fed's Policy Tools, Discount Rate****Skill: Recognition**

- 141) The discount rate is the interest rate that
- the Federal Reserve charges when it loans reserves to its member banks.
  - is the lowest rate that banks will charge when lending to their best customers.
  - the Federal Reserve charges when it loans to the U.S. Government.
  - banks charge when they lend to each other.

**Answer: A****Topic: The Fed's Policy Tools, Discount Rate****Skill: Recognition**

- 142) The discount rate is the interest rate
- paid on time deposits.
  - paid on funds banks borrow from other banks.
  - paid on funds that banks borrow from the Federal Reserve.
  - that banks charge their “best” customers.

**Answer: C****Topic: The Fed's Policy Tools, Discount Rate****Skill: Conceptual**

- 143) The \_\_\_\_\_ rate is the interest rate at which the Fed lends \_\_\_\_\_ to commercial banks.
- discount rate; reserves
  - discount rate; gold
  - federal funds rate; deposits
  - federal funds rate; reserves

**Answer: A****Topic: The Fed's Policy Tools, Open Market Operations****Skill: Conceptual**

- 144) An open market operation involves
- the Federal Reserve’s purchase or sale of government securities.
  - the issuance of new corporate stock.
  - the changing of federal income tax rates.
  - raising the debt limit of the United States.

**Answer: A****Topic: The Fed's Policy Tools, Open Market Operations****Skill: Recognition**

- 145) The Federal Reserve’s purchase or sale of government securities
- is done less frequently than any of the Fed’s other monetary policy tools.
  - will have a negative impact on the international capital account of the United States.
  - is called an open market operation.
  - is an example of using the Fed’s discount window.

**Answer: C**

**Topic: The Fed's Policy Tools, Open Market Operations**  
**Skill: Recognition**

- 146) Most frequently, the Federal Reserve implements monetary policy by
- conducting open market operations.
  - changing the discount rate.
  - changing the required reserve ratio.
  - none of the above.

**Answer: A**

**Topic: The Fed's Balance Sheet**  
**Skill: Recognition**

- 147) The largest asset on the Fed's balance sheet is
- U.S. government securities.
  - Federal Reserve notes.
  - loans to banks.
  - gold and foreign exchange.

**Answer: A**

**Topic: The Fed's Balance Sheet**  
**Skill: Recognition**

- 148) Which of the following statements about the Fed's balance sheet is correct?
- Federal Reserve notes are an asset to the Federal Reserve.
  - Gold is a liability to the Federal Reserve.
  - Foreign exchange is an asset to the Federal Reserve.
  - Both answers A and C are correct.

**Answer: C**

**Topic: The Fed's Balance Sheet**  
**Skill: Recognition**

- 149) Which of the following is NOT an asset of the Federal Reserve?
- gold
  - government bonds
  - loans to banks
  - Federal Reserve notes

**Answer: D**

**Topic: The Fed's Balance Sheet**  
**Skill: Recognition**

- 150) Which of the following is NOT an asset of the Federal Reserve System?
- Gold and foreign exchange
  - Bank's deposits at Federal Reserve Banks
  - U.S. government securities
  - Loans to banks

**Answer: B**

**Topic: The Fed's Balance Sheet**  
**Skill: Recognition**

- 151) The Fed's liabilities include
- only banks' deposits.
  - only Federal Reserve notes in circulation.
  - both banks' deposits and Federal Reserve notes in circulation.
  - loans to banks.

**Answer: C**

**Topic: The Fed's Balance Sheet**

**Skill: Recognition**

- 152) The largest liability on the Federal Reserve's balance sheet is
- gold and foreign exchange.
  - U.S. government securities.
  - loans to banks.
  - Federal Reserve notes.

**Answer: D**

**Topic: The Fed's Balance Sheet**

**Skill: Conceptual**

- 153) When bank notes were first invented, they were
- convertible to gold on demand.
  - not convertible to any commodity.
  - an asset to the issuer.
  - a liability to the bearer.

**Answer: A**

**Topic: Monetary Base**

**Skill: Recognition**

- 154) The monetary base is the sum of
- U.S. Treasury notes and other government securities.
  - Federal Reserve notes, coins, and banks' deposits at the Fed.
  - foreign and domestic deposits at the Fed.
  - gold holdings and U.S. Treasury deposits at the Fed.

**Answer: B**

**Topic: Monetary Base**

**Skill: Recognition**

- 155) Which of the following is NOT a part of the monetary base?
- Chemical Bank's deposits of reserves at the Fed.
  - First Bank's required reserves held at the Federal Reserve.
  - Federal Reserve notes in circulation.
  - U.S. government securities owned by the Fed.

**Answer: D**

**Topic: Monetary Base****Skill: Recognition**

- 156) The monetary base does NOT include
- Federal Reserve notes.
  - bank deposits at the Fed.
  - checking accounts at commercial banks.
  - cash in vaults at commercial banks.

**Answer: C****Topic: Monetary Base****Skill: Recognition**

- 157) Which of the following is NOT part of the monetary base?
- Federal Reserve notes
  - bank deposits at the Fed
  - the public's checking deposits at commercial banks
  - coins

**Answer: C****■ Controlling the Quantity of Money****Topic: How Required Reserve Ratios Work****Skill: Conceptual**

- 158) By raising the required reserve ratio, the Fed can
- reduce interest rates.
  - increase bank lending to the general public.
  - decrease the quantity of money.
  - create an excess of reserves in the banking system.

**Answer: C****Topic: How Required Reserve Ratios Work****Skill: Conceptual**

- 159) When the Fed lowers the required reserve ratio,
- banks hold fewer reserves.
  - banks can increase their lending.
  - the quantity of money decreases.
  - Both answers A and B are correct.

**Answer: D****Topic: How an Open Market Operation Works****Skill: Conceptual**

- 160) The most frequently used policy tool of the Fed is the
- tax rate on bank profits.
  - required reserve ratio for depository institutions.
  - buying and selling of government securities.
  - interest rate charged by the Fed for lending to banks.

**Answer: C****Topic: How an Open Market Operation Works****Skill: Conceptual**

- 161) If the Fed buys U.S. government securities,
- the quantity of money will increase.
  - the interest rate will rise.
  - bank reserves will decrease.
  - the discount rate will rise.

**Answer: A****Topic: How an Open Market Operation Works****Skill: Conceptual**

- 162) When the central bank buys government securities, it leads to
- an increase in interest rates.
  - an increase in lending by banks.
  - a decrease in demand deposits.
  - a decrease in the quantity of money.

**Answer: B****Topic: How an Open Market Operation Works****Skill: Conceptual**

- 163) If the Fed sells U.S. government securities,
- the quantity of money will decrease.
  - the interest rate will fall.
  - bank reserves will rise.
  - the discount rate will fall.

**Answer: A****Topic: How an Open Market Operation Works****Skill: Conceptual**

- 164) If the Fed buys or sells securities from the non-bank public,
- the monetary base does not change.
  - the quantity of money is unchanged.
  - the effect is like buying and selling securities from banks.
  - the effect will be greater than that of buying and selling the securities from banks.

**Answer: C****Topic: How an Open Market Operation Works****Skill: Conceptual**

- 165) When the Fed buys U.S. government securities from a bank, the Fed
- pays for the securities by giving the bank gold.
  - credits the bank's account at the Fed.
  - borrows money from the U.S. Treasury to cover the purchase.
  - decreases the amount of money in circulation.

**Answer: B**

**Topic: How an Open Market Operation Works****Skill: Conceptual**

- 166) When the Fed sells U.S. government securities to a bank, the Fed
- loans the money needed to buy the securities to the bank.
  - credits the bank's account at the Fed.
  - gives the money from the sale to the U.S. Treasury.
  - decreases the monetary base and decreases the quantity of money.

**Answer: D****Topic: Currency Drain****Skill: Recognition**

- 167) When part of an increase in the quantity of money is held in currency then
- a currency drain occurs.
  - there is a higher level of excess reserves.
  - the money multiplier will increase in value.
  - the Fed will find it beneficial to increase the discount rate.

**Answer: A****Topic: Currency Drain****Skill: Conceptual**

- 168) Currency outside of banks increases from \$100 million to \$200 million. This would be considered
- a currency drain.
  - a decrease in the monetary base.
  - expansionary monetary policy.
  - contractionary monetary policy.

**Answer: A****Topic: Currency Drain****Skill: Conceptual**

- 169) A currency drain
- leads to an increase in excess reserves.
  - decreases the effect an open market operation has on changing the quantity of money.
  - results in an increase in deposits.
  - results in an increase in required reserves.

**Answer: B****Topic: Currency Drain****Skill: Conceptual**

- 170) The larger the public's currency drain from the banking system, the
- smaller is the monetary base.
  - smaller is the money multiplier.
  - larger is the monetary base.
  - larger is the money multiplier.

**Answer: B****Topic: The Money Multiplier****Skill: Recognition**

- 171) The money multiplier determines how much
- real GDP will be expanded given an increase in autonomous investment.
  - the monetary base will be expanded given a change in the quantity of money.
  - the quantity of money will be expanded given a change in the monetary base.
  - money demand will expand given a change in the quantity of money.

**Answer: C****Topic: The Money Multiplier****Skill: Conceptual**

- 172) The money multiplier is
- the amount by which a change in the quantity of money is multiplied to determine the change in the monetary base.
  - the amount by which a change in the monetary base is multiplied to determine the change in the quantity of money.
  - equal to bank reserves divided by the change in the monetary base.
  - equal to bank reserves divided by the change in the quantity of money.

**Answer: B****Topic: The Money Multiplier****Skill: Conceptual**

- 173) A(n) \_\_\_\_ in the required reserve ratio will \_\_\_\_ the money multiplier.
- increase; have no effect on
  - increase; decrease
  - decrease; decrease
  - decrease; will have no effect on

**Answer: B**

**Topic: The Money Multiplier****Skill: Analytical**

- 174) When the monetary base increases by \$2 billion, the quantity of money increases by \$10 billion. Thus, the money multiplier equals
- 0.2
  - 5
  - 20.0
  - None of the above.

**Answer: B****Topic: The Money Multiplier****Skill: Analytical**

- 175) When the monetary base increases by \$4 billion, the quantity of money increases by \$10 billion. Thus, the money multiplier equals
- 0.4
  - 2.5
  - 40.0
  - None of the above.

**Answer: B****Topic: Using the Money Multiplier****Skill: Analytical**

- 176) Suppose that the money multiplier is 3. If the Fed sells \$2 million in securities, the quantity of money will
- increase by \$6 million.
  - increase by \$666,667.
  - decrease by \$6 million.
  - decrease by \$666,667.

**Answer: C****Topic: Using the Money Multiplier****Skill: Analytical**

- 177) Suppose that the money multiplier is 6. If the Fed buys \$1 million in securities, the quantity of money will
- increase by \$6 million.
  - increase by \$166,667.
  - decrease by \$6 million.
  - decrease by \$166,667.

**Answer: A****Topic: Using the Money Multiplier****Skill: Analytical**

- 178) Suppose that the money multiplier is 3. If the Fed buys \$1 million in securities, the quantity of money will
- increase by \$3 million.
  - increase by \$300,000.
  - decrease by \$3 million.
  - decrease by \$300,000.

**Answer: A****Topic: Using the Money Multiplier****Skill: Analytical**

- 179) Suppose that the money multiplier is 4. If the Fed sells \$2 million in securities, the quantity of money will
- increase by \$8 million.
  - increase by \$500,000.
  - decrease by \$8 million.
  - decrease by \$500,000.

**Answer: C****Topic: The Multiplier Effect of an Open Market Operation****Skill: Recognition**

- 180) The monetary expansion process from an open market operation continues until
- required reserves are eliminated.
  - the Federal Reserve takes actions to stop the process.
  - the discount rate is lower than market interest rates.
  - excess bank reserves are eliminated.

**Answer: D****■ Study Guide Questions****Topic: Study Guide Question, Barter****Skill: Conceptual**

- 181) Which of the following is NOT a function of money?
- Medium of exchange
  - Barter
  - Unit of account
  - Store of value

**Answer: B**

**Topic: Study Guide Question, Medium of Exchange****Skill: Conceptual**

- 182) The fact that money can be exchanged for goods reflects money's role as a
- cause of inflation.
  - medium of exchange.
  - unit of account.
  - store of value.

**Answer: B**

Assets		Liabilities	
Reserves	\$400	Deposits	\$1,200
Loans	\$800		
Total	\$1,200	Total	\$1,200

**Topic: Study Guide Question, Reserves: Actual and Required****Skill: Analytical**

- 183) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the required reserve ratio on deposits is 10 percent, FBN Bank has required reserves of
- \$700 million.
  - \$120 million.
  - \$100 million.
  - \$0.

**Answer: B****Topic: Study Guide Question, Reserves: Actual and Required****Skill: Analytical**

- 184) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the required reserve ratio on deposits is 10 percent, FBN Bank has excess reserves of
- \$280 million.
  - \$200 million.
  - \$100 million.
  - \$0.

**Answer: A****Topic: Study Guide Question, Reserves and Loans****Skill: Analytical**

- 185) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the required reserve ratio on deposits is 10 percent, FBN Bank can loan an additional
- \$280 million.
  - \$200 million.
  - \$100 million.
  - \$0.

**Answer: A****Topic: Study Guide Question, Reserves and Loans****Skill: Analytical**

- 186) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. After FBN Bank loans the maximum amount it can, the loans have been spent, and the proceeds have been deposited in other banks, FBN Bank has excess reserves of
- \$300 million.
  - \$200 million.
  - \$100 million.
  - \$0.

**Answer: D****Topic: Study Guide Question, Depository institutions****Skill: Recognition**

- 187) Depository institutions do all the following EXCEPT
- minimize the cost of obtaining funds.
  - create liquidity.
  - pool risks.
  - create required reserve ratios.

**Answer: D****Topic: Study Guide Question, How Required Reserve Ratios Work****Skill: Conceptual**

- 188) A decrease in the required reserve ratio \_\_\_\_ the quantity of reserves banks must hold as legally required reserves and \_\_\_\_ the quantity of money.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer: C**

**Topic: Study Guide Question, Using the Money Multiplier**  
**Skill: Conceptual**

- 189) If the money multiplier is 3.5, a \$10 billion increase in the monetary base
- increases the quantity of money by \$35 billion.
  - increases the quantity of money by \$10 billion.
  - increases the quantity of money by \$3.5 billion.
  - increases the quantity of money but not by an amount given above.

**Answer: A**

## ■ MyEconLab Questions

**Topic: What is Money?**

**Level I: Definitions and Concepts**

- 190) Money \_\_\_\_.
- is always composed of coins and paper
  - loses its value as it becomes older
  - requires a double coincidence of wants
  - is any commodity that is generally acceptable as a means of payment

**Answer: D**

**Topic: Medium of Exchange**

**Level I: Definitions and Concepts**

- 191) If an economy has no money, then all transactions must be conducted through the use of \_\_\_\_.
- credit cards
  - barter
  - debit cards
  - tobacco or wampum

**Answer: B**

**Topic: Money in the United States Today**

**Level I: Definitions and Concepts**

- 192) U.S. currency \_\_\_\_.
- is less efficient than barter
  - includes tobacco
  - is the sum of M1 and M2
  - is composed of the bills and coins that we use today

**Answer: D**

**Topic: Savings Banks**

**Level I: Definitions and Concepts**

- 193) A savings bank is a depository institution that \_\_\_\_.

- sells shares which it uses to purchase shares in U.S. Treasury bills
- makes mostly mortgage loans
- is owned by a social or economic group
- makes mostly consumer loans

**Answer: B**

**Topic: Money in the United States Today, M1**

**Level I: Definitions and Concepts**

- 194) M1 includes all the following items except \_\_\_\_.
- checking deposits owned by individuals and businesses
  - traveler's checks
  - deposits in money market mutual funds
  - currency owned by individuals and businesses

**Answer: C**

**Topic: Money in the United States Today, M2**

**Level I: Definitions and Concepts**

- 195) M2 \_\_\_\_.
- does not include currency
  - does not include traveler's checks
  - is a broader measure of money than M1
  - does not include checking deposits held at credit unions

**Answer: C**

**Topic: Liquidity**

**Level I: Definitions and Concepts**

- 196) Liquidity \_\_\_\_.
- increases when a country owns gold
  - increases when a consumer has more credit cards
  - is how quickly an asset loses its worth
  - is the property of being instantly convertible into money

**Answer: D**

**Topic: Depository institutions**

**Level I: Definitions and Concepts**

- 197) A depository institution is a firm that takes deposits from \_\_\_\_ and makes loans to \_\_\_\_.
- households and firms; other households and firms
  - firms; households
  - households; firms
  - firms; other firms

**Answer: A**

**Topic: Reserves****Level I: Definitions and Concepts**

198) Reserves are \_\_\_\_.

- A) gold in a bank's vault plus its gold at Federal Reserve banks
- B) cash in a bank's vault plus its deposits at Federal Reserve banks
- C) cash in a bank's vault plus its gold at Federal Reserve banks
- D) cash in a bank's vault plus the cash carried by its customers

**Answer: B****Topic: The Federal Reserve System****Level I: Definitions and Concepts**

199) In the United States, the central bank is the \_\_\_\_.

- A) Bank of America
- B) Federal Reserve System
- C) Federal Reserve Bank of New York
- D) Federal Reserve Bank of Washington D.C.

**Answer: B****Topic: The Federal Reserve System****Level I: Definitions and Concepts**

200) All the following statements about a central bank are true except it \_\_\_\_.

- A) is a public authority
- B) regulates a nation's depository institutions
- C) accepts personal deposits
- D) controls the quantity of money

**Answer: C****Topic: Monetary Policy****Level I: Definitions and Concepts**

201) One role of monetary policy is to control \_\_\_\_ by changing the \_\_\_\_.

- A) inflation; price level
- B) the price level; government spending
- C) unemployment; level of taxation
- D) inflation; quantity of money in circulation

**Answer: D****Topic: Monetary Base****Level I: Definitions and Concepts**

202) The sum of Federal Reserve notes, coins, and banks' deposits at the Fed is the \_\_\_\_.

- A) reserves of the Fed
- B) assets of the Fed
- C) monetary base
- D) liabilities of the Fed

**Answer: C****Topic: The Structure of the Federal Reserve System****Level I: Definitions and Concepts**

203) The main policy-making organization of the Federal Reserve System is the \_\_\_\_.

- A) U.S. Mint
- B) U.S. Treasury
- C) team of Alan Greenspan and President Bush
- D) Federal Open Market Committee

**Answer: D****Topic: The Fed's Policy Tools, Discount Rate****Level I: Definitions and Concepts**

204) The interest rate that the Fed charges when it lends reserves to depository institutions is the \_\_\_\_ rate.

- A) discount
- B) short-term
- C) reserve
- D) Treasury bill

**Answer: A****Topic: The Fed's Power Center****Level I: Definitions and Concepts**

205) The Chairman of the Fed is appointed by \_\_\_\_.

- A) the Board of Governors of the Federal Reserve System
- B) the President of the United States
- C) Congress
- D) the U.S. Senate

**Answer: B****Topic: The Fed's Policy Tools, Open Market Operations****Level I: Definitions and Concepts**

206) An open market operation occurs when the \_\_\_\_ buys or sells government securities \_\_\_\_.

- A) Federal Reserve System; from or to the federal government
- B) Federal Reserve System; in the open market
- C) a commercial bank; from or to the federal government
- D) a commercial bank; from or to the public

**Answer: B**

**Topic: The Fed's Balance Sheet****Level 1: Definitions and Concepts**

- 207) Assets of the Fed include \_\_\_\_.
- banks' deposits with the Fed
  - Federal Reserve notes in circulation
  - Federal Reserve notes
  - gold and foreign exchange

**Answer: D****Topic: Currency Drain****Level 1: Definitions and Concepts**

- 208) An increase in currency held outside the banks is \_\_\_\_.
- a currency drain
  - income
  - a currency surplus
  - wealth

**Answer: A****Topic: Economic Functions of Depository institutions****Level 2: Using Definitions and Concepts**

- 209) Depository institutions undertake all the following activities except they do not \_\_\_\_.
- print money
  - minimize the cost of monitoring borrowers
  - pool risk
  - create liquidity

**Answer: A****Topic: Credit Union****Level 2: Using Definitions and Concepts**

- 210) All the following statements about a credit union are true except it \_\_\_\_.
- is called a mutual credit union when it is owned by its depositors
  - makes mostly consumer loans
  - accepts savings deposits
  - is a thrift institution

**Answer: C****Topic: Money Market Mutual Fund****Level 2: Using Definitions and Concepts**

- 211) Sarah buys shares from a financial institution that uses her funds together with other funds to purchase U.S. treasury bills. Sarah has deposited her money into a \_\_\_\_.
- savings bank
  - credit union
  - money market mutual fund
  - savings and loan association

**Answer: C****Topic: Reserves: Actual and Required****Level 2: Using Definitions and Concepts**

- 212) If a customer deposits \$10,000 in currency into a checking account, the bank's total reserves \_\_\_\_.
- increase
  - do not change
  - are greater than 100 percent
  - decrease

**Answer: A****Topic: Reserves: Actual and Required****Level 2: Using Definitions and Concepts**

- 213) A bank's required reserves are calculated by multiplying \_\_\_\_.
- its deposits by the required reserve ratio
  - the sum of its deposits and cash in its vault by the reserve ratio
  - cash in its vault by the required reserve ratio
  - the gold in its vault by the reserve ratio

**Answer: A****Topic: Reserves and Loans****Level 2: Using Definitions and Concepts**

- 214) A bank cannot create money unless its \_\_\_\_.
- required reserves are greater than actual reserves
  - excess reserves are zero
  - actual reserves are greater than required reserves
  - excess reserves equal deposits multiplied by the reserve ratio

**Answer: C****Topic: Financial Innovation****Level 2: Using Definitions and Concepts**

- 215) The main influences on financial innovation include all of the following except \_\_\_\_.
- economic environment
  - a decrease in the required reserve ratio
  - technology
  - regulation

**Answer: B****Topic: How An Open Market Operation Works****Level 2: Using Definitions and Concepts**

- 216) When the Fed conducts an open market operation by purchasing securities from the public, \_\_\_\_.
- public holdings of securities increase
  - bank deposits increase but reserves do not change
  - bank deposits increase but reserves decrease
  - bank reserves increase

**Answer: D**

**Topic: The Money Multiplier****Level 2: Using Definitions and Concepts**

- 217) The change in the quantity of money divided by the change in the monetary base is called the \_\_\_\_\_ multiplier.

- A) monetary base
- B) money
- C) deposit
- D) monetary policy

**Answer: B****Topic: Commercial Banks****Level 3: Calculations and Predictions**

- 218) Your deposit at the bank is \_\_\_\_\_ to you and \_\_\_\_\_ to your bank.

- A) an asset; a liability
- B) net worth; a liability
- C) net worth; an asset
- D) an asset; net worth

**Answer: A****Topic: Money in the United States Today, M1****Level 3: Calculations and Predictions**

- 219) In an economy, there is \$200 million in currency held outside banks, \$100 million in traveler's checks, \$250 million in currency held inside the banks, \$300 million in checking deposits, and \$600 million in savings deposits. The value of M1 is \_\_\_\_\_.

- A) \$750 million
- B) \$1,200 million
- C) \$1,150 million
- D) \$600 million

**Answer: D**

Bank Balance Sheet			
Assets		Liabilities	
Reserves	\$500	Deposits	\$3,000
Loans	\$2,500		
Total assets	\$3,000	Total	\$3,000

**Topic: Reserves: Actual and Required****Level 3: Calculations and Predictions**

- 220) The table above shows the balance sheet for Ralph's Bank. If the required reserve ratio is 15 percent, Ralph's Bank has required reserves of \_\_\_\_\_.

- A) \$3,000
- B) \$2,500
- C) \$500
- D) \$450

**Answer: D****Topic: Reserves: Actual and Required****Level 3: Calculations and Predictions**

- 221) The table above shows the balance sheet for Ralph's Bank. If the required reserve ratio is 15 percent, Ralph's Bank has excess reserves of \_\_\_\_\_.

- A) \$50
- B) \$500
- C) \$3,000
- D) \$2,500

**Answer: A****Topic: Reserves and Loans****Level 3: Calculations and Predictions**

- 222) The table shows the balance sheet for Ralph's Bank. If the required reserve ratio is 15 percent, the maximum additional amount that Ralph's Bank can loan is equal to \_\_\_\_\_.

- A) \$50
- B) \$500
- C) \$3,000
- D) \$2,500

**Answer: A****Topic: Reserves: Actual and Required****Level 3: Calculations and Predictions**

- 223) When bank deposits increase from \$1 million to \$2 million, bank reserves increase from \$100,000 to \$200,000. If banks hold no excess reserves, then the required reserve ratio is \_\_\_\_\_.

- A) 10.0
- B) 0.10
- C) 1.00
- D) 0.25

**Answer: B****Topic: How An Open Market Operation Works****Level 3: Calculations and Predictions**

- 224) The monetary base will increase if \_\_\_\_\_.

- A) banks increase their deposits at the Fed
- B) the Fed increases the discount rate
- C) the Fed increases its holding of U.S. government securities
- D) the Fed increases its holding of gold and foreign exchange

**Answer: C**

**Topic: How An Open Market Operation Works****Level 3: Calculations and Predictions**

- 225) Following an open market operation, the Fed's assets increase by \$5 million and its liabilities increase by \$5 million. These changes are indicative of an open market \_\_\_\_.
- sale to a commercial bank but not to the public
  - purchase from either a commercial bank or the public
  - purchase from the government
  - sale to either a commercial bank or the public

**Answer: B****Topic: How An Open Market Operation Works****Level 3: Calculations and Predictions**

- 226) The Fed buys \$50 million of U.S. government securities to the Manhattan Commercial Bank. The Fed's assets will \_\_\_\_ and the Fed's liabilities will \_\_\_\_\_. The Manhattan Commercial Bank's assets will \_\_\_\_ and the Manhattan Commercial Bank's liabilities will \_\_\_\_\_.
- not change; not change; increase by \$50 million; decrease by \$50 million
  - not change; not change; increase by \$50 million; increase by \$50 million
  - decrease by \$50 million; decrease by \$50 million; not change; not change
  - increase by \$50 million; increase by \$50 million; not change; not change

**Answer: D****Topic: The Money Multiplier****Level 3: Calculations and Predictions**

- 227) If an increase in the monetary base of \$8 billion increases the quantity of money by \$64 billion, then the money multiplier is equal to \_\_\_\_\_.
- \$64 billion
  - 8
  - \$8 billion
  - $1/8$

**Answer: B****Topic: The Money Multiplier****Level 3: Calculations and Predictions**

- 228) \_\_\_\_ in the currency drain \_\_\_\_ the money multiplier.
- A decrease; does not change
  - An increase; increases
  - A decrease; decreases
  - An increase; decreases

**Answer: D****Topic: The Multiplier Effect of an Open Market Operation****Level 3: Calculations and Predictions**

- 229) Suppose that the Fed conducts an open market operation that results in the commercial banks having excess reserves of \$100,000. If the currency drain is 20 percent and the required reserve ratio is 10 percent, then at the end of the first round, total deposits will be \_\_\_\_ and at the end of the second round total deposits will be \_\_\_\_\_.
- \$80,000; \$137,600
  - \$80,000; \$57,600
  - \$100,000; \$190,000
  - \$20,000; \$34,400

**Answer: A****Topic: Money in the United States Today, M1 and M2****Level 4: Advanced Calculations and Predictions**

- 230) Sam has \$500 in traveler's checks. He cashes a \$100 traveler check, deposits \$150 into his checking account at a Savings and Loan Association, and deposits the remaining \$250 into a savings account at a credit union. Immediately, \_\_\_\_\_.
- M1 decreases by \$250 and M2 does not change
  - M1 decreases by \$400 and M2 increases by \$250
  - M1 does not change and M2 increases by \$250
  - M1 and M2 do not change

**Answer: A****Topic: Commercial Banks****Level 4: Advanced Calculations and Predictions**

- 231) Banks in the land of Nod have total deposits of \$3 million and no other liabilities, a required reserve ratio of 10 percent, and loans to households and firms of \$2 million. They have no net worth. Total assets of the banks are \_\_\_\_ and total reserves are \_\_\_\_\_.
- \$300,000; \$300,000
  - \$3 million; \$300,000
  - \$2 million; \$1 million
  - \$1 million; \$2 million

**Answer: B**

**Topic: Reserves: Actual and Required****Level 4: Advanced Calculations and Predictions**

232) The commercial banks on Sunny Island have checking deposits of \$4 million, reserves of \$600,000, and loans of \$2.4 million. The required reserve ratio is 10 percent. The banks have \_\_\_\_ of required reserves and \_\_\_\_ of excess reserves.

- A) \$600,000; \$0
- B) \$400,000; \$200,000
- C) \$400,000; \$600,000
- D) \$600,000; \$200,000

**Answer: B**

**Topic: Money in the United States Today, M1 and M2****Level 4: Advanced Calculations and Predictions**

233) A new financial innovation results in people switching their funds from checking deposits to savings accounts. The quantity of M1 \_\_\_\_ and the quantity of M2 \_\_\_\_.

- A) decreases; decreases
- B) increases; decreases
- C) decreases; does not change
- D) decreases; increases

**Answer: C**

**Topic: The Money Multiplier****Level 4: Advanced Calculations and Predictions**

234) In Zealand, banks' required reserve ratio is 20 percent and there is no currency drain. The Bank of Zealand conducts a \$1 million open market purchase. Zealand's monetary base \_\_\_\_ and the quantity of money in Zealand \_\_\_\_.

- A) decreases by \$1 million; decreases by \$5 million
- B) increases by \$1 million; decreases by \$1 million
- C) decreases by \$1 million; decreases by \$1 million
- D) increases by \$1 million; increases by \$5 million

**Answer: D**

**Topic: The Money Multiplier****Level 4: Advanced Calculations and Predictions**

235) In Fair Isle, banks have no excess reserves and total required reserves of \$6 billion. \$5 billion of these reserves are on deposit at the central bank. Bank notes in circulation outside of the central bank total \$10 billion. Bank deposits total \$50 billion. The quantity of money is \_\_\_\_ and the money multiplier is \_\_\_\_.

- A) \$66 billion; 13.20
- B) \$50 billion; 3.33
- C) \$60 billion; 4.00
- D) \$59 billion; 3.93

**Answer: D**



**The Demand for Money****Topic: Influences on Money Holding****Skill: Recognition**

- 1) The quantity of money that people choose to hold depends on which of the following?
  - I. The price level.
  - II. Financial innovation.
  - III. The exchange rate.
  - A) I.
  - B) I and II.
  - C) I and III.
  - D) I, II, and III.

**Answer: B****Topic: Influences on Money Holding, The Price Level****Skill: Conceptual**

- 2) The nominal demand for money is
  - A) inversely related to GDP.
  - B) measured in constant dollars.
  - C) inversely related to the price level.
  - D) proportional to the price level.

**Answer: D****Topic: Influences on Money Holding, The Price Level****Skill: Conceptual**

- 3) If the price level doubles, the
  - A) nominal demand for money increases.
  - B) nominal demand for money decreases.
  - C) real demand for money decreases.
  - D) real demand for money increases.

**Answer: A****Topic: Influences on Money Holding, The Price Level****Skill: Conceptual**

- 4) Suppose you hold \$50 to buy groceries weekly and then the price of groceries increases by 5 percent. To be able to buy the same amount of groceries, what must happen to your nominal money holdings?
  - A) They must increase by \$5.
  - B) They can decrease by \$5.
  - C) They must increase by \$2.50.
  - D) They must increase, but the amount of the increase is different than the above answers.

**Answer: C****Topic: Influences on Money Holding, The Price Level****Skill: Recognition**

- 5) The real quantity of money is
  - A) inversely related to GDP.
  - B) measured in current dollars.
  - C) inversely related to the price level.
  - D) measured in constant dollars.

**Answer: D****Topic: Influences on Money Holding, The Interest Rate****Skill: Recognition**

- 6) The opportunity cost of holding money is the
  - A) interest rate.
  - B) price of goods and services.
  - C) level of wage and rental income.
  - D) ease with which an asset can become money.

**Answer: A**

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\* This is Chapter 27 in *Economics*.

**Topic: Influences on Money Holding, The Interest Rate****Skill: Conceptual**

- 7) The opportunity cost of holding money balances increases when
- the purchasing power of money rises.
  - the interest rate rises.
  - the price of goods and services falls.
  - consumers' incomes increase.

**Answer: B****Topic: Influences on Money Holding, The Interest Rate****Rate****Skill: Conceptual**

- 8) When the interest rate rises, the quantity of money demanded decreases because
- people will buy fewer goods and hold less money.
  - the price level also rises and people decrease their demand for money.
  - people move funds from interest-bearing assets into money.
  - people shift funds from money holdings to interest-bearing assets.

**Answer: D****Topic: Influences on Money Holding, Real GDP****Skill: Conceptual**

- 9) Which of the following is correct? The demand for money
- increases as real GDP increases.
  - decreases as the price level increases.
  - depends on the quantity of money.
  - increases when the interest rate increases.

**Answer: A****Topic: Influences on Money Holding****Skill: Conceptual**

- 10) \_\_\_\_ real GDP increases the demand for money and \_\_\_\_ the interest rate decreases the quantity of money demanded.
- Increasing; increasing
  - Increasing; decreasing
  - Decreasing; increasing
  - Decreasing; decreasing

**Answer: A****Topic: Influences on Money Holding, Financial Innovation****Skill: Conceptual**

- 11) All of the following are examples of financial innovations that have decreased the demand for money EXCEPT
- inflation.
  - ATM machines.
  - credit cards.
  - automatic transfers between deposits.

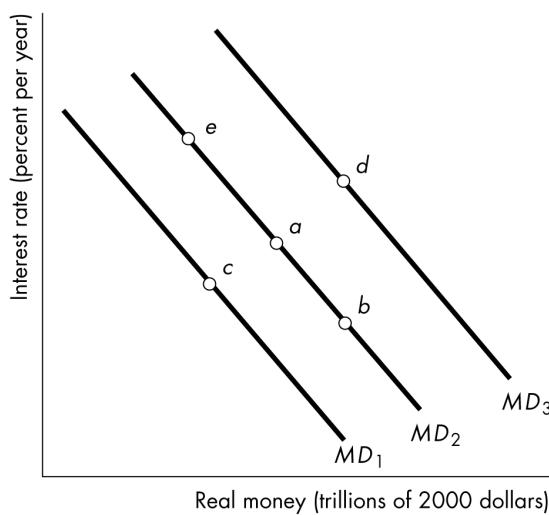
**Answer: A****Topic: The Demand for Money Curve****Skill: Recognition**

- 12) The graph of the demand for money curve has
- real GDP on the  $y$ -axis.
  - consumption on the  $y$ -axis.
  - the interest rate on the  $y$ -axis.
  - the price level on the  $y$ -axis.

**Answer: C****Topic: The Demand for Money Curve****Skill: Recognition**

- 13) The demand for money curve
- is horizontal.
  - has a positive slope.
  - is vertical.
  - has a negative slope.

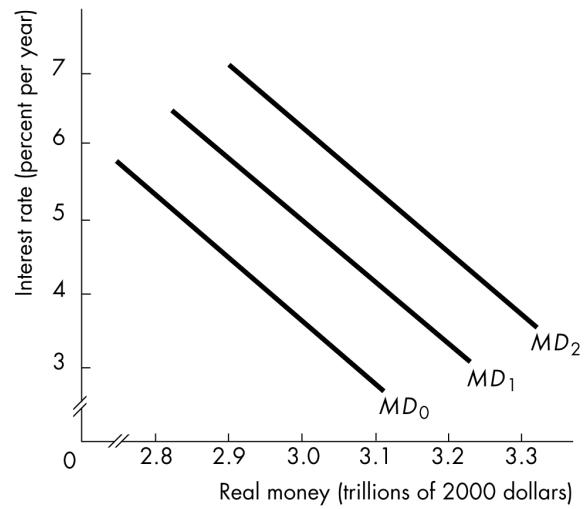
**Answer: D**

**Topic: Shifts in the Demand for Money Curve****Skill: Analytical**

- 14) Use the figure above to answer this question. Suppose the economy is operating at point  $a$ . A move to \_\_\_\_ could be explained by \_\_\_\_.
- point  $e$ ; a decrease in the interest rate
  - point  $c$ ; an increase in the interest rate
  - point  $d$ ; an increase in real GDP
  - point  $b$ ; an increase in real GDP

**Answer: C****Topic: Shifts in the Demand for Money Curve****Skill: Analytical**

- 15) Use the figure above to answer this question. Suppose the economy is operating at point  $a$ . A move to \_\_\_\_ could be explained by \_\_\_\_.
- point  $c$ ; an increase in the use of credit cards
  - point  $b$ ; an increase in real GDP
  - point  $b$ ; an increase in interest rates
  - point  $e$ ; an increase in U.S. exports

**Answer: A****Topic: The Demand for Money Curve****Skill: Analytical**

- 16) In the above figure, suppose the economy is initially on the demand for money curve  $MD_1$ . What is the effect of a fall in the interest rate?
- The demand for money curve would shift rightward to  $MD_2$ .
  - The demand for money curve would shift leftward to  $MD_0$ .
  - There would be a movement upward along the demand for money curve  $MD_1$ .
  - There would be a movement downward along the demand for money curve  $MD_1$ .

**Answer: D****Topic: The Demand for Money Curve****Skill: Analytical**

- 17) In the above figure, suppose the economy is initially on the demand for money curve  $MD_1$ . What is the effect of a rise in the interest rate?
- The demand for money curve would shift rightward to  $MD_2$ .
  - The demand for money curve would shift leftward to  $MD_0$ .
  - There would be a movement upward along the demand for money curve  $MD_1$ .
  - There would be a movement downward along the demand for money curve  $MD_1$ .

**Answer: C**

**Topic: Shifts in the Demand for Money Curve****Skill: Analytical**

- 18) In the above figure, suppose the economy is initially on the demand for money curve  $MD_1$ . What is the effect of an increase in real GDP?
- The demand for money curve would shift rightward to  $MD_2$ .
  - The demand for money curve would shift leftward to  $MD_0$ .
  - There would be a movement upward along the demand for money curve  $MD_1$ .
  - There would be a movement downward along the demand for money curve  $MD_1$ .

**Answer: A****Topic: Shifts in the Demand for Money Curve****Skill: Analytical**

- 19) In the above figure, suppose the economy is initially on the demand for money curve  $MD_1$ . What is the effect of an increase in financial innovation such as the introduction of ATMs?
- The demand for money curve would shift rightward to  $MD_2$ .
  - The demand for money curve would shift leftward to  $MD_0$ .
  - There would be a movement upward along the demand for money curve  $MD_1$ .
  - There would be a movement downward along the demand for money curve  $MD_1$ .

**Answer: B****Topic: Shifts in the Demand for Money Curve****Skill: Analytical**

- 20) In the above figure, suppose the economy is initially on the demand for money curve  $MD_1$ . What is the effect of increased use of credit cards?
- The demand for money curve would shift rightward to  $MD_2$ .
  - The demand for money curve would shift leftward to  $MD_0$ .
  - There would be a movement upward along the demand for money curve  $MD_1$ .
  - There would be a movement downward along the demand for money curve  $MD_1$ .

**Answer: B****■ Interest Rate Determination****Topic: Interest Rate Determination****Skill: Analytical**

- 21) If a \$500 bond promises to pay \$75 a year, the interest rate is
- 10 percent.
  - 7.5 percent.
  - 15 percent.
  - 50 percent.

**Answer: C****Topic: Interest Rate Determination****Skill: Analytical**

- 22) If a \$750 bond promises to pay \$30 a year, the interest rate is
- 4 percent.
  - 20 percent.
  - 30 percent.
  - 40 percent.

**Answer: A****Topic: Interest Rate Determination****Skill: Analytical**

- 23) Bond prices and interest rates are
- positively related.
  - inversely related.
  - unrelated.
  - independent of Fed action.

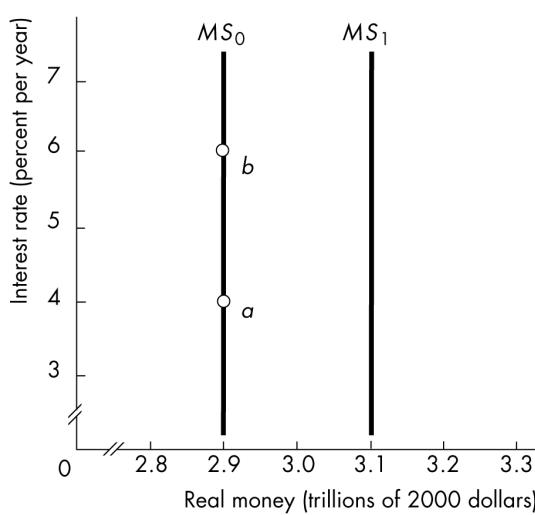
**Answer: B****Topic: Interest Rate Determination****Skill: Recognition**

- 24) If bond prices fall,
- interest rates rise.
  - interest rates fall.
  - bank reserves grow.
  - households increase cash holdings.

**Answer: A****Topic: The Quantity of Money****Skill: Conceptual**

- 25) On a given day the quantity of money is \_\_\_\_\_ and the supply of money curve is \_\_\_\_\_.  
 A) fixed; horizontal  
 B) fixed; vertical  
 C) variable; horizontal  
 D) variable; vertical

**Answer: B**

**Topic: Supply of Money Curve****Skill: Analytical**

- 26) In the figure above, the Fed's increasing the monetary base would create a change such as
- a movement from point  $a$  to point  $b$  along the supply of money curve  $MS_0$ .
  - a movement from point  $b$  to point  $a$  along the supply of money curve  $MS_0$ .
  - a shift from the supply of money curve  $MS_0$  to the supply of money curve  $MS_1$ .
  - a shift from the supply of money curve  $MS_1$  to the supply of money curve  $MS_0$ .

**Answer: C****Topic: Supply of Money Curve****Skill: Analytical**

- 27) In the figure above, the Fed's decreasing the monetary base would create a change such as
- a movement from point  $a$  to point  $b$  along the supply of money curve  $MS_0$ .
  - a movement from point  $b$  to point  $a$  along the supply of money curve  $MS_0$ .
  - a shift from the supply of money curve  $MS_0$  to the supply of money curve  $MS_1$ .
  - a shift from the supply of money curve  $MS_1$  to the supply of money curve  $MS_0$ .

**Answer: D****Topic: Supply of Money Curve****Skill: Analytical**

- 28) In the figure above, the Fed's raising the required reserve ratio would create a change such as
- a movement from point  $a$  to point  $b$  along the supply of money curve  $MS_0$ .
  - a movement from point  $b$  to point  $a$  along the supply of money curve  $MS_0$ .
  - a shift from the supply of money curve  $MS_0$  to the supply of money curve  $MS_1$ .
  - a shift from the supply of money curve  $MS_1$  to the supply of money curve  $MS_0$ .

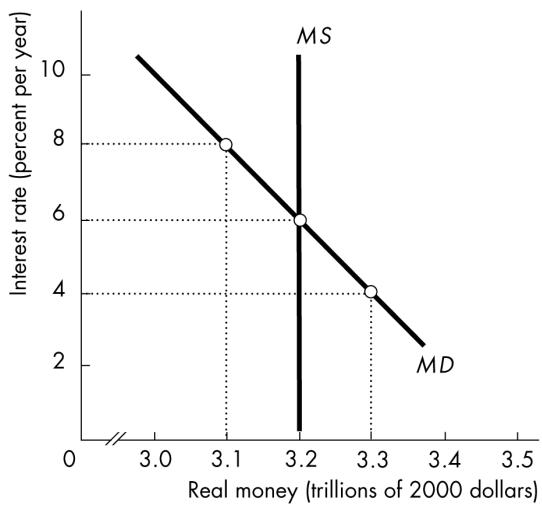
**Answer: D****Topic: Supply of Money Curve****Skill: Analytical**

- 29) In the figure above, the Fed's lowering the required reserve ratio would create a change such as
- a movement from point  $a$  to point  $b$  along the supply of money curve  $MS_0$ .
  - a movement from point  $b$  to point  $a$  along the supply of money curve  $MS_0$ .
  - a shift from the supply of money curve  $MS_0$  to the supply of money curve  $MS_1$ .
  - a shift from the supply of money curve  $MS_1$  to the supply of money curve  $MS_0$ .

**Answer: C****Topic: Money Market Equilibrium****Skill: Conceptual**

- 30) Suppose that the interest rate is greater than the equilibrium interest rate. Which of the following occurs?
- There is an excess quantity of money.
  - The quantity of money automatically increases.
  - People start buying bonds.
- I.
  - I and II.
  - I and III.
  - I, II and III.

**Answer: C**

**Topic: Money Market Equilibrium****Skill: Analytical**

- 31) In the figure above, if the interest rate is 8 percent, people demand \$0.1 trillion
- less money than the quantity supplied and the interest rate will rise.
  - less money than the quantity supplied and the interest rate will fall.
  - more money than the quantity supplied and the interest rate will fall.
  - more money than the quantity supplied and the interest rate will rise.

**Answer: B****Topic: Money Market Equilibrium****Skill: Analytical**

- 32) In the figure above, if the interest rate is 8 percent, people demand \$0.1 trillion
- less money than the quantity supplied and bond prices will rise.
  - less money than the quantity supplied and bond prices will fall.
  - more money than the quantity supplied and bond prices will fall.
  - more money than the quantity supplied and bond prices will rise.

**Answer: A****Topic: Money Market Equilibrium****Skill: Analytical**

- 33) In the figure above, if the interest rate is 4 percent, there is a \$0.1 trillion excess demand for money and the interest rate will rise.  
 A) quantity of money and the interest rate will rise.  
 B) quantity of money and the interest rate will fall.  
 C) demand for money and the interest rate will fall.  
 D) demand for money and the interest rate will rise.

**Answer: D****Topic: Money Market Equilibrium****Skill: Analytical**

- 34) In the figure above, if the interest rate is 4 percent, there is a \$0.1 trillion excess supply of money and bond prices will rise.  
 A) quantity of money and bond prices will rise.  
 B) quantity of money and bond prices will fall.  
 C) demand for money and bond prices will fall.  
 D) demand for money and bond prices will rise.

**Answer: C****Topic: Money Market Equilibrium****Skill: Analytical**

- 35) In the figure above, if the interest rate is 6 percent,  
 A) there is a \$0.1 trillion excess quantity of money and the interest rate will rise.  
 B) there is a \$0.1 trillion excess quantity of money and the interest rate will fall.  
 C) the money market is in equilibrium and the interest rate will remain constant.  
 D) there is a \$0.1 trillion excess demand for money and the interest rate will rise.

**Answer: C****Topic: Changing the Interest Rate****Skill: Conceptual**

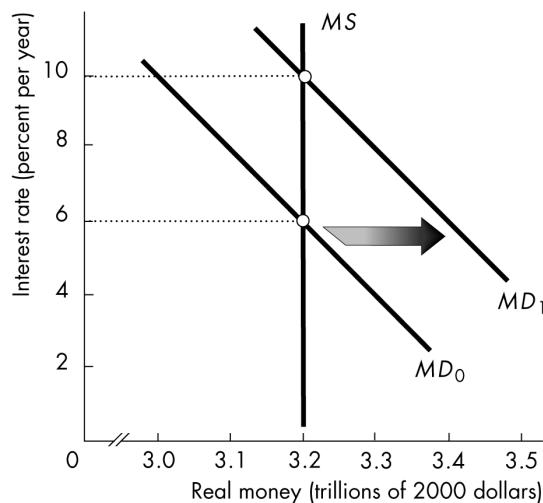
- 36) Which of the following actions raise the interest rate?  
 A) A decrease in the demand for money.  
 B) An increase in bond prices.  
 C) An increase in the quantity of money.  
 D) An increase in the demand for money.

**Answer: D**

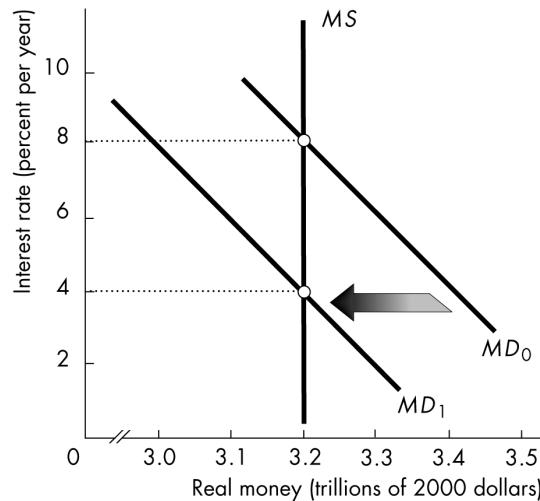
**Topic: Changing the Interest Rate****Skill: Conceptual**

- 37) Which of the following actions lower the interest rate?

- A) A decrease in the demand for money.
- B) An increase in the demand for money.
- C) A decrease in the quantity of money.
- D) A decrease in bond prices.

**Answer: A****Topic: Changing the Interest Rate****Skill: Analytical**

- 38) The figure above illustrates the effect of
- A) an increase in real GDP.
  - B) a decrease in real GDP.
  - C) an open market purchase by the Fed of government securities.
  - D) an open market sale by the Fed of government securities.

**Answer: A****Topic: Changing the Interest Rate****Skill: Analytical**

- 39) The figure above illustrates the effect of
- A) an increase in real GDP.
  - B) a decrease in real GDP.
  - C) an open market purchase by the Fed of government securities.
  - D) an open market sale by the Fed of government securities.

**Answer: B****Topic: Changing the Interest Rate, Fed Policy****Skill: Conceptual**

- 40) Which of the following would raise the interest rate?
- A) An increase in the quantity of money.
  - B) A decrease in the quantity of money.
  - C) A decrease in the demand for money.
  - D) A decrease in real GDP.

**Answer: B****Topic: Changing the Interest Rate, Fed Policy****Skill: Conceptual**

- 41) Which of the following would increase the interest rate?
- A) An increase in the quantity of money.
  - B) An open market purchase of government securities by the Fed.
  - C) The Fed lowering the required reserve ratio.
  - D) An increase in real GDP.

**Answer: D**

**Topic: Changing the Interest Rate, Fed Policy****Skill: Conceptual**

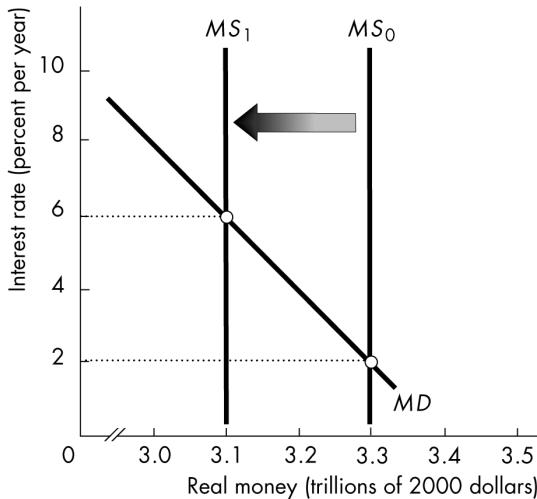
- 42) Which of the following would lower the interest rate?
- A decrease in the quantity of money.
  - An increase in the price level.
  - The Fed lowering the required reserve ratio.
  - An increase in real GDP.

**Answer: C****Topic: Changing the Interest Rate, Fed Policy****Skill: Conceptual**

- 43) If the Fed carries out an open market operation and buys U.S. government securities, the interest rate
- falls and the quantity of money increases.
  - rises and the quantity of money increases.
  - falls and the quantity of money decreases.
  - rises and the quantity of money decreases.

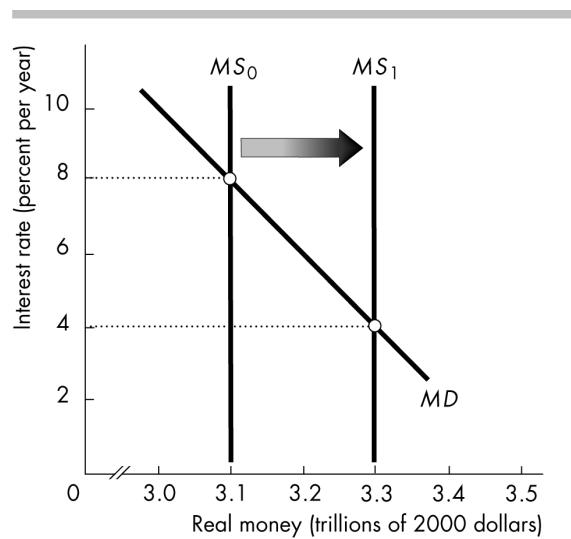
**Answer: A****Topic: Changing the Interest Rate, Fed Policy****Skill: Conceptual**

- 44) If the Fed carries out an open market operation and sells U.S. government securities, the interest rate
- falls and the quantity of money increases.
  - rises and the quantity of money increases.
  - falls and the quantity of money decreases.
  - rises and the quantity of money decreases.

**Answer: D****Topic: Changing the Interest Rate, Fed Policy****Skill: Analytical**

- 45) The figure above illustrates the effect of
- an increase in real GDP.
  - a decrease in real GDP.
  - a Fed open market purchase of government securities.
  - a Fed open market sale of government securities.

**Answer: D**



**Topic: Changing the Interest Rate, Fed Policy**  
**Skill: Analytical**

- 46) The figure above illustrates the effect of  
 A) an increase in real GDP.  
 B) a decrease in real GDP.  
 C) a Fed open market purchase of government securities.  
 D) a Fed open market sale of government securities.

**Answer: C**

**Topic: Changing the Interest Rate, Fed Policy**  
**Skill: Analytical**

- 47) The figure above illustrates the effect of  
 A) a decrease in the required reserve ratio.  
 B) an increase in the required reserve ratio.  
 C) a rise in the discount rate.  
 D) a Fed open market sale of government securities.

**Answer: A**

**Topic: Changing the Interest Rate, Fed Policy**  
**Skill: Analytical**

- 48) The figure above illustrates the effect of  
 A) an increase in the required reserve ratio.  
 B) an increase in the discount rate.  
 C) a decrease in the discount rate.  
 D) a Fed open market sale of government securities.

**Answer: C**

## ■ Short-Run Effects of Money on Real GDP and the Price Level

**Topic: The Ripple Effects of Monetary Policy**

**Skill: Recognition**

- 49) If the Fed *decreases* the interest rate, then  
 A) investment and consumption expenditure decrease.  
 B) the price of the dollar rises on the foreign exchange market and so net exports decrease.  
 C) a multiplier process that affects aggregate demand occurs.  
 D) All of the above answers are correct.

**Answer: C**

**Topic: The Ripple Effects of Monetary Policy**

**Skill: Conceptual**

- 50) When the Fed sells securities in the open market,  
 A) net exports increase.  
 B) the value of the dollar falls on the foreign exchange market.  
 C) the value of the dollar rises on the foreign exchange market.  
 D) consumption increases.

**Answer: C**

**Topic: The Ripple Effects of Monetary Policy**

**Skill: Conceptual\***

- 51) If the Fed decreases the quantity of money so that the exchange rate value of the dollar rises, then imports \_\_\_\_ and exports \_\_\_\_.  
 A) increase; increase  
 B) increase; decrease  
 C) decrease; increase  
 D) decrease; decrease

**Answer: B**

**Topic: The Ripple Effects of Monetary Policy**

**Skill: Conceptual\***

- 52) If the Fed increases the quantity of money so that the exchange rate value of the dollar falls, then imports \_\_\_\_ and exports \_\_\_\_.  
 A) increase; increase  
 B) increase; decrease  
 C) decrease; increase  
 D) decrease; decrease

**Answer: C**

**Topic: The Ripple Effects of Monetary Policy****Skill: Conceptual\***

- 53) If the U.S. interest rate rises, the exchange rate value of the dollar \_\_\_\_ and net exports \_\_\_\_.
- rises; increase
  - rises; decrease
  - falls; increase
  - falls; decrease

**Answer: B****Topic: The Ripple Effects of Monetary Policy****Skill: Analytical**

- 54) If the Fed chose to slow monetary growth, one would see a
- fall in the interest rate and a decrease in the real quantity of money.
  - fall in the interest rate and an increase in the real quantity of money.
  - rise in the interest rate and a decrease in the real quantity of money.
  - rise in the interest rate and an increase in the real quantity of money.

**Answer: C****Topic: The Ripple Effects of Monetary Policy****Skill: Conceptual**

- 55) When the Fed decreases the quantity of money,
- interest rates fall, consumption, investment and net exports increase, and the aggregate demand curve shifts rightward.
  - interest rates fall, consumption, investment and net exports decrease, and the aggregate demand curve shifts leftward.
  - interest rates rise, consumption, investment and net exports decrease, and the aggregate demand curve shifts leftward.
  - interest rates rise, consumption, investment and net exports increase, and the aggregate demand curve shifts rightward.

**Answer: C****Topic: The Ripple Effects of Monetary Policy****Skill: Conceptual**

- 56) When the Fed increases the quantity of money,
- consumption expenditures decrease.
  - the dollar increases in value on foreign exchange markets.
  - net exports decrease.
  - investment expenditures increase.

**Answer: D****Topic: Effect of Monetary Policy on Aggregate Demand****Skill: Conceptual**

- 57) In an  $AS/AD$  figure, the first effect of an increase in the quantity of money is to shift the
- $AD$  curve leftward.
  - $AD$  curve rightward.
  - long-run  $AS$  curve leftward.
  - long-run  $AS$  curve rightward.

**Answer: B****Topic: Effect of Monetary Policy on Aggregate Demand****Skill: Conceptual**

- 58) In the short run, if the quantity of money decreases then
- aggregate demand will increase.
  - aggregate demand will decrease.
  - long-run aggregate supply will increase.
  - long-run aggregate supply will decrease.

**Answer: B****Topic: Effect of Monetary Policy on Aggregate Demand****Skill: Conceptual**

- 59) In the short run, a decrease in the quantity of money
- shifts the long-run aggregate supply curve rightward.
  - shifts the long-run aggregate supply curve leftward.
  - shifts the aggregate demand curve rightward.
  - shifts the aggregate demand curve leftward.

**Answer: D****Topic: Fed Eases to Fight Recession****Skill: Conceptual\***

- 60) If the Fed lowers the interest rate, the first effect in an  $AS/AD$  figure is a \_\_\_\_ shift of the \_\_\_\_ curve.
- rightward;  $AD$
  - leftward;  $AD$
  - rightward;  $SAS$
  - leftward;  $SAS$

**Answer: A**

**Topic: Fed Eases to Fight Recession****Skill: Conceptual**

- 61) In the short-run, an increase in the quantity of money will shift the \_\_\_\_ curve \_\_\_\_ and \_\_\_\_ real GDP.
- aggregate demand; leftward; decreases
  - aggregate demand; rightward; increases
  - aggregate supply; rightward; increases
  - aggregate demand; leftward; increases

**Answer: B****Topic: Fed Eases to Fight Recession****Skill: Conceptual**

- 62) The short-run effect of an increase in the quantity of money
- raises the price level and increases real GDP.
  - raises the price level and decreases real GDP.
  - lowers the price level and increases real GDP.
  - lowers the price level and decreases real GDP.

**Answer: A****Topic: Fed Eases to Fight Recession****Skill: Conceptual**

- 63) In the short run, an increase in the quantity of money \_\_\_\_ real GDP and \_\_\_\_ the price level.
- increases; raises
  - does not change; lowers
  - decreases; raises
  - decreases; lowers

**Answer: A****Topic: Fed Eases to Fight Recession****Skill: Conceptual**

- 64) Suppose the economy is in a recession and the Fed increases the quantity of money. Then in the short-run
- real GDP and the price level will both decrease.
  - real GDP will increase and the price level will decrease.
  - real GDP will decrease and the price level will increase.
  - real GDP and the price level will both increase.

**Answer: D****Topic: Fed Eases to Fight Recession****Skill: Conceptual**

- 65) In order to combat a recession, the Fed will \_\_\_\_ the quantity of money and \_\_\_\_ the interest rate.
- increase; raise
  - increase; lower
  - decrease; raise
  - decrease; lower

**Answer: B****Topic: Fed Tightens to Fight Inflation****Skill: Conceptual\***

- 66) In response to an inflationary gap, the Fed
- waits until the price level falls before acting.
  - increases the quantity of money supply buying U.S. government securities.
  - decreases the quantity of money by selling U.S. government securities.
  - decreases the quantity of money by buying U.S. government securities.

**Answer: C****Topic: Fed Tightens to Fight Inflation****Skill: Conceptual**

- 67) In the short run, the Fed's actions to fight inflation shift the
- aggregate demand curve rightward.
  - aggregate demand curve leftward.
  - short-run aggregate supply curve rightward.
  - short-run aggregate supply curve leftward.

**Answer: B****Topic: Fed Tightens to Fight Inflation****Skill: Conceptual\***

- 68) If the Fed raises the interest rate, the first effect in an AS/AD figure is a \_\_\_\_ shift of the \_\_\_\_ curve.
- rightward; AD
  - leftward; AD
  - rightward; SAS
  - leftward; SAS

**Answer: B****Topic: Fed Tightens to Fight Inflation****Skill: Conceptual**

- 69) The short-run effect of a decrease in the quantity of money
- raises the price level and increases real GDP.
  - raises the price level and decreases real GDP.
  - lowers the price level and increases real GDP.
  - lowers the price level and decreases real GDP.

**Answer: D**

**Topic: Fed Tightens to Fight Inflation****Skill: Conceptual**

- 70) According to the *AS/AD* model, in the short run a decrease in the quantity of money will
- decrease the equilibrium price level and decrease equilibrium output.
  - increase the equilibrium price level and decrease equilibrium output.
  - decrease the equilibrium price level but leave equilibrium output unchanged.
  - decrease equilibrium output but leave the equilibrium price level unchanged.

**Answer: A**

## ■ Long-Run Effects of Money on Real GDP and the Price Level

**Topic: The Long-Run Effects of a Change in the Quantity of Money****Skill: Conceptual**

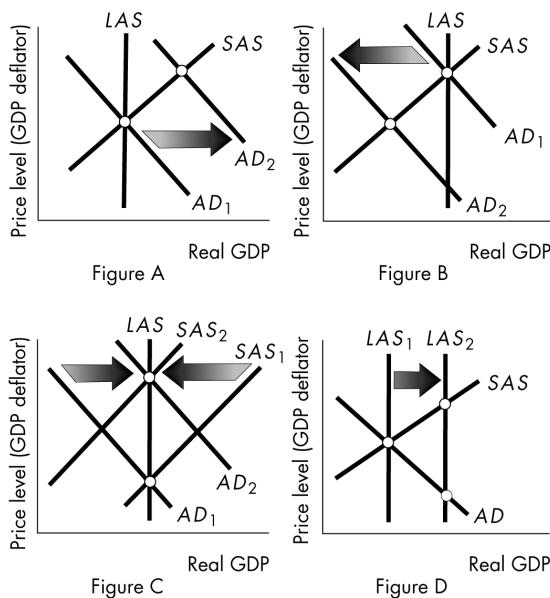
- 71) Real GDP equals potential GDP and the quantity of money decreases. In the long run, the decrease in the quantity of money
- increases real GDP.
  - decreases real GDP.
  - lowers the price level.
  - raises the price level.

**Answer: C****Topic: The Long-Run Effects of a Change in the Quantity of Money****Skill: Conceptual**

- 72) The long-run effect of a decrease in the quantity of money decreases
- the price level.
  - potential GDP.
  - the natural rate of unemployment.
  - real wages.

**Answer: A****Topic: The Long-Run Effects of a Change in the Quantity of Money****Skill: Conceptual**

- 73) In the long run, an increase in the quantity of money \_\_\_\_ real GDP and \_\_\_\_ the price level.
- increases; raises
  - does not change; raises
  - decreases; raises
  - decreases; lowers

**Answer: B****Topic: The Short-Run Effects of a Change in the Quantity of Money****Skill: Analytical**

- 74) In the figure above, the graph that depicts only the short-run effect of a decrease in the quantity of money is
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: B****Topic: The Long-Run Effects of a Change in the Quantity of Money****Skill: Analytical**

- 75) In the figure above, the graph that best depicts the long-run effects of an increase in the quantity of money is
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: C**

**Topic: The Short-Run Effects of a Change in the Quantity of Money**

**Skill: Analytical**

- 76) In the figure above, the graph that depicts only the short-run effect of an increase in the quantity of money is
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: A**

**Topic: Effects of a Change in the Quantity of Money**

**Skill: Analytical**

- 77) In the figure above, the graph that best depicts the short-run effects of an increase in the quantity of money is \_\_\_\_ and the figure that best represents the long-run effects of an increase in the quantity of money is \_\_\_\_.
- Figure A; Figure B
  - Figure A; Figure C
  - Figure B; Figure D
  - Figure D; Figure B

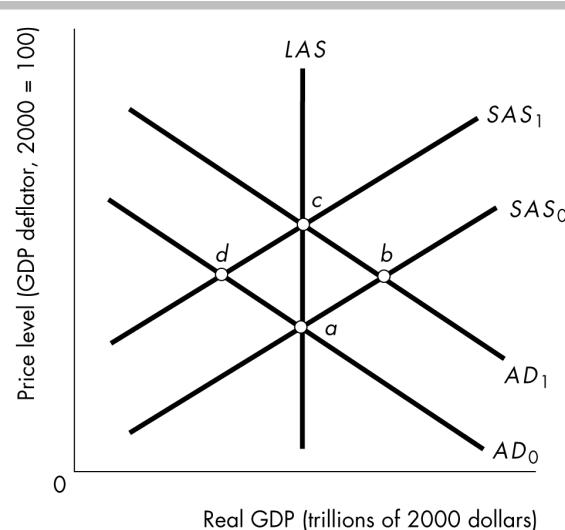
**Answer: B**

**Topic: Effects of a Change in the Quantity of Money**

**Skill: Analytical**

- 78) In the figure above, Figure A depicts the short-run effects of \_\_\_\_ in the quantity of money and Figure B depicts the short-run effects of \_\_\_\_ in the quantity of money.
- an increase; an increase
  - no change; an increase
  - an increase; no change
  - an increase; a decrease

**Answer: D**



**Topic: The Short-Run Effects of a Change in the Quantity of Money**

**Skill: Analytical**

- 79) In the above figure, if the economy is initially at point *a*, the short-run effect of an increase in the quantity of money is given by movement from point
- a* to point *b*, increasing output and the unemployment rate.
  - a* to point *b*, increasing output and decreasing the unemployment rate.
  - a* to point *d*, decreasing output and increasing the unemployment rate.
  - a* to point *c*, keeping output and the unemployment rate constant.

**Answer: B**

**Topic: The Short-Run Effects of a Change in the Quantity of Money**

**Skill: Analytical**

- 80) In the above figure, if the economy is initially at point *c*, the short-run effect of a decrease in the quantity of money is given by movement from point
- c* to point *d*, decreasing output and increasing the unemployment rate.
  - c* to point *d*, increasing output and decreasing the unemployment rate.
  - c* to point *b*, increasing output and decreasing the unemployment rate.
  - c* to point *a*, keeping output and the unemployment rate constant.

**Answer: A**

**Topic: The Long-Run Effects of a Change in the Quantity of Money****Skill: Analytical**

- 81) In the above figure, if the economy is initially at point *a*, the long-run effect of an increase in the quantity of money is given by movement from point
- a* to point *b*, increasing output and decreasing the unemployment rate.
  - a* to point *c*, increasing output and decreasing the unemployment rate.
  - a* to point *d*, decreasing output and increasing the unemployment rate.
  - a* to point *c*, keeping output and the unemployment rate constant.

**Answer: D****Topic: The Long-Run Effects of a Change in the Quantity of Money****Skill: Analytical**

- 82) In the above figure, if the economy is initially at point *c*, the long-run effect of a decrease in the quantity of money is given by movement from point
- c* to point *d*, decreasing output and increasing the unemployment rate.
  - c* to point *b*, increasing output and decreasing the unemployment rate.
  - c* to point *d*, decreasing output and the unemployment rate.
  - c* to point *a*, keeping output and the unemployment rate constant.

**Answer: D****Topic: Quantity Theory of Money****Skill: Conceptual**

- 83) Which of the following equations represents the quantity theory of money?
- $PM = VQ$
  - $MQ = PV$
  - $MV = PQ$
  - $M = VP/Q$

**Answer: C****Topic: Quantity Theory of Money, Velocity of Circulation****Skill: Conceptual**

- 84) The velocity of circulation is
- the rate of change of the GDP deflator.
  - the average number of times a dollar of money is used in a year to buy goods and services in GDP.
  - the changes in the purchasing power of money over a given time period.
  - constant.

**Answer: B****Topic: Quantity Theory of Money, Velocity of Circulation****Skill: Recognition**

- 85) In the quantity theory of money, the velocity of circulation is assumed to
- be not influenced by the quantity of money.
  - rise during recessions.
  - fall during recessions.
  - be unrelated to the equation of exchange.

**Answer: A****Topic: Quantity Theory of Money****Skill: Analytical**

- 86) According to the quantity theory of money,
- $V$  and  $M$  are constant.
  - $V$  and  $P$  are not affected by the quantity of money.
  - $V$  and  $P$  are not affected by the quantity of money.
  - $V$  and  $M$  are not affected by changes in the price level.

**Answer: B****Topic: Predictions of the Quantity Theory of Money****Skill: Recognition**

- 87) The quantity theory of money predicts how changes in
- the price level affect nominal GDP.
  - the price level affect real GDP.
  - the quantity of money affect the price level.
  - real GDP affect the nominal GDP.

**Answer: C**

**Topic: Predictions of the Quantity Theory of Money****Skill: Conceptual**

- 88) The quantity theory of money addresses the
- long-run effect the quantity of money has on the price level.
  - determinants of potential GDP.
  - determinants of the equilibrium unemployment rate.
  - short-run effect the quantity of money has on the price level.

**Answer: A****Topic: Predictions of the Quantity Theory of Money****Skill: Recognition**

- 89) An increase in the quantity of money leads to a proportional increase in the price level according to the
- equation of exchange.
  - short-run AS/AD model.
  - quantity theory of money.
  - short-run theory of inflation.

**Answer: C****Topic: Predictions of the Quantity Theory of Money****Skill: Recognition**

- 90) The quantity theory of money asserts that sustained increases in the price level are caused by sustained increases in
- the quantity of money.
  - potential GDP.
  - the natural rate of unemployment.
  - money wages.

**Answer: A****Topic: Predictions of the Quantity Theory of Money****Skill: Recognition**

- 91) The quantity theory of money asserts that an increase in the quantity of money
- will decrease the price level by an offsetting amount.
  - by  $n$  percent will lead to an increase in the price level by  $n + 1$  percent.
  - will lead to an equal percentage increase in real GDP.
  - will lead to an equal percentage increase in the price level.

**Answer: D****Topic: Predictions of the Quantity Theory of Money****Skill: Conceptual**

- 92) The quantity theory of money argues that, in the long run, the percentage change in money will equal the percentage change in
- velocity.
  - real GDP.
  - potential GDP.
  - the price level.

**Answer: D****Topic: Predictions of the Quantity Theory of Money****Skill: Conceptual**

- 93) The quantity theory of money predicts that
- in the long run, a 10 percent increase in the quantity of money leads to a 10 percent increase in real GDP.
  - in the short run, a 10 percent increase in the quantity of money leads to a 10 percent increase in velocity.
  - in the long run, a 10 percent increase in the quantity of money leads to a 10 percent increase in velocity.
  - in the long run a 10 percent increase in the quantity of money leads to a 10 percent increase in the price level.

**Answer: D****Topic: Predictions of the Quantity Theory of Money****Skill: Conceptual**

- 94) According to the quantity theory of money, a 15 percent increase in the quantity of money causes a 15 percent rise in
- the price level.
  - the velocity of circulation.
  - real GDP.
  - the unemployment rate.

**Answer: A**

**Topic: Predictions of the Quantity Theory of Money****Skill: Conceptual**

- 95) According to the quantity theory of money, in the long run
- an increase in the quantity of money creates an increase in prices but no additional increase in real GDP.
  - the quantity of money in a society will always be just the right amount.
  - an increase in the quantity of money creates an increase in real GDP.
  - None of the above answers are correct.

**Answer: A****Topic: Predictions of the Quantity Theory of Money****Skill: Analytical**

- 96) According to the quantity theory of money, a 25 percent change in  $M$ , the quantity of money, leads to a 25 percent change in
- $V$ , the velocity of circulation.
  - $P$ , the price level.
  - $Y$ , real GDP.
  - $R$ , the interest rate.

**Answer: B****Topic: Predictions of the Quantity Theory of Money****Skill: Conceptual**

- 97) Read the following statements and determine if they are true or false.
- According to the quantity theory of money, an increase in the growth rate of the quantity of money increases inflation in the long run.
  - Historical and international data show that there is no correlation between inflation and money growth.
- I and II are both true
  - I and II are both false
  - I is true and II is false
  - I is false and II is true

**Answer: C****Topic: International Evidence on the Quantity Theory of Money****Skill: Conceptual**

- 98) Looking at historical evidence for the United States and other countries, which of the following are true?
- The quantity theory of money explains the correlation between money growth and inflation in the short run.
  - The quantity theory of money explains the correlation between money growth and inflation in the long run.
- only I is true.
  - only II is true.
  - both I and II are true.
  - neither I or II is true.

**Answer: B****■ Study Guide Questions****Topic: Study Guide Question, Influences on Money Holding, Interest Rate****Skill: Conceptual**

- 99) An increase in \_\_\_\_ decreases the quantity of money people want to hold.
- the price level
  - real GDP
  - the interest rate
  - the quantity of money

**Answer: C****Topic: Study Guide Question, Influences on Money Holding, Real GDP****Skill: Conceptual**

- 100) A decrease in \_\_\_\_ decreases the demand for money.
- the discount rate
  - real GDP
  - the interest rate
  - the quantity of money

**Answer: B**

**Topic: Study Guide Question, Changing the Interest Rate****Skill: Conceptual**

- 101) A decrease in the quantity of money
- raises the interest rate.
  - does not change the interest rate.
  - lowers the interest rate.
  - may raise or lower the interest rate, depending on whether the demand for money curve has a negative or a positive slope.

**Answer: A****Topic: Study Guide Question, Changing the Interest Rate****Skill: Conceptual**

- 102) Decreases in the quantity of money
- raise interest rates.
  - have no effect on interest rates.
  - lower interest rates.
  - lower interest rates only if the decrease in the quantity of money was accomplished using an open market operation.

**Answer: A****Topic: Study Guide Question, Shifts in the Demand for Money Curve****Skill: Conceptual**

- 103) If real GDP decreases, the demand for money curve will shift
- leftward and the interest rate will rise.
  - leftward and the interest rate will fall.
  - rightward and the interest rate will rise.
  - rightward and the interest rate will fall.

**Answer: B****Topic: Study Guide Question, Fed Tightens to Fight Inflation****Skill: Conceptual**

- 104) In order to combat inflation, the Fed will \_\_\_\_ the quantity of money and \_\_\_\_ the interest rate.
- increase; raise
  - increase; lower
  - decrease; raise
  - decrease; lower

**Answer: C****Topic: Study Guide Question, Fed Tightens to Fight Inflation****Skill: Conceptual**

- 105) In the short run, the Fed's actions to fight an inflationary gap shift the
- aggregate demand curve rightward.
  - aggregate demand curve leftward.
  - short-run aggregate supply curve rightward.
  - short-run aggregate supply curve leftward.

**Answer: B****Topic: Study Guide Question, Effect of Monetary Policy****Skill: Conceptual**

- 106) In the short run, a decrease in the quantity of money shifts the
- $AD$  curve leftward.
  - $SAS$  curve leftward.
  - $LAS$  curve leftward.
  - None of the above because a decrease in the quantity of money does not shift a curve.

**Answer: A****Topic: Study Guide Question, Fed Tightens to Fight Inflation****Skill: Analytical**

- 107) In the short run, a decrease in the quantity of money \_\_\_\_ the price level and \_\_\_\_ real GDP.
- lowers; decreases
  - lowers; does not change
  - lowers; increases
  - does not change; increases

**Answer: A****Topic: Study Guide Question, Effects of a Change in the Quantity of Money****Skill: Conceptual**

- 108) In the long run, a decrease in the quantity of money
- shifts the  $AD$  curve rightward.
  - shifts the  $SAS$  curve rightward.
  - shifts the  $SAS$  curve leftward.
  - does not shift the  $AD$  curve

**Answer: A**

**Topic: Study Guide Question, Effects of a Change in the Quantity of Money**

**Skill: Conceptual**

- 109) In the long run, a(n) \_\_\_\_\_ in the quantity of money lowers the price level and \_\_\_\_\_ real GDP.
- decrease; increases
  - increase; does not change
  - decrease; does not change
  - increase; decreases

**Answer: C**

**Topic: Study Guide Question, Quantity Theory of Money**

**Skill: Recognition**

- 110) The quantity theory of money is the idea that
- the quantity of money is determined by banks.
  - the quantity of money serves as a good indicator of how well money functions as a store of value.
  - the quantity of money determines real GDP.
  - in the long run, an increase in the quantity of money causes an equal percentage increase in the price level.

**Answer: D**

**Topic: Study Guide Question, The Quantity Theory of Money**

**Skill: Analytical**

- 111) Nominal GDP,  $PY$ , is \$7.5 trillion. The quantity of money is \$3 trillion. The velocity of circulation is
- 22.5.
  - 10.5.
  - 2.5.
  - 3.

**Answer: C**

## ■ MyEconLab Questions

**Topic: Predictions of the Quantity Theory of Money**

**Level 2: Using Definitions and Concepts**

- 112) According to the quantity theory of money, in the long run, an increase in the quantity of money results in an equal percentage increase in \_\_\_\_\_.
- the price level
  - the growth rate of real GDP
  - the inflation level
  - the growth rate of potential GDP

**Answer: A**

**Topic: Equation of Exchange**

**Level 2: Using Definitions and Concepts**

- 113) If nothing else changes, the velocity of circulation increases when \_\_\_\_\_.
- the quantity of money increases
  - real GDP decreases
  - the price level decreases and potential GDP decreases
  - the price level increases

**Answer: D**

**Topic: The Demand for Money Curve**

**Level 2: Using Definitions and Concepts**

- 114) An increase in the interest rate creates a \_\_\_\_\_ the money demand curve, and an increase in real GDP creates a \_\_\_\_\_ the money demand curve.
- movement down along; leftward shift of
  - rightward shift of; movement up along
  - movement up along; rightward shift of
  - leftward shift of; rightward shift of

**Answer: C**

**Topic: The Ripple Effects of Monetary Policy**

**Level 2: Using Definitions and Concepts**

- 115) The ripple effects that occur when the Fed sells securities in the open market include \_\_\_\_\_.
- a decrease in consumption and investment
  - an increase in net exports
  - a decrease in interest rates
  - an increase in short-run aggregate supply

**Answer: A**

**Topic: The Demand for Money Curve**

**Level 2: Using Definitions and Concepts**

- 116) The demand for money curve is the relationship between \_\_\_\_\_ and \_\_\_\_\_, other things remaining the same.
- the quantity of real money demanded; the quantity of real money supplied
  - the quantity of money demanded; the real interest rate
  - the money demanded; the money supplied
  - the quantity of real money demanded; the interest rate

**Answer: D**

**Topic: The Demand for Money in the United States****Level 2: Using Definitions and Concepts**

- 117) In the United States, the demand curve for M1 after 1970 shifted leftward as a result of \_\_\_\_ and shifted rightward as a result of \_\_\_\_.
- financial innovation; an increase in real GDP
  - an increase in the price level; financial innovation
  - a decrease in real GDP; financial innovation
  - an increase in interest rates; an increase in real GDP

**Answer: A****Topic: Money Market Equilibrium****Level 2: Using Definitions and Concepts**

- 118) When the quantity of money demanded is greater than the quantity of money supplied, people \_\_\_\_ bonds and the interest rate \_\_\_\_.
- sell; rises
  - sell; falls
  - buy; rises
  - buy; falls

**Answer: A****Topic: The Ripple Effects of Monetary Policy****Level 2: Using Definitions and Concepts**

- 119) When the Fed raises the interest rate, in the foreign exchange market people \_\_\_\_ dollars and the price of the dollar \_\_\_\_ on the foreign exchange market.
- sell; rises
  - sell; falls
  - buy; rises
  - buy; falls

**Answer: C****Topic: Equation of Exchange****Level 3: Calculations and Predictions**

- 120) The quantity of money in an economy is \$9 million, and the velocity of circulation is 3. Nominal GDP in this economy is \_\_\_\_.
- \$6 million
  - \$9 million
  - \$3 million
  - \$27 million

**Answer: D****Topic: The Short-Run Effects of a Change in the Quantity of Money****Level 3: Calculations and Predictions**

- 121) In the short run, \_\_\_\_ in the quantity of money \_\_\_\_ the price level, and \_\_\_\_ real GDP.
- an increase; increases; decreases
  - an increase; increases; does not change
  - an increase; increases; increases
  - a decrease; decreases; does not change

**Answer: C****Topic: Fed Tightens to Fight Inflation****Level 3: Calculations and Predictions**

- 122) If the Fed fears inflation it will undertake an open market \_\_\_\_ of securities, the quantity of money will \_\_\_\_ and interest rates will \_\_\_\_.
- sale; increase; fall
  - sale; decrease; rise
  - purchase; increase; fall
  - purchase; decrease; rise

**Answer: B****Topic: The Ripple Effects of Monetary Policy****Level 3: Calculations and Predictions**

- 123) When the Fed buys securities in the open market, the U.S. dollar \_\_\_\_ on the foreign exchange market and \_\_\_\_.
- falls; aggregate demand decreases
  - rises; aggregate demand decreases
  - falls; the increase in imports is greater than the increase in exports
  - falls; aggregate demand increases

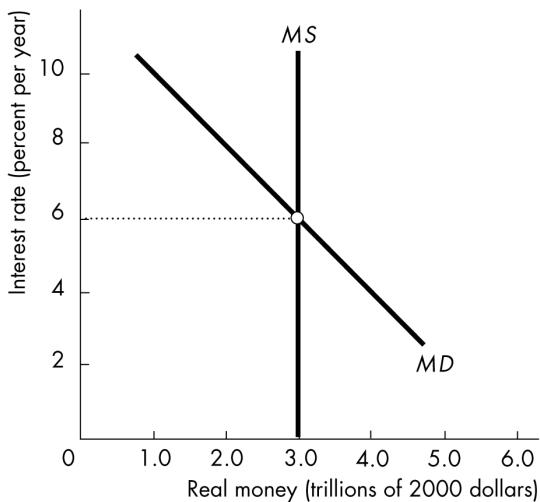
**Answer: D****Topic: The Influences on Money Holding****Level 3: Calculations and Predictions**

- 124) In the land of Oz the monetary unit is the emerald. Households and firms in Oz currently hold 100,000 emeralds. The price level is 100. If the price level jumps to 110 and other things remain the same, households and firms will \_\_\_\_.
- increase the money they hold by 1,000 emeralds
  - decrease the money they hold by 10,000 emeralds
  - decrease the money they hold by 1,000 emeralds
  - increase the money they hold by 10,000 emeralds

**Answer: D**

**Topic: Interest Rate Determination****Level 3: Calculations and Predictions**

- 125) If people are holding more money than they would willingly hold, they will \_\_\_\_ bonds. The price of a bond will \_\_\_\_ and the interest rate will \_\_\_\_.
- sell; rise; fall
  - sell; fall; rise
  - purchase; rise; fall
  - purchase; fall; rise

**Answer: C****Topic: Interest Rate Determination****Level 4: Advanced Calculations and Predictions**

- 126) The figure above shows the money market in Futureland. If the Bank of Futureland undertakes an open market purchase of government securities that changes the quantity of money by \$1 trillion, then the interest rate will \_\_\_\_.
- rise to 8 percent a year
  - remain at 6 percent a year
  - fall to 4 percent a year
  - None of the above answers is correct.

**Answer: C****Topic: Interest Rate Determination****Level 4: Advanced Calculations and Predictions**

- 127) The figure above shows the money market in Futureland. If the Bank of Futureland undertakes an open market sale of government securities that changes the quantity of money by \$1 trillion, then the interest rate will \_\_\_\_.
- rise to 8 percent a year
  - remain at 6 percent a year
  - fall to 4 percent a year
  - None of the above answers is correct.

**Answer: A****Topic: Fed Tightens to Fight Inflation****Level 4: Advanced Calculations and Predictions**

- 128) If a central bank wants to implement a contractionary policy it will conduct an open market operation by \_\_\_\_ securities. Bank reserves will \_\_\_\_ and bank lending will \_\_\_\_ leading to a \_\_\_\_ in the quantity of money.
- selling; decrease; decrease; decrease
  - purchasing; decrease; decrease; decrease
  - purchasing; decrease; increase; decrease
  - selling; increase; increase; increase

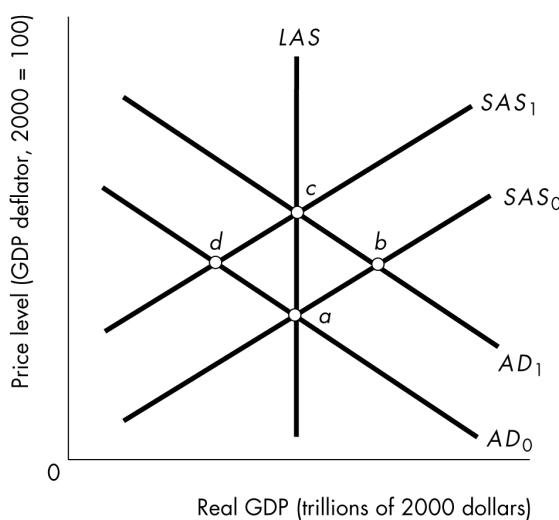
**Answer: A****Topic: Effect of Monetary Policy on Aggregate Demand****Level 4: Advanced Calculations and Predictions**

- 129) The central bank of Cobra sells securities in an open market operation. In the short run, aggregate demand \_\_\_\_, real GDP \_\_\_\_, and the price level \_\_\_\_.
- does not change; increases; falls
  - decreases; decreases; falls
  - increases; increases; rises
  - does not change; decreases; rises

**Answer: B****Topic: The Demand for Money Curve****Level 4: Advanced Calculations and Predictions**

- 130) An increase in the opportunity cost of holding money creates a \_\_\_\_ the money demand curve and an increase in real GDP creates a \_\_\_\_ the money demand curve.
- leftward shift of; movement down along
  - rightward shift of; movement down along
  - movement up along; leftward shift of
  - movement up along; rightward shift of

**Answer: D**



**Topic: Effects of a Change in the Quantity of Money**

**Level 4: Advanced Calculations and Predictions**

- 131) The figure above shows the aggregate demand, short-run aggregate supply, and long-run aggregate supply curves for the country of Slag. The economy is currently at point *c*. The quantity of money in Slag decreases. Slag moves to point \_\_\_\_ in the short run and to point \_\_\_\_ in the long run.

- A) *d; c*
- B) *a; c*
- C) *d; a*
- D) *b a*

**Answer: C**

**Topic: The Long-Run Effects of a Change in the Quantity of Money**

**Level 4: Advanced Calculations and Predictions**

- 132) If the quantity of money increases when the economy is at full employment, aggregate demand \_\_\_\_\_. In the long run, the price level \_\_\_\_ and real GDP will \_\_\_\_.
- A) decreases; the price level falls; return to potential GDP
  - B) decreases; real GDP decreases; increase to potential GDP
  - C) increases; the price level rises; return to potential GDP
  - D) increases; real GDP increases; increase further

**Answer: C**

**Topic: Fed Eases to Fight Recession**

**Level 4: Advanced Calculations and Predictions**

- 133) The economy is at a below full-employment equilibrium. \_\_\_\_ in the quantity of money will \_\_\_\_ aggregate demand and prevent the unemployment rate from rising.

- A) A decrease; increase
- B) An increase; decrease
- C) An increase; increase
- D) A decrease; decrease

**Answer: C**

**Topic: Equation of Exchange**

**Level 4: Advanced Calculations and Predictions**

- 134) The velocity of circulation of M1 is greater than the velocity of circulation of M2 because \_\_\_\_.

- A) M1 is greater than M2
- B) M1 is less than M2
- C) with excess reserves; banks create additional loans
- D) in the long run people will hold more M1

**Answer: B**



## ■ Inflation and the Price Level

**Topic: Inflation and the Price Level**

**Skill: Recognition**

- 1) Inflation is defined as a continuing increase in
  - A) the prices of specific products.
  - B) the wages of all workers.
  - C) the price level.
  - D) money GDP.

**Answer: C**

**Topic: Inflation and the Price Level**

**Skill: Recognition**

- 2) If this year's price level exceeds last year's,
  - A) the inflation rate between these years has been positive.
  - B) the inflation rate is accelerating.
  - C) deflation is occurring.
  - D) no relative price changes are occurring.

**Answer: A**

**Topic: Inflation and the Price Level**

**Skill: Recognition**

- 3) When an economy experiences inflation the
  - A) price level rises persistently.
  - B) quantity of money is growing.
  - C) value of money gets smaller and smaller.
  - D) All of the above answers are correct.

**Answer: D**

**Topic: Inflation and the Price Level**

**Skill: Recognition**

- 4) Inflation can be described as
  - A) a stock variable.
  - B) a flow variable.
  - C) an ongoing process of price level increases.
  - D) an excess demand for money.

**Answer: C**

**Topic: Inflation and the Price Level**

**Skill: Conceptual**

- 5) If the price level for the last three months has been 112, 125, and 126, we would say
  - A) inflation has been constant over the three months.
  - B) inflation was more rapid between the first and second month than between the second and third month.
  - C) inflation was less rapid between the first and second month than between the second and third month.
  - D) inflation has steadily increased over the three months.

**Answer: B**

**Topic: Inflation Rate**

**Skill: Analytical**

- 6) If the price level for 2003 is 220 and for 2004 is 250, what is the rate of inflation between the two years?
  - A) 30 percent
  - B) 13.6 percent
  - C) 12.2 percent
  - D) 20 percent

**Answer: B**

**Topic: Inflation Rate**

**Skill: Analytical**

- 7) If this year the price level is 135 and last year it was 125, the inflation rate is
  - A) 8 percent
  - B) 10 percent
  - C) 12 percent
  - D) none of the above

**Answer: A**

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\* This is Chapter 28 in *Economics*.

**Topic: Inflation Rate****Skill: Analytical**

- 8) Suppose the price level this year is 150 and the price level last year was 125. The inflation rate between last year and this year was
- 20 percent.
  - 2 percent.
  - 16.6 percent.
  - 1.6 percent.

**Answer: A****Topic: Inflation Rate****Skill: Analytical**

- 9) Suppose that last year the Consumer Price Index was 124; this year it is 130.7. What was the inflation rate between these years?
- 30.7 percent
  - 6.7 percent
  - 5.4 percent
  - 5.1 percent

**Answer: C****Topic: Inflation Rate****Skill: Analytical**

- 10) Last year's price level was 120 and since then there has been a 5 percent inflation. This year's price level is
- 125.
  - 126.
  - 130.
  - none of the above

**Answer: B****Topic: Inflation and the Price Level****Skill: Analytical**

- 11) Suppose that the price level was 100 in 2002, 110 in 2003, and 130 in 2004. Over these three years,
- deflation occurred at an accelerating rate.
  - the inflation rate was positive but slowing.
  - prices were stable.
  - the inflation rate was positive and accelerating.

**Answer: D****Topic: Inflation and the Price Level****Skill: Analytical**

- 12) Suppose that the price level was 100 in 2001, 110 in 2002, 120 in 2003, and 130 in 2004. Over these three years,
- the inflation rate accelerated.
  - inflation did not occur.
  - prices were stable.
  - the inflation rate was positive.

**Answer: D****■ Demand-Pull Inflation****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 13) Demand-pull inflation starts with a(n)
- increase in aggregate demand.
  - decrease in aggregate demand.
  - increase in short-run aggregate supply.
  - decrease in short-run aggregate supply.

**Answer: A****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 14) Demand-pull inflation starts as the
- LAS* curve shifts leftward.
  - LAS* curve shifts rightward.
  - AD* curve shifts rightward.
  - AD* curve shifts leftward.

**Answer: C****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 15) Demand pull inflation starts with
- a decrease in aggregate demand.
  - an increase in aggregate demand.
  - a decrease in aggregate supply.
  - an increase in aggregate supply.

**Answer: B**

**Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Recognition**

- 16) Which of the following could lead to demand-pull inflation?
- An increase in the money wage rate.
  - An increase in the quantity of money.
  - A decrease in exports.
  - An increase in oil prices.

**Answer: B****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 17) Which of the following could start a demand-pull inflation?
- There is an increase in the quantity of money.
  - There is an increase in government expenditures.
  - There is an increase in exports.
  - All of the above could be initial causes of demand-pull inflation.

**Answer: D****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 18) Which of the following could start a demand-pull inflation?
- An increase in government purchases.
  - An increase in imports.
  - A decrease in the quantity of money.
  - An increase in the money prices of raw materials.

**Answer: A****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Recognition**

- 19) Increases in the quantity of money can start a
- demand-pull inflation, as can increases in government purchases.
  - demand-pull inflation, whereas increases in government purchases can start only a cost-push inflation.
  - cost-push inflation, as can increases in government purchases.
  - cost-push inflation, whereas increases in government purchases can start a demand-pull inflation.

**Answer: A****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 20) Which of the following could start a demand-pull inflation?
- There is an improvement in technology.
  - There is a decrease in productivity.
  - There is an increase in imports.
  - None of the above could be the initial cause of demand-pull inflation.

**Answer: D****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Recognition**

- 21) Demand-pull inflation could start with
- increases in government purchases followed by increases in money wage rates.
  - expansionary monetary policy followed by decreases in the money wage rate.
  - rises in prices of raw materials followed by expansionary monetary policy.
  - simultaneous expansionary aggregate demand and aggregate supply shifts.

**Answer: A****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Recognition**

- 22) Which of the following is NOT a potential start of a demand-pull inflation?
- An increase in the money wage rate.
  - An increase in the quantity of money.
  - An increase in government spending.
  - An increase in exports.

**Answer: A****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Recognition**

- 23) Which of the following is NOT a potential start of a demand-pull inflation?
- an increase in the money supply
  - an increase in government spending
  - an increase in taxes
  - an increase in exports

**Answer: C**

**Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 24) Which of the following is a change that would NOT begin a demand-pull inflation?
- An increase in exports.
  - An increase in labor productivity.
  - An increase in government purchases of goods and services.
  - An increase in the quantity of money.

**Answer: B****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 25) Initially, demand-pull inflation will
- increase the price level but not real GDP.
  - increase both the price level and real GDP.
  - increase the price level, but decrease real GDP.
  - shift the aggregate supply curve rightward.

**Answer: B****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Analytical**

- 26) An initial increase in aggregate demand that is NOT followed by an increase in the quantity of money results in a long-run equilibrium with
- a higher price level but the same real GDP.
  - a higher price level and an increased level of real GDP.
  - the same price level and a lower level of real GDP.
  - None of the above answers are correct.

**Answer: A****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 27) Which of the following could NOT start a demand-pull inflation?
- Increases in government purchases.
  - Increases in net exports.
  - Increases in oil prices.
  - Increases in the quantity of money.

**Answer: C****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 28) A demand-pull inflation initially is characterized by
- increasing real output and a labor shortage.
  - increasing real output and a labor surplus.
  - decreasing real output and a labor shortage.
  - decreasing real output and a labor surplus.

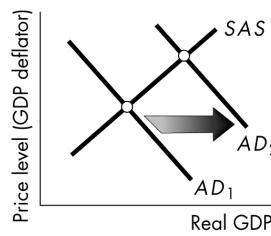
**Answer: A**

Figure A

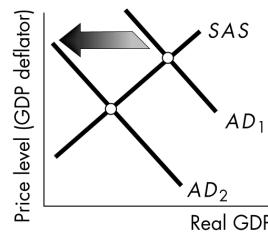


Figure B

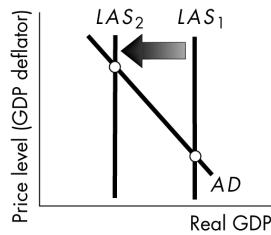


Figure C

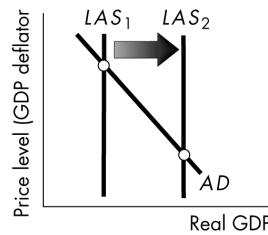


Figure D

**Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Analytical**

- 29) Which of the above figures best shows the start of a demand-pull inflation?
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: A**

**Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 30) A demand-pull inflation can be described as \_\_\_\_\_ shifts in the *AD* curve and \_\_\_\_\_ shifts in the *SAS* curve.
- rightward; rightward
  - rightward; leftward
  - leftward; rightward
  - leftward; leftward

**Answer: B****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 31) A demand-pull inflation spiral results when
- aggregate demand increases and the economy corrects the resulting inflationary gap, but aggregate demand continues to increase because the Federal Reserve continues to increase the quantity of money.
  - the economy experiences a one-time jump in the price level.
  - aggregate demand increases, the Federal Reserve does not increase the quantity of money, and so the economy corrects the resulting inflationary gap on its own.
  - aggregate supply decreases, the Federal Reserve corrects the resulting recessionary gap by increasing the quantity of money and the supply shocks then stop.

**Answer: A****Topic: A Demand-Pull Inflation Process****Skill: Analytical**

- 32) For an economy at full employment, an increase in the quantity of money will lead to which of the following sequences of shifts in aggregate demand and supply curves?
- Decreased aggregate demand, increased short-run aggregate supply, constant long-run aggregate supply.
  - Decreased aggregate demand, decreased short-run aggregate supply, decreased long-run aggregate supply.
  - Increased aggregate demand, increased short-run aggregate supply, increased long-run aggregate supply.
  - Increased aggregate demand, decreased short-run aggregate supply, constant long-run aggregate supply.

**Answer: D****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 33) In a persisting demand-pull inflation
- short-run aggregate supply decreases and aggregate demand increases.
  - aggregate demand and short-run aggregate supply both decrease.
  - aggregate demand increases and long-run aggregate supply decreases.
  - None of the above answers are correct.

**Answer: A****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 34) Demand-pull inflation results from continually increasing the quantity of money, which leads to a continually
- decreasing long-run aggregate supply.
  - increasing aggregate supply.
  - decreasing aggregate demand.
  - increasing aggregate demand.

**Answer: D****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 35) Demand-pull inflation persists because of
- continuing increases in government purchases.
  - continuing increases in the quantity of money.
  - continuing increases in real wage rates.
  - continuing increases in aggregate supply.

**Answer: B****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 36) A demand-pull inflation requires persistent increases in
- tax rates.
  - real wages.
  - the quantity of money.
  - government purchases.

**Answer: C**

**Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 37) If the Fed responds to an initial increase in aggregate demand by increasing the quantity of money,
- there will be no inflationary gap.
  - output will begin to decrease more rapidly than if the quantity of money had remained constant.
  - money wages will fall to reduce the unemployment.
  - there is the risk of continued inflation.

**Answer: D****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 38) In a demand-pull inflation brought about by increases in the quantity of money, real GDP might increase at times because
- tax rates decline.
  - real wages fall.
  - money wages fall.
  - real wages rise.

**Answer: B****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 39) During a demand-pull inflation, if the Fed tries to maintain a level of real GDP above potential GDP,
- there will be a one-time shift in the *AD* and the *SAS* curves.
  - the *AD* curve will shift rightward continuously and *SAS* curves will shift leftward continuously.
  - the *AD* curve will shift rightward continuously and the *SAS* curve will not shift.
  - the *SAS* curve will shift leftward continuously and the *AD* curve will not shift.

**Answer: B****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 40) In a demand-pull inflation, money wage rates rise because
- a decrease in aggregate demand creates a labor shortage.
  - an increase in aggregate demand creates a labor surplus.
  - an increase in aggregate demand creates a labor shortage.
  - a decrease in aggregate demand creates a labor surplus.

**Answer: C****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 41) As the money wage rate increases
- the long-run aggregate supply curve shifts rightward.
  - the short-run aggregate supply curve shifts rightward.
  - both the long-run aggregate supply curve and the short-run aggregate supply curve shift leftward.
  - the short-run aggregate supply curve shifts leftward.

**Answer: D****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 42) When the *AD* and *SAS* curves intersect at a level of real GDP which exceeds potential GDP, which of the following will occur?
- The *AD* curve shifts rightward because the Fed decreases the money supply.
  - The *AS* curve shifts leftward because the money wage rate rises.
  - The *AS* curve shifts leftward because the money wage rate falls.
  - The *AD* curve shifts leftward because the money wage rate rises.

**Answer: B****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 43) To prevent demand-pull inflation
- firms must refuse to increase wages.
  - the Fed must not let the quantity of money persistently rise.
  - the natural rate of unemployment must increase.
  - real GDP must increase.

**Answer: B****Topic: A Demand-Pull Inflation Process****Skill: Analytical**

- 44) To stop a demand-pull inflation using monetary policy, you would
- recommend that the Fed increase the quantity of money.
  - recommend that the Fed not increase the quantity of money.
  - recommend that the Fed increase tax rates.
  - recommend that the Fed purchase government bonds in the open market.

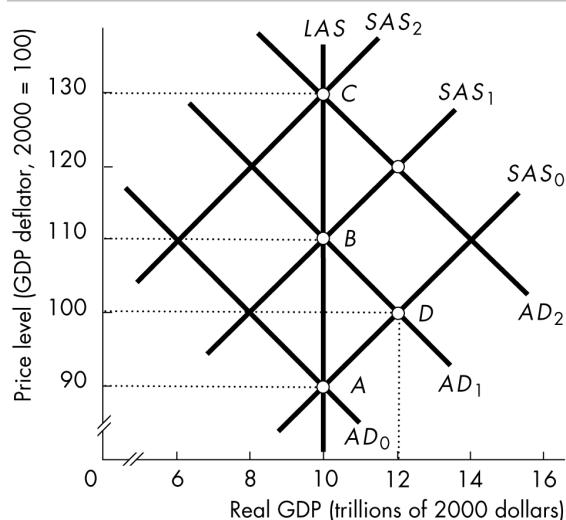
**Answer: B**

**Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 45) In a demand-pull inflation, if the Fed stops expanding the quantity of money,
- a cost-push inflation will occur.
  - government purchases will cause the demand-pull inflation to continue.
  - a deflation will occur.
  - the demand-pull inflation ends.

**Answer: D****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 46) Which monetary policy can be used to reduce demand-pull inflation?
- decrease in taxes.
  - increase in the required reserve ratio.
  - decrease in the required reserve ratio.
  - increase in government spending.

**Answer: B****Topic: Demand-Pull Inflation****Skill: Conceptual**

- 47) In the above figure, the economy initially is at point A and then increases in the quantity of money move the economy to point B the next year and C the year after. The economy has had a
- positive and increasing rate of inflation.
  - positive and constant rate of inflation.
  - one-time increase in the price level.
  - positive and decreasing rate of inflation.

**Answer: D****Topic: Initial Effect of an Increase in Aggregate Demand****Skill: Conceptual**

- 48) In the above figure, the economy initially is at point A and then an increase in the quantity of money moves the economy to point D. At point D, the real wage rate has
- risen by the same percentage as the price level.
  - remained constant.
  - increased.
  - decreased.

**Answer: D****Topic: Wage Response****Skill: Conceptual**

- 49) In the above figure, the economy initially is at point A and then an increase in the quantity of money moves the economy to point D. The money wage rate will
- rise because a labor shortage now exists.
  - fall because a labor shortage now exists.
  - rise because a labor surplus now exists.
  - fall because a labor surplus now exists.

**Answer: A****Topic: A Demand-Pull Inflation Process****Skill: Conceptual**

- 50) In the above figure, the economy initially is at point A and then an increase in the quantity of money moves the economy to point D. If the quantity of money remains constant, the economy will adjust with
- short-run aggregate supply shifting leftward to  $SAS_1$ .
  - short-run aggregate supply shifting leftward to  $SAS_2$ .
  - aggregate demand shifting back to  $AD_0$ .
  - aggregate demand shifting to  $AD_2$ .

**Answer: A****Topic: Demand-Pull Inflation in the United States****Skill: Recognition**

- 51) A demand-pull inflation occurred in the United States during most of the later part of the
- 1960s.
  - 1970s.
  - 1980s.
  - 1990s.

**Answer: A**

## ■ Cost-Push Inflation

**Topic: Cost-Push Inflation**

**Skill: Recognition**

- 52) The main sources of cost-push inflation are
- money wage rates and the cost of raw materials.
  - real wage rates and the cost of raw materials.
  - money wage rates and increases in aggregate demand.
  - increases in aggregate demand and real wage rates.

**Answer: A**

**Topic: Cost-Push Inflation**

**Skill: Recognition**

- 53) Cost-push inflation can start with
- lower taxes.
  - an increase in government purchases.
  - higher money wage rates.
  - an increase in transfer payments.

**Answer: C**

**Topic: Cost-Push Inflation**

**Skill: Recognition**

- 54) Cost-push inflation can start with
- a decrease in investment.
  - an increase in oil prices.
  - an increase in government purchases.
  - a decrease in the quantity of money.

**Answer: B**

**Topic: Initial Effect of a Decrease in Aggregate Supply**

**Skill: Conceptual**

- 55) At the start of a cost-push inflation,
- productivity rises.
  - real GDP increases faster than the quantity of money.
  - the short-run aggregate supply curve shifts rightward.
  - prices and unemployment are rising.

**Answer: D**

**Topic: Initial Effect of a Decrease in Aggregate Supply**

**Skill: Conceptual**

- 56) At the start of a cost-push inflation,
- only real GDP changes while the price level remains constant.
  - the price level and real GDP both increase.
  - the price level rises and real GDP decreases.
  - the price level rises and real GDP does not change.

**Answer: C**

**Topic: Initial Effect of a Decrease in Aggregate Supply**

**Skill: Conceptual**

- 57) Suppose that the money prices of raw materials increase so that short-run aggregate supply decreases. If the Federal Reserve does not respond, the higher money price of raw materials will
- repeatedly shift the aggregate demand curve rightward and raise the price level.
  - shift the aggregate demand curve rightward and the aggregate supply curve leftward, raising prices.
  - result initially in lower employment and a higher price level.
- I only.
  - both I and II.
  - both II and III.
  - III only.

**Answer: D**

**Topic: Initial Effect of a Decrease in Aggregate Supply**

**Skill: Recognition**

- 58) An increase in the money wage rate shifts the *SAS* curve
- rightward, as does an increase in the money prices of raw materials.
  - leftward, as does an increase in the money prices of raw materials.
  - rightward, whereas an increase in the money prices of raw materials shifts the *SAS* curve leftward.
  - leftward, whereas an increase in the money prices of raw materials shifts the *SAS* curve rightward.

**Answer: B**

**Topic: Initial Effect of a Decrease in Aggregate Supply**

**Skill: Analytical**

- 59) By itself, an increase in the price of oil shifts the
- short-run aggregate supply curve leftward and does not shift the aggregate demand curve.
  - short-run aggregate supply curve rightward and does not shift the aggregate demand curve.
  - aggregate demand curve leftward and does not shift the short-run aggregate supply curve.
  - aggregate demand curve rightward and does not shift the short-run aggregate supply curve.

**Answer: A**

**Topic: Initial Effect of a Decrease in Aggregate Supply**

**Skill: Analytical**

- 60) By itself, a fall in the price of oil shifts the
- short-run aggregate supply curve leftward and does not shift the aggregate demand curve.
  - short-run aggregate supply curve rightward and does not shift the aggregate demand curve.
  - aggregate demand curve leftward and does not shift the short-run aggregate supply curve.
  - aggregate demand curve rightward and does not shift the short-run aggregate supply curve.

**Answer: B**

**Topic: Stagflation**

**Skill: Conceptual**

- 61) A one-time increase in oil prices without any following change in aggregate demand produces
- stagflation.
  - demand-pull inflation.
  - an increase in the money wage rate that exceeds the percentage increase in the price level.
  - a one-time fall in the price level.

**Answer: A**

**Topic: Stagflation**

**Skill: Recognition**

- 62) Stagflation occurs when the price level
- falls and real GDP increases.
  - and real GDP both decrease.
  - rises and real GDP decreases.
  - and real GDP both increase.

**Answer: C**

**Topic: Stagflation**

**Skill: Conceptual**

- 63) Stagflation is characterized by a(n)
- increase in both output and the price level.
  - decrease in output and the price level.
  - increase in the unemployment rate and an increase in the price level.
  - economy which is growing at a rate equal to its historical average growth rate.

**Answer: C**

**Topic: Aggregate Demand Response**

**Skill: Conceptual**

- 64) A one-time increase in the price of oil followed by a one-time increase in aggregate demand produce
- continuing cost-push inflation.
  - continuing demand-pull inflation.
  - a one-time decrease in the price level.
  - a one-time increase in the price level.

**Answer: D**

**Topic: A Cost-Push Inflation Process**

**Skill: Recognition**

- 65) A cost-push inflation spiral results if the Fed's response to stagflation is to keep
- decreasing aggregate demand.
  - decreasing aggregate supply.
  - increasing aggregate demand.
  - increasing aggregate supply.

**Answer: C**

**Topic: A Cost-Push Inflation Process**

**Skill: Recognition**

- 66) During a cost-push inflation spiral, the money wage rate \_\_\_\_ and the quantity of money \_\_\_\_.
- increases; increases
  - increases; does not change
  - does not change; increases
  - does not change; does not change

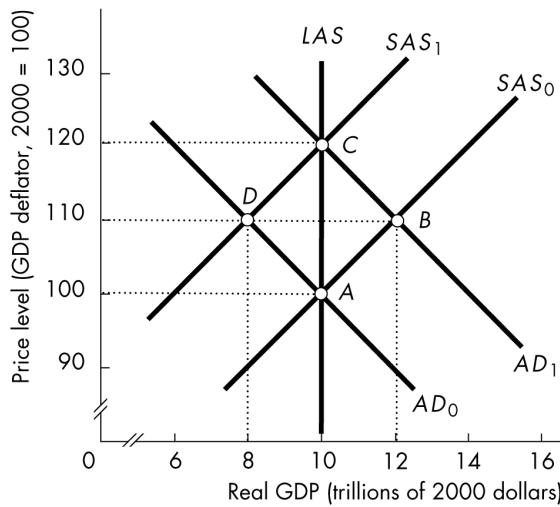
**Answer: A**

**Topic: A Cost-Push Inflation Process**

**Skill: Recognition**

- 67) For a cost-push inflation to occur, oil price increases must be accompanied by
- decreased investment spending.
  - lower personal tax rates.
  - increases in the quantity of money.
  - increases in government purchases.

**Answer: C**

**Topic: Initial Effect of a Decrease in Aggregate Supply****Skill: Analytical**

- 68) In the above figure, the economy is at point *A*. An increase in oil prices that sets off a cost-push inflation will initially move the economy from point *A* to point  
 A) *A*, that is, the economy does not change.  
 B) *B*.  
 C) *C*.  
 D) *D*.

**Answer: D****Topic: Initial Effect of a Decrease in Aggregate Supply****Skill: Analytical**

- 69) In the above figure, the economy is at point *A*. An increase in money wage rates that sets off a cost-push inflation will initially move the economy from point *A* to point  
 A) *A*, that is, the economy does not change.  
 B) *B*.  
 C) *C*.  
 D) *D*.

**Answer: D****Topic: A Cost-Push Inflation Process****Skill: Analytical**

- 70) In the above figure, the economy is at point *A*. An increase in oil prices occurs after which the Fed responds by increasing the quantity of money. The economy moves from point *A* to

- A) *D* to point *C*.
- B) *B* to point *C*.
- C) *C* to point *D*.
- D) *C* to point *B*.

**Answer: A****■ Effects of Inflation****Topic: Effects of Inflation****Skill: Recognition**

- 71) Inflation that is higher than expected transfers resources from

- A) employers to workers and borrowers to lenders.
- B) employers to workers and lenders to borrowers.
- C) workers to employers and borrowers to lenders.
- D) workers to employers and lenders to borrowers.

**Answer: D****Topic: Unanticipated Inflation in the Labor Market****Skill: Conceptual**

- 72) If workers and employers base their wages on an inflation forecast that turns out to be correct,  
 A) workers gain at the expense of employers.  
 B) employers gain at the expense of workers.  
 C) both workers and employers lose from the inflation.  
 D) neither workers nor employers gain or lose from the inflation.

**Answer: D****Topic: Unanticipated Inflation in the Labor Market****Skill: Conceptual**

- 73) When workers and employers base wages on an inflation forecast that turns out to be too low, workers are \_\_\_\_\_ and employers are \_\_\_\_\_.  
 A) helped; helped  
 B) helped; hurt  
 C) hurt; helped  
 D) hurt; hurt

**Answer: C**

**Topic: Unanticipated Inflation in the Labor Market****Skill: Analytical**

- 74) Suppose that wage contracts between workers and employers are based on an expected inflation rate of 3 percent and a 5 percent increase in money wages is agreed upon. If inflation actually equals 7 percent, real wages
- rise.
  - fall.
  - do not change.
  - might change but more information is needed to determine if they rise, fall, or stay the same.

**Answer: B****Topic: Unanticipated Inflation in the Capital Market****Skill: Analytical**

- 75) Inflation that is higher than expected redistributes wealth toward
- fixed income groups.
  - lenders.
  - borrowers.
  - retirees.

**Answer: C****Topic: Unanticipated Inflation in the Capital Market****Skill: Conceptual**

- 76) If both lenders and borrowers expect more inflation than actually occurs, borrowers \_\_\_\_ income and lenders \_\_\_\_ income.
- gain; gain
  - gain; lose
  - lose; gain
  - lose; lose

**Answer: C****Topic: Unanticipated Inflation in the Capital Market****Skill: Conceptual**

- 77) If both lenders and borrowers expect less inflation than actually occurs, borrowers are \_\_\_\_ and lenders are \_\_\_\_.
- helped; helped
  - helped; hurt
  - hurt; helped
  - hurt; hurt

**Answer: B****Topic: Unanticipated Inflation in the Capital Market****Skill: Conceptual**

- 78) If lenders and borrowers base their loan contracts on an inflation forecast that turns out to be correct,
- borrowers gain at the expense of lenders.
  - lenders gain at the expense of lenders.
  - neither borrowers nor lenders lose or gain from the inflation.
  - both borrowers and lenders gain because of the inflation.

**Answer: C****Topic: Unanticipated Inflation in the Capital Market****Skill: Conceptual**

- 79) If lenders and borrowers have an inflation forecast that turns out to be too low,
- both borrowers and lenders will wish that they had lent more.
  - borrowers will wish that they had borrowed more and lenders will wish that they had lent less.
  - borrowers will wish that they had borrowed less and lenders will wish that they had lent more.
  - borrowers will wish that they had borrowed less and lenders will wish that they had lent less.

**Answer: B****Topic: Unanticipated Inflation in the Capital Market****Skill: Conceptual**

- 80) If inflation turns out to be lower than expected,
- both borrowers and lenders will wish that the volume of loans had been higher.
  - borrowers will wish that they had borrowed more and lenders will wish that they had lent less.
  - borrowers will wish that they had borrowed less and lenders will wish that they had lent more.
  - both borrowers and lenders will wish that the volume of loans had been lower.

**Answer: C**

**Topic: Forecasting Inflation****Skill: Conceptual**

- 81) Which of the following is true regarding rational expectations?
- A rational expectation is the most accurate forecast available.
  - If all the available information is used correctly, a rational expectation will be correct.
  - A rational expectation is typically correct 50 percent of the time.
- I.
  - I and II.
  - I and III.
  - I, II, and III.

**Answer: A****Topic: The Costs of Anticipated Inflation****Skill: Conceptual**

- 82) Which of the following is a cost of anticipated inflation?
- Prices of goods and money wage rates rise.
  - People may seek alternatives to money.
  - Tax rates could fall, increasing the return to saving.
  - Interest rates could rise along with inflation.

**Answer: B****Topic: The Costs of Anticipated Inflation, Transactions Costs****Skill: Conceptual**

- 83) Anticipated inflation \_\_\_\_ transaction costs causing potential GDP to \_\_\_\_.
- increases; increase
  - decreases; decrease
  - increases; decrease
  - does not affect; remain constant

**Answer: C****Topic: The Costs of Anticipated Inflation, Tax Effects****Skill: Conceptual**

- 84) Because anticipated inflation raises the nominal interest rate, it thereby increases the dollars paid as interest, so the after-tax real interest rate
- rises.
  - falls.
  - is not affected.
  - may rise or fall depending on the amount of inflation.

**Answer: B****■ Inflation and Unemployment: The Phillips Curve****Topic: Inflation and Unemployment: The Phillips Curve****Skill: Recognition**

- 85) The Phillips curve shows the relationship between
- the nominal interest rate and the real interest rate.
  - the expected rate of inflation and the nominal interest rate.
  - the real interest rate and the unemployment rate.
  - the unemployment rate and the inflation rate.

**Answer: D****Topic: Inflation and Unemployment: The Phillips Curve****Skill: Analytical**

- 86) A Phillips curve measures the relationship between
- the unemployment rate and inflation.
  - the level of money wage rates and GDP.
  - unemployment and GDP.
  - inflation and GDP.

**Answer: A****Topic: Inflation and Unemployment: The Phillips Curve****Skill: Recognition**

- 87) A Phillips curve shows the relationship between
- price level and real GDP.
  - unemployment rate and real GDP.
  - inflation rate and the unemployment rate.
  - inflation rate and real GDP.

**Answer: C****Topic: The Short-Run Phillips Curve****Skill: Recognition**

- 88) For a given level of anticipated inflation and natural rate of unemployment, the short-run Phillips curve shows the relationship between
- potential GDP and real GDP.
  - real GDP growth and the unemployment rate.
  - inflation and money growth.
  - inflation and the unemployment rate.

**Answer: D**

**Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 89) The short-run Phillips curve gives much the same information as
- the *AD* curve.
  - the *SAS* curve.
  - the *LAS* curve.
  - None of the above.

**Answer: B****Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 90) A movement along the *SAS* curve that brings a lower price level and a decrease in real GDP is equivalent to a
- movement along a short-run Phillips curve that brings a decrease in the inflation rate and an increase in the unemployment rate.
  - movement along a short-run Phillips curve that brings an increase in the inflation rate and an increase in the unemployment rate.
  - shift in the short-run Phillips curve that brings a decrease in the inflation rate and an increase in the unemployment rate.
  - shift in the short-run Phillips curve that brings an increase in the inflation rate and an increase in the unemployment rate.

**Answer: A****Topic: The Short-Run Phillips Curve****Skill: Recognition**

- 91) The short-run Phillips curve
- slopes downward.
  - slopes upward.
  - is horizontal.
  - is vertical.

**Answer: A****Topic: The Short-Run Phillips Curve****Skill: Recognition**

- 92) Moving along a short-run Phillips curve,
- the price level is constant.
  - unemployment is constant.
  - the expected inflation rate is constant.
  - the inflation rate is constant.

**Answer: C****Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 93) Which of the following is held constant when moving along a short-run Phillip's curve?
- the inflation rate
  - the unemployment rate
  - the expected inflation rate
  - the growth rate of the quantity of money

**Answer: C****Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 94) Moving along the short-run Phillips curve indicates
- that higher inflation leads to a higher unemployment rate.
  - that higher unemployment leads to a higher inflation rate.
  - a tradeoff between inflation and unemployment so that high inflation is related to lower unemployment.
  - a natural rate of unemployment that does not vary with inflation.

**Answer: C****Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 95) Movements upward along the short-run Phillips curve result from
- anticipated increases in the inflation rate.
  - unanticipated increases in the inflation rate.
  - anticipated decreases in the inflation rate.
  - unanticipated decreases in the inflation rate.

**Answer: B****Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 96) Along a short-run Phillips curve, suppose the expected inflation rate is 6 percent. If the inflation rate turns out to be 8 percent instead,
- there is a movement upward along the curve.
  - there is a movement downward along the curve.
  - there is a downward shift of the curve.
  - the difference in the inflation rate does not affect the Phillips curve.

**Answer: A**

**Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 97) Movements downward along the short-run Phillips curve result from unanticipated  
 A) decreases in aggregate demand.  
 B) increases in aggregate demand.  
 C) decreases in aggregate supply.  
 D) increases in aggregate supply.

**Answer: A****Topic: The Short-Run Phillips Curve****Skill: Conceptual**

- 98) Suppose the expected inflation rate is 8 percent and the unemployment rate is 3 percent. If the inflation rate rises to 10 percent and the expected inflation rate does not change,  
 A) the short-run Phillips curve will shift upward.  
 B) the short-run Phillips curve will shift downward.  
 C) there will be a movement along the short-run Phillips curve.  
 D) the natural rate of unemployment will rise.

**Answer: C****Topic: The Short-Run Phillips Curve****Skill: Analytical**

- 99) Suppose that last year the economy of Suffera was experiencing an expected inflation rate of 8 percent and unemployment rate of 12 percent. An unanticipated increase in the inflation rate would  
 A) increase the unemployment rate.  
 B) increase the inflation rate and decrease the unemployment rate.  
 C) increase the inflation rate but have no effect on the unemployment rate.  
 D) None of the above answers is correct.

**Answer: B****Topic: The Short-Run Phillips Curve****Skill: Analytical**

- 100) An increase in the expected inflation rate shifts the  
 A) short-run Phillips curve downward.  
 B) short-run Phillips curve upward.  
 C) long-run Phillips curve upward.  
 D) long-run Phillips curve downward.

**Answer: B****Topic: The Short-Run Phillips Curve****Skill: Analytical**

- 101) An increase in the expected inflation rate leads to \_\_\_\_\_ the short-run Phillips curve.  
 A) a movement upward along  
 B) a movement downward along  
 C) an upward shift of  
 D) a downward shift of

**Answer: C****Topic: The Short-Run Phillips Curve****Skill: Analytical**

- 102) Suppose the expected inflation rate is 12 percent and the unemployment rate is 5 percent. If the expected inflation rate increases to 13 percent,  
 A) the short-run Phillips curve will shift upward.  
 B) the short-run Phillips curve will shift downward.  
 C) there will be a movement along the short-run Phillips curve.  
 D) the natural rate of unemployment will rise.

**Answer: A****Topic: The Long-Run Phillips Curve****Skill: Recognition**

- 103) The long-run Phillips curve shows the relationship between the inflation rate and the unemployment rate when the  
 A) real interest rate equals the nominal interest rate.  
 B) real interest rate is zero.  
 C) actual inflation rate equals the expected inflation rate.  
 D) inflation rate is zero.

**Answer: C****Topic: The Long-Run Phillips Curve****Skill: Recognition**

- 104) The long-run Phillips curve  
 A) slopes downward.  
 B) slopes upward.  
 C) is horizontal.  
 D) is vertical.

**Answer: D****Topic: The Long-Run Phillips Curve****Skill: Conceptual**

- 105) Along the long-run Phillips curve,  
 A) actual inflation is greater than expected inflation.  
 B) actual inflation is equal to expected inflation.  
 C) actual inflation is less than expected inflation.  
 D) None of the above answers is correct.

**Answer: B**

**Topic: The Long-Run Phillips Curve****Skill: Conceptual**

- 106) The long-run Phillips curve shows that in the long run, policymakers can
- lower unemployment if they are willing to accept more inflation forever.
  - lower inflation if they are willing to accept higher unemployment forever.
  - choose the unemployment rate but not the inflation rate.
  - lower inflation without increasing unemployment.

**Answer: D****Topic: The Long-Run Phillips Curve****Skill: Analytical**

- 107) The position of the long-run Phillips curve is determined by
- the control of the quantity of money by the Fed.
  - the natural rate of unemployment.
  - the inflation rate.
  - the level of interest rates controlled by the Fed.

**Answer: B****Topic: The Long-Run Phillips Curve****Skill: Analytical**

- 108) Which of the following statements about the long-run Phillips curve is correct?
- The long-run Phillips curve is horizontal.
  - The long-run Phillips curve shifts leftward if the natural rate of unemployment decreases.
  - The long-run Phillips curve shifts rightward and upward if the expected inflation rate increases.
  - None of the above statements is correct.

**Answer: B****Topic: The Short-Run and Long-Run Phillips Curve****Skill: Conceptual**

- 109) The short-run Phillips curve intersects the long-run Phillips curve at the
- natural interest rate.
  - nominal interest rate.
  - natural inflation rate.
  - expected inflation rate.

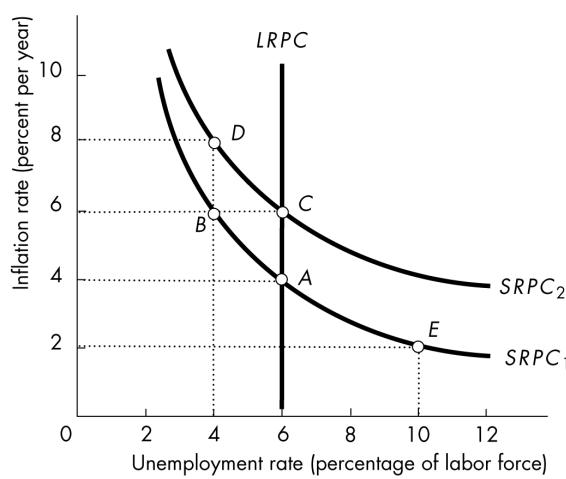
**Answer: D****Topic: The Short-Run and Long-Run Phillips Curve****Skill: Recognition**

- 110) An increase in the expected inflation rate shifts
- both the short-run and the long-run Phillips curves upward.
  - the short-run but not the long-run Phillips curve upward.
  - the long-run but not the short-run Phillips curve upward.
  - neither the short-run nor the long-run Phillips curve.

**Answer: B****Topic: The Short-Run and Long-Run Phillips Curve****Skill: Recognition**

- 111) An increase in the natural rate of unemployment shifts
- both the short-run and the long-run Phillips curves rightward.
  - the short-run but not the long-run Phillips curve rightward.
  - the long-run but not the short-run Phillips curve rightward.
  - neither the short-run nor the long-run Phillips curve.

**Answer: A**

**Topic: The Short-Run Phillips Curve****Skill: Analytical**

112) In the above figure, suppose that the economy currently is at point *A*. If the inflation rate falls and this fall is unanticipated by the public, the economy moves to a point such as point

- A) *B*.
- B) *C*.
- C) *D*.
- D) *E*.

**Answer: D**

**Topic: The Short-Run Phillips Curve****Skill: Analytical**

113) In the above figure, suppose that the economy currently is at point *A*. If the inflation rate rises and this rise is NOT anticipated by the public, the economy moves to a point such as point

- A) *B*.
- B) *C*.
- C) *D*.
- D) *E*.

**Answer: A**

**Topic: The Short-Run Phillips Curve****Skill: Analytical**

114) In the above figure, what may have shifted the short-run Phillips curve from  $SRPC_1$  to  $SRPC_2$  while leaving the long-run Phillips curve unchanged at  $LRPC$ ?

- A) The natural rate of unemployment might have increased.
- B) The natural rate of unemployment might have decreased.
- C) People's inflationary expectations might have increased.
- D) People's inflationary expectations might have decreased.

**Answer: C**

**Topic: The Long-Run Phillips Curve****Skill: Analytical**

115) In the above figure, suppose that the economy currently is at point *A*. If the inflation rate rises and this rise is anticipated by the public, the economy moves to a point such as point

- A) *B*.
- B) *C*.
- C) *D*.
- D) *E*.

**Answer: B**

**Topic: The Short-Run and Long-Run Phillips Curve****Skill: Analytical**

116) In the above figure, suppose that the economy is at point *C*. If the inflation rate is lower than expected,

- A) the  $LRPC$  will shift rightward.
- B) the  $SRPC$  will shift downward.
- C) the  $SRPC$  will shift upward.
- D) Neither the  $LRPC$  nor the  $SRPC$  will shift.

**Answer: D**

**■ Interest Rates and Inflation****Topic: Interest Rates and Inflation****Skill: Recognition**

- 117) The real interest rate equals the
- A) nominal interest rate minus the expected inflation rate.
  - B) nominal interest rate plus the expected inflation rate.
  - C) nominal interest rate minus the Fed discount rate.
  - D) rate that banks lend to its best customers.

**Answer: A****Topic: Interest Rates and Inflation****Skill: Conceptual**

- 118) Considering the U.S. experience, there has been \_\_\_\_\_ relationship between the inflation rate and the \_\_\_\_\_.  
A) a positive; unemployment rate  
B) a positive; nominal interest rate  
C) a negative; nominal interest rate  
D) no; nominal interest rate

**Answer: B****Topic: Why Inflation Influences the Nominal Interest Rate****Skill: Conceptual**

- 119) When the inflation rate is zero, the
- A) real interest rate is greater than the nominal interest rate.
  - B) real interest rate is less than the nominal interest rate.
  - C) nominal interest rate is zero.
  - D) real interest rate equals the nominal interest rate.

**Answer: D****Topic: Why Inflation Influences the Nominal Interest Rate****Skill: Conceptual**

- 120) When the inflation rate is positive, the
- A) real interest rate is greater than the nominal interest rate.
  - B) real interest rate is less than the nominal interest rate.
  - C) nominal interest rate is zero.
  - D) real interest rate equals the nominal interest rate.

**Answer: B****Topic: Why Inflation Influences the Nominal Interest Rate****Skill: Conceptual**

- 121) When the inflation rate is negative, the
- A) real interest rate is greater than the nominal interest rate.
  - B) real interest rate is less than the nominal interest rate.
  - C) nominal interest rate is zero.
  - D) real interest rate equals the nominal interest rate.

**Answer: A****Topic: Why Inflation Influences the Nominal Interest Rate****Skill: Conceptual**

- 122) People know that the inflation rate will increase from 3 percent to 5 percent. As a result
- A) the nominal interest rate falls by 2 percentage points.
  - B) the nominal interest rate is constant.
  - C) the nominal interest rate rises by 2 percentage points.
  - D) the real interest rate rises by 2 percentage points.

**Answer: C****Topic: Why Inflation Influences the Nominal Interest Rate****Skill: Conceptual**

- 123) People know that the inflation rate will decrease from 7 percent to 3 percent. As a result
- A) the nominal interest rate falls by 4 percentage points.
  - B) the nominal interest rate is constant.
  - C) the nominal interest rate rises by 4 percentage points.
  - D) the nominal interest rate equals 3 percent.

**Answer: A**

**Topic: Why Inflation Influences the Nominal Interest Rate**  
**Skill: Analytical**

- 124) In 2004 the inflation rate is 1 percent and Wally is willing to lend Barbara \$100,000 at a 6 percent interest rate. In 2005, the inflation rate rises to 3 percent. As a result
- Wally and Barbara will agree to a nominal interest rate of 9 percent.
  - Wally and Barbara will agree to a nominal interest rate of 8 percent.
  - Wally and Barbara will agree to a nominal interest rate of 5 percent.
  - Wally and Barbara will agree to a real interest rate of 9 percent.

**Answer: B**

## ■ Study Guide Questions

**Topic: Study Guide Question, Inflation and the Price Level**

**Skill: Analytical**

- 125) Of the following sequences of price levels, which correctly represents a 5 percent inflation rate?
- 100, 100, 100, 100.
  - 100, 105, 105, 105.
  - 100, 105, 110, 115.
  - 100, 105, 110.25, 115.76.

**Answer: D**

**Topic: Study Guide Question, A Demand-Pull Inflation Process**

**Skill: Conceptual**

- 126) Which of the following would shift the aggregate demand curve leftward year after year?
- A one-time tax cut.
  - A one-time increase in government purchases of goods and services.
  - Inflation.
  - Negative growth in the quantity of money.

**Answer: D**

**Topic: Study Guide Question, A Demand-Pull Inflation Process**  
**Skill: Conceptual**

- 127) Which of the following results in the aggregate demand curve shifting rightward year after year?
- A one-time tax cut.
  - A one-time increase in government purchases of goods and services.
  - Inflation.
  - Growth in the quantity of money.

**Answer: D**

**Topic: Study Guide Question, A Demand-Pull Inflation Process**

**Skill: Conceptual**

- 128) Demand-pull inflation occurs when
- aggregate demand increases persistently.
  - aggregate supply and aggregate demand decrease persistently.
  - the government increases its purchases.
  - oil prices increase substantially.

**Answer: A**

**Topic: Study Guide Question, A Demand-Pull Inflation Process**

**Skill: Analytical**

- 129) In a demand-pull inflation, the *AD* curve shifts \_\_\_\_\_ and the *SAS* curve shifts \_\_\_\_\_.
- rightward; rightward
  - rightward; leftward
  - leftward; rightward
  - leftward; leftward

**Answer: B**

**Topic: Study Guide Question, Effect of a Decrease in Aggregate Supply**

**Skill: Analytical**

- 130) A rise in the price level because of an increase in the money wage rate
- definitely triggers a cost-push inflation.
  - definitely triggers a demand-pull inflation.
  - might trigger a cost-push inflation.
  - might trigger a demand-pull inflation.

**Answer: C**

**Topic: Study Guide Question, Effect of a Decrease in Aggregate Supply**

**Skill: Analytical**

- 131) A rise in the price level owing to an increase in the price of oil
- definitely triggers a cost-push inflation.
  - definitely triggers a demand-pull inflation.
  - might trigger a cost-push inflation.
  - might trigger a demand-pull inflation.

**Answer: C**

**Topic: Study Guide Question, Effect of a Decrease in Aggregate Supply**

**Skill: Analytical**

- 132) Cost-push inflation might start with
- a rise in money wage rates.
  - an increase in government purchases.
  - an increase in the quantity of money.
  - a fall in the prices of raw materials.

**Answer: A**

**Topic: Study Guide Question, Cost-Push Inflation**

**Skill: Analytical**

- 133) Which of the following statements about a cost-push inflation is correct?
- Cost-push inflation starts when an increase in aggregate demand “pushes” costs higher.
  - Cost-push inflation might start with a rise in the price of raw materials, but it requires increases in the quantity of money to persist.
  - To persist, cost-push inflation needs a continual series of cost hikes with no change in aggregate demand.
  - The United States has never experienced a cost-push inflation.

**Answer: B**

**Topic: Study Guide Question, Unanticipated Inflation**

**Skill: Analytical**

- 134) If the  $AD$  curve shifts rightward less than expected,
- the price level is lower than expected and output is below potential GDP.
  - the price level is higher than expected and output is below potential GDP.
  - the price level is lower than expected and output is larger than potential GDP.
  - the price level is higher than expected and output is larger than potential GDP.

**Answer: A**

**Topic: Study Guide Question, Unanticipated Inflation**

**Skill: Conceptual**

- 135) If the  $AD$  curve shifts rightward more than expected,
- expectations could not be rational expectations.
  - real GDP will be greater than potential GDP.
  - real GDP will be less than potential GDP.
  - the price level will be lower than expected.

**Answer: B**

**Topic: Study Guide Question, Unanticipated Inflation, Labor/Capital Markets**

**Skill: Recognition**

- 136) As far as redistribution is concerned, if the inflation rate is lower than anticipated,
- lenders gain at the expense of borrowers and some workers gain at the expense of employers.
  - borrowers gain at the expense of lenders and some workers gain at the expense of employers.
  - lenders gain at the expense of borrowers and some employers gain at the expense of workers.
  - borrowers gain at the expense of lenders and some employers gain at the expense of workers.

**Answer: A**

**Topic: Study Guide Question, Unanticipated Inflation**

**Skill: Conceptual**

- 137) If the aggregate demand curve shifts rightward less than expected,
- expectations could not be rational expectations.
  - real GDP will be less than potential GDP.
  - the real interest rate will be lower than expected.
  - the real wage rate will be lower than expected.

**Answer: B**

**Topic: Study Guide Question, Anticipated Inflation**

**Skill: Conceptual**

- 138) A correctly anticipated increase in aggregate demand that causes a correctly anticipated increase in inflation leads to \_\_\_\_ in short-run aggregate supply and \_\_\_\_ in real GDP.
- an increase; an increase
  - a decrease; an increase
  - a decrease; no change
  - a decrease; a decrease

**Answer: C**

**Topic: Study Guide Question, Rational Expectation****Skill: Recognition**

- 139) Which of the following is NOT true of a rational expectation forecast?
- It uses all available information.
  - It is the best forecast possible.
  - It always is correct.
  - None of the above because they are all true.

**Answer: C****Topic: Study Guide Question, The Costs of Anticipated Inflation****Skill: Conceptual**

- 140) Which of the following is NOT a cost of high anticipated inflation?
- Higher transactions costs.
  - An unemployment rate that exceeds the natural rate.
  - Increased uncertainty.
  - A decrease in saving and investment.

**Answer: B****Topic: Study Guide Question, The Costs of Anticipated Inflation****Skill: Conceptual**

- 141) Higher anticipated inflation
- increases economic growth.
  - decreases economic growth.
  - decreases unemployment.
  - has no effect on economic growth or unemployment.

**Answer: B****Topic: Study Guide Question, The Short-Run Phillips Curve****Skill: Recognition**

- 142) The short-run Phillips curve shows the relationship between
- the price level and real GDP in the short run.
  - the price level and unemployment in the short run.
  - inflation and unemployment when expected inflation equals the actual inflation.
  - inflation and unemployment when expected inflation does not change.

**Answer: D****Topic: Study Guide Question, The Short-Run Phillips Curve****Skill: Recognition**

- 143) The short-run Phillips curve shows the \_\_\_\_\_ relationship between \_\_\_\_\_.
- negative; unemployment and real GDP
  - positive; unemployment and real GDP
  - negative; inflation and unemployment
  - positive; real GDP and inflation

**Answer: C****Topic: Study Guide Question, The Long-Run Phillips Curve****Skill: Recognition**

- 144) The long-run Phillips curve shows the relationship between
- the price level and real GDP in the long run.
  - the price level and unemployment in the long run.
  - inflation and unemployment when expected inflation equals the actual inflation.
  - inflation and unemployment when expected inflation does not change.

**Answer: C****Topic: Study Guide Question, The Short-Run and Long-Run Phillips Curve****Skill: Conceptual**

- 145) A decrease in the natural rate of unemployment shifts the long-run Phillips curve \_\_\_\_\_ and \_\_\_\_\_ the short-run Phillips curve.
- rightward; does not shift
  - leftward; shifts rightward
  - rightward; shifts rightward
  - leftward; shifts leftward

**Answer: D****Topic: Study Guide Question, The Short-Run and Long-Run Phillips Curve****Skill: Conceptual**

- 146) A rise in the expected inflation rate leads to \_\_\_\_\_ in the long-run Phillips curve and \_\_\_\_\_ in the short-run Phillips curve.
- an upward shift; no shift
  - a leftward shift; an upward shift
  - no shift; no shift
  - no shift; an upward shift

**Answer: D**

**Topic: Study Guide Question, The Short-Run and Long-Run Phillips Curve****Skill: Conceptual**

- 147) A decrease in the expected inflation rate causes \_\_\_\_ in the long-run Phillips curve and \_\_\_\_ in the short-run Phillips curve.
- an upward shift; no shift
  - a leftward shift; an upward shift
  - no shift; no shift
  - no shift; a downward shift

**Answer: D****Topic: Study Guide Question, Inflation Influences the Nominal Interest Rate****Skill: Analytical**

- 148) Initially the nominal interest rate is 8 percent and the inflation rate is 5 percent. People know that the inflation rate increases to 10 percent. What is the new nominal interest rate?
- 8 percent.
  - 3 percent.
  - 13 percent.
  - 11 percent.

**Answer: C****Topic: Study Guide Question, Inflation Influences the Nominal Interest Rate****Skill: Analytical**

- 149) Suppose that, initially, the nominal interest rate is 6 percent and the expected inflation rate is 3 percent. If the expected inflation rate increases to 6 percent, what will be the new nominal interest rate?
- 6 percent
  - 1 percent
  - 11 percent
  - 9 percent

**Answer: D****Topic: Study Guide Question, Inflation and Interest Rates in the United States****Skill: Recognition**

- 150) U.S. data show that over the last 30 years, the real interest rate has \_\_\_\_, and that an increase in inflation is usually accompanied by \_\_\_\_ nominal interest rates.
- been constant; higher
  - been constant; lower
  - fluctuated; lower
  - fluctuated; higher

**Answer: D****■ MyEconLab Questions****Topic: Inflation and the Price Level****Level I: Definitions and Concepts**

- 151) Inflation is a process in which \_\_\_\_.
- demand always increases
  - the price level of certain commodities increase
  - the value of money is increasing
  - the price level is rising

**Answer: D****Topic: Demand-Pull Inflation****Level I: Definitions and Concepts**

- 152) Demand-pull inflation is an inflation that results from an initial \_\_\_\_.
- increase in aggregate demand
  - decrease in aggregate demand
  - increase in wage rates
  - increase in natural resource prices

**Answer: A****Topic: Cost-Push Inflation****Level I: Definitions and Concepts**

- 153) Cost-push inflation is an inflation that results from an initial \_\_\_\_.
- increase in money wage rates or money prices of raw materials
  - decrease in taxes
  - increase in investment
  - increase in taxes

**Answer: A****Topic: Stagflation****Level I: Definitions and Concepts**

- 154) Stagflation is the combination of a \_\_\_\_ and \_\_\_\_.
- fall in inflation; an increase in real GDP
  - fall in the price level; an increase in real GDP
  - rise in the price level; a decrease in real GDP
  - rise in inflation; a decrease in real GDP

**Answer: C**

**Topic: Unanticipated Inflation in the Labor Market****Level I: Definitions and Concepts**

- 155) When the actual inflation rate differs from the expected inflation rate, income is redistributed to that \_\_\_\_.
- there is high unemployment
  - workers consistently gain at the expense of the employers
  - employers sometimes gain and sometimes lose
  - employers consistently gain at the expense of the workers

**Answer: C****Topic: Rational Expectation****Level I: Definitions and Concepts**

- 156) The forecast of inflation that is based on all the relevant information is called a \_\_\_\_.
- rational expectation
  - rational inflation expectation
  - national inflation rate
  - rational inflation rate

**Answer: A****Topic: Inflation and Unemployment: The Phillips Curve****Level I: Definitions and Concepts**

- 157) A direct way to study inflation and unemployment is by using \_\_\_\_.
- a Phillips curve
  - data from high inflation countries
  - the AS-AD model
  - data from the OECD

**Answer: A****Topic: The Short-Run Phillips Curve****Level I: Definitions and Concepts**

- 158) The short-run Phillips curve shows the tradeoff between \_\_\_\_, holding the expected inflation rate and the natural unemployment rate constant.
- the price level and real GDP
  - inflation and unemployment
  - the price level and unemployment
  - inflation and employment

**Answer: B****Topic: The Long-Run Phillips Curve****Level I: Definitions and Concepts**

- 159) The long-run Phillips curve is \_\_\_\_.
- horizontal at the expected inflation rate
  - vertical at the natural unemployment rate
  - horizontal at the actual inflation rate
  - vertical at the actual inflation rate

**Answer: B****Topic: Interest Rates and Inflation****Level I: Definitions and Concepts**

- 160) The real interest rate \_\_\_\_ the expected inflation rate \_\_\_\_ the nominal interest rate, approximately.
- plus; equals
  - equals; plus
  - equals; minus
  - minus; equals

**Answer: A****Topic: A Demand-Pull Inflation Process****Level 2: Using Definitions and Concepts**

- 161) If the government increases its purchases of goods and services and as a result, the money wage rate increases, the economy has experienced \_\_\_\_.
- demand-pull inflation
  - demand-push inflation
  - a one-time rise in the price level
  - cost-push inflation

**Answer: A****Topic: A Demand-Pull Inflation Process****Level 2: Using Definitions and Concepts**

- 162) A one-time rise in the price level can turn into a demand-pull inflation when \_\_\_\_.
- the money wage rate continues to increase
  - the quantity of money persistently decreases
  - taxes consistently increase
  - the quantity of money persistently increases

**Answer: D****Topic: Stagflation****Level 2: Using Definitions and Concepts**

- 163) An increase in the world price of oil will result in \_\_\_\_.
- deflation
  - stagflation
  - cost-push inflation
  - demand-pull inflation

**Answer: B**

**Topic: A Cost-Push Inflation Process****Level 2: Using Definitions and Concepts**

164) A stagflation can turn into a cost-push inflation process when \_\_\_\_.

- A) the quantity of money persistently decreases
- B) taxes consistently increase
- C) the money wage rate decreases
- D) the quantity of money persistently increases

**Answer: D**

**Topic: Unanticipated Inflation in the Capital Market****Level 2: Using Definitions and Concepts**

165) When inflation is less than anticipated inflation, \_\_\_\_.

- A) lenders gain at the expense of borrowers
- B) borrowers and lenders both lose
- C) borrowers and lenders both gain
- D) borrowers gain at the expense of lenders

**Answer: A**

**Topic: The Costs of Anticipated Inflation****Level 2: Using Definitions and Concepts**

166) One of the costs of a rapid anticipated inflation is \_\_\_\_.

- A) a decrease in the price level
- B) an increase in potential GDP
- C) a decrease in potential GDP
- D) an increase in short-run aggregate supply

**Answer: C**

**Topic: The Short-Run Phillips Curve****Level 2: Using Definitions and Concepts**

167) Along the short-run Phillips curve, if the inflation rate rises above its expected rate, the unemployment rate \_\_\_\_.

- A) equals the natural rate
- B) remains constant
- C) decreases below its natural rate
- D) increases above its natural rate

**Answer: C**

**Topic: The Short-Run and Long-Run Phillips Curve****Level 2: Using Definitions and Concepts**

168) The short-run Phillips curve and the long-run Phillips curve intersect at the \_\_\_\_ and \_\_\_\_.

- A) expected inflation rate; the expected unemployment rate
- B) expected inflation rate; the natural unemployment rate
- C) natural inflation rate; the expected employment rate
- D) expected inflation rate; the expected employment rate

**Answer: B**

**Topic: The Short-Run and Long-Run Phillips Curve****Level 2: Using Definitions and Concepts**

169) A change in the natural rate of unemployment \_\_\_\_.

- A) shifts only the short-run Phillips curve
- B) causes a movement along the short-run Phillips curve
- C) shifts only the long-run Phillips curve
- D) shifts both the short-run and long-run Phillips curves

**Answer: D**

**Topic: Inflation Rate****Level 3: Calculations and Predictions**

170) If this year's price level is 126 and last year's price level was 120, the inflation rate is \_\_\_\_.

- A) 0.95 percent a year
- B) 5 percent a year
- C) 6 percent a year
- D) 1.05 percent a year

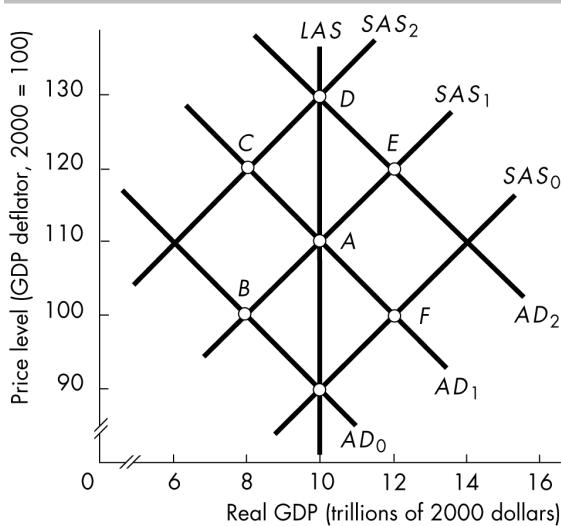
**Answer: B**

**Topic: Inflation and the Price Level****Level 3: Calculations and Predictions**

171) When the GDP deflator increases from 120 to 126 in one year, \_\_\_\_.

- A) you can purchase more with each dollar
- B) in the following year the GDP deflator will be 132
- C) money is losing its value
- D) you would anticipate a one-time rise in the price level

**Answer: C**

**Topic: A Demand-Pull Inflation Process****Level 3: Calculations and Predictions**

- 172) The figure above shows the aggregate demand, short-run aggregate supply, and long-run aggregate supply curves for the economy of Tomorrowland. The economy is currently at point A. A demand-pull rise in the price level will initially move the economy to point \_\_\_\_ and to point \_\_\_\_.
- E* when aggregate demand increases; *D* when the wage rate rises
  - B* when aggregate demand decreases; *C* when the wage rate rises
  - E*; *A* when aggregate demand changes
  - C* when the wage rate rises; *D* when aggregate demand increases

**Answer: A****Topic: A Cost-Push Inflation Process****Level 3: Calculations and Predictions**

- 173) The figure above shows the aggregate demand, short-run aggregate supply, and long-run aggregate supply curves for the economy of Tomorrowland. The economy is currently at point A. A cost-push rise in the price level will initially move the economy to point \_\_\_\_ and to point \_\_\_\_.
- E* when aggregate demand increases; *D* when the money prices of raw materials rise
  - C* when the money prices of raw materials rise; *D* when aggregate demand increases
  - F*; *A* when the money prices of raw materials change
  - B* when aggregate demand decreases; *C* when the money prices of raw materials rise

**Answer: B****Topic: Unanticipated Inflation****Level 3: Calculations and Predictions**

- 174) When actual inflation is greater than expected inflation, \_\_\_\_ gain at the expense of \_\_\_\_ and \_\_\_\_ gain at the expense of \_\_\_\_.
- workers; employers; lenders; borrowers
  - employers; workers; borrowers; lenders
  - employers; workers; lenders; borrowers
  - workers; employers; borrowers; lenders

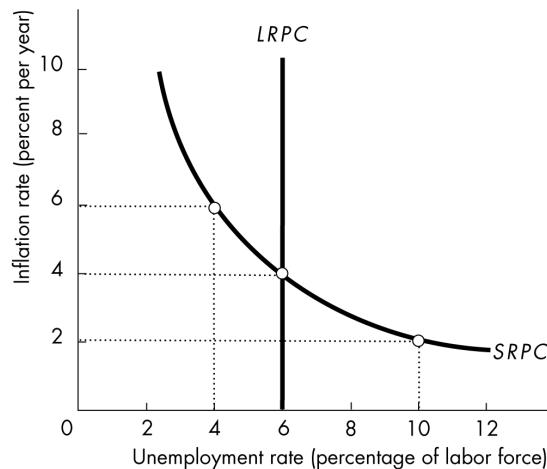
**Answer: D****Topic: Unanticipated Inflation****Level 3: Calculations and Predictions**

- 175) When the economy is at full employment and unanticipated inflation occurs, \_\_\_\_.
- real GDP decreases to less than potential GDP
  - real GDP increases to more than potential GDP
  - potential GDP increases
  - real GDP remains at potential GDP

**Answer: B****Topic: The Short-Run Phillips Curve****Level 3: Calculations and Predictions**

- 176) When aggregate demand increases by more than it is expected to increase, the \_\_\_\_.
- economy moves up along the short-run Phillips curve
  - economy moves down along the short-run Phillips curve
  - the short-run Phillips curve shifts leftward
  - the long-run Phillips curve shifts leftward

**Answer: A**

**Topic: The Short-Run and Long-Run Phillips Curve****Level 3: Calculations and Predictions**

177) The figure above shows an economy's Phillips curves. Currently, the inflation rate is 6 percent a year. The natural rate of unemployment is \_\_\_\_ percent and the expected inflation rate is \_\_\_\_ percent a year.

- A) 6; 6
- B) 6; 10
- C) 4; 6
- D) 6; 4

**Answer: D****Topic: The Short-Run and Long-Run Phillips Curve****Level 3: Calculations and Predictions**

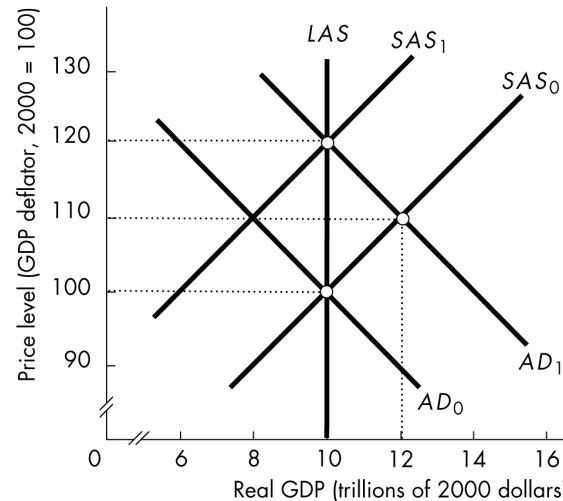
178) The figure above shows an economy's Phillips curves. Currently, the inflation rate is 6 percent a year. If inflation expectations remain unchanged, the current unemployment rate is \_\_\_\_.

- A) less than the natural rate
- B) greater than the natural rate
- C) equal to the natural rate
- D) 6 percent

**Answer: A****Topic: Interest Rates and Inflation****Level 3: Calculations and Predictions**

179) The real interest rate is 4 percent a year. When the expected inflation rate is zero, the nominal interest rate is approximately \_\_\_\_ percent a year; and when the expected inflation rate is 2 percent a year, the nominal interest rate is approximately \_\_\_\_ percent a year.

- A) 0; 2
- B) 4; 6
- C) 6; 8
- D) 6; 4

**Answer: B****Topic: Unanticipated Inflation****Level 4: Advanced Calculations and Predictions**

180) An economy is at potential GDP and the price level is 100 in the figure above. If aggregate demand unexpectedly increases so that the aggregate demand curve shifts to  $AD_1$ , the inflation rate is \_\_\_\_.

- A) 0 percent a year
- B) 10 percent a year
- C) 20 percent a year
- D) More than 20 percent a year

**Answer: B**

**Topic: Anticipated Inflation****Level 4: Advanced Calculations and Predictions**

181) An economy is in long-run equilibrium and the price level is 100 in the figure above. Aggregate demand increases and the aggregate demand curve shifts to  $AD_1$ . If the increase in aggregate demand is expected, then the inflation rate is \_\_\_\_.

- A) 0 percent a year
- B) 10 percent a year
- C) 20 percent a year
- D) More than 20 percent a year

**Answer: C**

**Topic: Initial Effect of an Increase in Aggregate Demand****Level 4: Advanced Calculations and Predictions**

182) A cost-push inflation begins when the percentage increase in \_\_\_\_ is greater than the percentage increase in \_\_\_\_.

- A) the quantity of money supplied; aggregate demand
- B) aggregate demand; the quantity of money supplied
- C) aggregate demand; short-run aggregate supply
- D) short-run aggregate supply; aggregate demand

**Answer: C**

**Topic: Unanticipated Inflation****Level 4: Advanced Calculations and Predictions**

183) Suppose that the economy is at full employment and aggregate demand increases by more than it is anticipated to increase. Other things remaining the same, \_\_\_\_.

- A) long-run aggregate supply decreases
- B) real GDP remains at potential GDP
- C) real GDP increases above potential GDP
- D) real GDP decreases below potential GDP

**Answer: C**

Inflation rate (percent per year)	Unemployment rate (percent)
8	3
6	4
4	5
2	6

**Topic: The Short-Run Phillips Curve****Level 4: Advanced Calculations and Predictions**

184) An economy's natural rate of unemployment is 4 percent. The table above gives some points on the economy's short-run Phillips curve. When the unemployment rate is 4 percent \_\_\_\_.

- A) actual inflation is greater than expected inflation
- B) actual inflation is less than expected inflation
- C) and the inflation rate is 6 percent a year, the short-run and long-run Phillips curves intersect
- D) and the expected inflation rate is 8 percent a year, the short-run Phillips curve shifts downward

**Answer: C**

**Topic: The Short-Run Phillips Curve****Level 4: Advanced Calculations and Predictions**

185) An economy's natural rate of unemployment is 4 percent. The table above gives some points on the economy's short-run Phillips curve. Currently, real GDP equals potential GDP and the value of the GDP deflator is 125. Now, aggregate demand increases by more than expected, and the GDP deflator increases to 135. The economy's unemployment rate \_\_\_\_.

- A) remains at 4 percent
- B) increases to 6 percent
- C) increases to 5 percent
- D) decreases to 3 percent

**Answer: D**

**Topic: The Short-Run Phillips Curve****Level 4: Advanced Calculations and Predictions**

186) An economy's natural rate of unemployment is 4 percent. The table above gives some points on the economy's short-run Phillips curve. If the expected inflation rate becomes 8 percent per year, then the \_\_\_\_.

- A) short-run Phillips curve shifts upward
- B) long-run Phillips curve shifts rightward
- C) long-run Phillips curve shifts leftward
- D) short-run Phillips curve shifts downward

**Answer: A**

**Topic: The Short-Run and Long-Run Phillips Curve****Level 4: Advanced Calculations and Predictions**

- 187) If both the unemployment rate and the inflation rate decrease, you predict that \_\_\_\_.
- A) the expected inflation rate has increased
  - B) the natural rate of unemployment has decreased
  - C) the economy has moved along its short-run Phillips curve
  - D) the natural rate of unemployment has increased

**Answer: B****Topic: Interest Rates and Inflation****Level 4: Advanced Calculations and Predictions**

- 188) When the inflation rate is expected to be zero, Steve plans to lend money if the interest rate is at least 4 percent a year and Cindy plans to borrow money if the interest rate is no more than 4 percent a year. Steve and Cindy make a loan agreement for one year at an interest rate of 4 percent a year when the inflation rate is zero. But if Steve and Cindy expect an inflation rate of 1 percent a year, they would be willing to make a loan agreement at \_\_\_\_ a year.
- A) 1 percent
  - B) 4 percent
  - C) 3 percent
  - D) 5 percent

**Answer: D****Topic: Interest Rates and Inflation****Level 4: Advanced Calculations and Predictions**

- 189) When the inflation rate is expected to be zero, Steve wants to lend money if the interest rate is at least 4 percent per year, and Cindy wants to borrow money if the interest rate is no more than 4 percent per year. Steve and Cindy make a loan agreement for one year anticipating the inflation rate to be 2 percent. During the year, the inflation rate is actually 1 percent. As a result, \_\_\_\_.

- A) Steve loses
- B) Steve and Cindy both gain
- C) Cindy gains and Steve is unaffected
- D) Steve gains

**Answer: D**



## ■ Fixed Prices and Expenditure Plans

**Topic: Keynesian Model**

**Skill: Recognition\***

- 1) In the Keynesian model of aggregate expenditure, real GDP is determined by the
  - A) price level.
  - B) level of aggregate demand.
  - C) level of aggregate supply.
  - D) level of taxes.

**Answer: B**

**Topic: Keynesian Model**

**Skill: Recognition\***

- 2) The Keynesian model of aggregate expenditure assumes that
  - A) individual prices are flexible but the price level is fixed.
  - B) both individual prices and the price level are flexible.
  - C) both individual prices and the price level are fixed.
  - D) individual prices are fixed but the price level is flexible.

**Answer: C**

**Topic: Aggregate Implications of Fixed Prices**

**Skill: Recognition**

- 3) The typical firm
  - A) changes its prices frequently in response to fluctuations in aggregate demand.
  - B) lowers its prices when inventories are decreasing.
  - C) does not change its prices immediately when aggregate demand fluctuates.
  - D) lowers its prices if sales exceed production.

**Answer: C**

**Topic: Aggregate Implications of Fixed Prices**

**Skill: Conceptual**

- 4) If firms set prices and then keep them fixed for a period of time, their fixed prices imply that
  - A) the aggregate price level is fixed and that aggregate demand determines the quantity of goods and services sold.
  - B) prices are set by aggregate demand and supply.
  - C) the aggregate price level adjusts continuously.
  - D) the aggregate price level is fixed and that aggregate supply determines the quantity of goods and services sold.

**Answer: A**

**Topic: Expenditure Plans**

**Skill: Recognition**

- 5) In the very short term, which of the following is fixed and does not change when GDP changes?
  - A) Planned investment
  - B) Planned consumption
  - C) Planned imports
  - D) All of the above answers are correct

**Answer: A**

**Topic: Expenditure Plans**

**Skill: Recognition**

- 6) In the very short term, planned investment \_\_\_\_ when GDP changes and planned consumption expenditure \_\_\_\_ when GDP changes.
  - A) changes; changes.
  - B) changes; does not change
  - C) does not change; changes
  - D) does not change; does not change

**Answer: C**

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\* This is Chapter 29 in *Economics*.

**Topic: Consumption Function****Skill: Recognition**

- 7) A consumption function shows a
- negative (inverse) relationship between consumption expenditure and saving.
  - positive (direct) relationship between consumption expenditure and price level.
  - negative (inverse) relationship between consumption expenditure and disposable income.
  - positive (direct) relationship between consumption expenditure and disposable income.

**Answer: D****Topic: Consumption Function****Skill: Recognition**

- 8) Disposable income is
- income minus saving.
  - income minus net taxes.
  - income plus transfer payments minus consumption expenditure.
  - total income divided by the price level.

**Answer: B****Topic: Consumption Function****Skill: Recognition**

- 9) The consumption function relates consumption expenditure to
- the interest rate.
  - disposable income.
  - saving.
  - the price level.

**Answer: B****Topic: Consumption Function****Skill: Recognition**

- 10) The consumption function relates the consumption expenditure decisions of households to
- the level of disposable income.
  - investment decisions of firms.
  - saving decisions of households.
  - the nominal interest rate.

**Answer: A****Topic: Consumption Function****Skill: Recognition**

- 11) The graph of the consumption function has consumption expenditure on the vertical axis and
- the interest rate on the horizontal axis.
  - time on the horizontal axis.
  - disposable income on the horizontal axis.
  - the Consumer Price Index on the horizontal axis.

**Answer: C****Topic: Consumption Function****Skill: Recognition**

- 12) The slope of the consumption function is
- less than 1.
  - 1.
  - greater than 1.
  - negative.

**Answer: A****Topic: Consumption Function and the 45-Degree Line****Skill: Recognition**

- 13) The slope of the consumption function is
- less than the slope of the 45-degree line but not equal to zero.
  - greater than the slope of the 45-degree line.
  - equal to the slope of the 45-degree line.
  - equal to zero.

**Answer: A****Topic: Consumption Function****Skill: Conceptual**

- 14) A movement along the consumption function is the result of changes in
- the real interest rate.
  - disposable income.
  - expected future income.
  - All of the above answers are correct.

**Answer: B****Topic: Consumption Function****Skill: Recognition**

- 15) Which of the following variables does NOT have a direct effect of changing consumption expenditure?
- disposable income
  - wealth
  - expected future income
  - expected future profits

**Answer: D**

**Topic: Consumption Function****Skill: Conceptual**

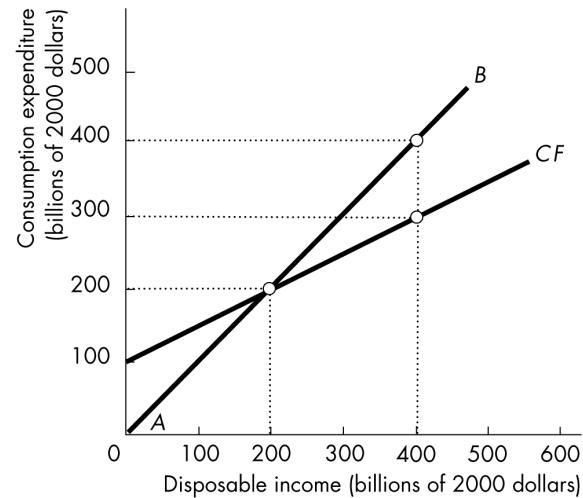
- 16) Which of the following will NOT shift the consumption function upward?
- an increase in disposable income.
  - a fall in the real interest rate.
  - an increase in wealth.
  - none of the above shift the consumption function upward.

**Answer: A****Topic: Autonomous Consumption****Skill: Recognition**

- 17) Autonomous consumption is that portion of consumption expenditure that is not influenced by
- income.
  - preferences.
  - prices.
  - the legal authorities.

**Answer: A****Topic: Autonomous Consumption****Skill: Recognition**

- 18) Autonomous consumption
- increases with income.
  - is independent of income.
  - is independent of income and must be equal to zero.
  - decreases with income.

**Answer: B****Topic: Consumption Function****Skill: Analytical**

- 19) In the above figure, consumption and disposable income are equal at
- any point along the consumption function.
  - a saving level of \$100 billion and disposable income level of \$400 billion.
  - a disposable income level of \$0.
  - a disposable income level of \$200 billion.

**Answer: D****Topic: Saving Function****Skill: Analytical**

- 20) In the above figure, at a disposable income level of \$200 billion, saving equals
- disposable income.
  - zero.
  - \$40 billion.
  - consumption expenditures.

**Answer: B****Topic: Consumption Function and the 45-Degree Line****Skill: Analytical**

- 21) In the above figure, the line *AB* is called
- the saving function.
  - the consumption function.
  - the 45-degree line.
  - the expenditure function.

**Answer: C**

**Topic: Consumption and Saving****Skill: Analytical**

- 22) When disposable income equals \$800 billion, planned consumption expenditure equals \$600 billion, and when disposable income equals \$1,000 billion, planned consumption expenditure equals \$640 billion. What is planned saving when disposable income is \$800 billion?
- \$200 billion
  - \$360 billion
  - \$560 billion
  - \$1,400 billion

**Answer: A****Topic: Saving Function****Skill: Recognition**

- 23) Dissaving occurs when a household
- spends less than it receives in disposable income.
  - spends more than it saves.
  - saves more than it spends.
  - consumes more than it receives in disposable income.

**Answer: D****Topic: Saving Function****Skill: Conceptual**

- 24) When the consumption function lies above the 45-degree line, households
- spend on consumption an increasing percentage of any increase in income.
  - spend on consumption a decreasing percentage of any increase in income.
  - are dissaving.
  - save all of any increase in income.

**Answer: C****Topic: Saving Function****Skill: Conceptual**

- 25) Saving rather than dissaving occurs at any level of disposable income at which
- the consumption function is above the 45-degree line.
  - the consumption function intersects the saving/income curve.
  - the consumption function is below the 45-degree line.
  - autonomous consumption is positive.

**Answer: C****Topic: The Saving Function****Skill: Conceptual**

- 26) A movement along the saving function occurs when
- the real interest rate rises.
  - wealth increases.
  - disposable income decreases.
  - None of the above answers is correct.

**Answer: C****Topic: Saving Function****Skill: Analytical**

- 27) When disposable income is 0, consumption is \$2000. Then
- $\text{saving} = 0$ .
  - $\text{saving} = -\$2000$ .
  - $\text{saving} = \$2000$ .
  - $\text{the } MPC = 0.2$ .

**Answer: B****Topic: The Consumption Function and the Saving Function****Skill: Conceptual**

- 28) An increase in disposable income shifts
- both the consumption and savings functions upward.
  - the consumption function upward and leads to a movement along the savings function.
  - both the consumption and savings functions downward.
  - neither the consumption function or the savings function because it leads to a movement along both the consumption and savings function.

**Answer: D****Topic: Marginal Propensity to Consume****Skill: Recognition**

- 29) What is the marginal propensity to consume?
- the ratio of the change in consumption expenditure to the change in disposable income.
  - the percentage of a given income that is consumed.
  - one minus the fraction of total disposable income that is saved.
  - the percentage of interest income consumed.

**Answer: A**

**Topic: Marginal Propensity to Consume****Skill: Conceptual**

- 30) The marginal propensity to consume measures how much
- disposable income is consumed.
  - disposable income goes to saving.
  - consumption expenditure occurs at the equilibrium income.
  - of a change in disposable income will be consumed.

**Answer: D****Topic: Marginal Propensity to Consume****Skill: Recognition**

- 31) The marginal propensity to consume is
- total consumption expenditure divided by the change in disposable income.
  - the change in consumption expenditure divided by total disposable income.
  - the change in consumption expenditure divided by the change in disposable income.
  - the change in consumption expenditure divided by total saving.

**Answer: C****Topic: Marginal Propensity to Consume****Skill: Conceptual**

- 32) The marginal propensity to consume
- is negative if dissaving is present.
  - is between 0 and 1.
  - equals 1.
  - exceeds 1.

**Answer: B****Topic: Marginal Propensity to Consume****Skill: Analytical**

- 33) If consumption expenditures for a household increase from \$1000 to \$1800 when disposable income rises from \$1000 to \$2000, the marginal propensity to consume is
- 0.8.
  - 0.5.
  - 0.3.
  - 0.2.

**Answer: A****Topic: Marginal Propensity to Consume****Skill: Analytical**

- 34) If the marginal propensity to consume is 0.8, every \$10 increase in disposable income increases
- consumption expenditure by \$0.80.
  - consumption expenditure by \$18.00.
  - saving by \$0.20.
  - consumption expenditure by \$8.00.

**Answer: D****Topic: Marginal Propensity to Save****Skill: Recognition**

- 35) The marginal propensity to save (*MPS*) is
- the increase in saving per dollar increase in disposable income.
  - total saving divided by total consumption expenditure.
  - the decrease in saving that is caused by inflation.
  - the decrease in saving per dollar increase in consumption expenditure.

**Answer: A****Topic: Marginal Propensity to Save****Skill: Recognition**

- 36) The marginal propensity to save is
- total saving divided by total disposable income.
  - total saving divided by the change in disposable income.
  - the change in saving divided by the change in consumption expenditure.
  - the change in saving divided by the change in disposable income.

**Answer: D****Topic: Marginal Propensity to Save****Skill: Recognition**

- 37) The marginal propensity to save
- is negative if dissaving is present.
  - is between 0 and 1.
  - equals 1.
  - exceeds 1.

**Answer: B**

Disposable income (thousands of dollars)	Consumption expenditure (thousands of dollars)
200	225
300	300
400	375
500	450

**Topic: The Consumption Function and the Saving Function****Skill: Analytical**

- 38) According to the data in the above table, at what level of disposable income is savings negative?
- A) 200.  
B) 300.  
C) 400.  
D) Never because saving cannot be negative.

**Answer: A****Topic: Marginal Propensity to Consume****Skill: Analytical**

- 39) According to the data in the above table, what is the marginal propensity to consume?
- A) 75.  
B) 100.  
C) 0.75.  
D) 1.

**Answer: C**

Disposable income (dollars)	Consumption expenditure (dollars)
100	225
200	300
300	375
400	450
500	525
600	600

**Topic: Saving Function****Skill: Analytical**

- 40) Using the above table, if disposable income is \$400, saving is
- A) -\$50.  
B) \$0.  
C) \$50.  
D) \$100.

**Answer: A****Topic: Marginal Propensity to Consume****Skill: Analytical**

- 41) Using the data in above table, the marginal propensity to consume is
- A) increasing as disposable income increases.  
B) equal to 1.0 when disposable income equals \$600.  
C) constant at 0.75.  
D) constant at 0.25.

**Answer: C****Topic: Marginal Propensity to Save****Skill: Analytical**

- 42) Using the data from the above table, the marginal propensity to save is
- A) falling as disposable income is rising.  
B) 0 when disposable income is \$600.  
C) constant at 0.25.  
D) constant at 0.75.

**Answer: C****Topic: Marginal Propensities to Consume and Save****Skill: Conceptual**

- 43) For a household, the marginal propensity to save plus the marginal propensity to consume
- A) equals 1.  
B) equals 0.  
C) equals a number that is larger the larger the household's disposable income.  
D) equals a number that is smaller the larger the household's disposable income.

**Answer: A****Topic: Marginal Propensities to Consume and Save****Skill: Conceptual**

- 44) The marginal propensity to consume equals 1 minus the
- A) marginal propensity to invest.  
B) marginal propensity to save.  
C) marginal propensity to import.  
D) marginal propensity to pay taxes.

**Answer: B**

**Topic: Slopes and Marginal Propensities****Skill: Analytical**

- 45) If an increase in a household's disposable income from \$10,000 to \$12,000 boosts its consumption expenditure from \$8,000 to \$9,000, the
- household is dissaving.
  - slope of the consumption function is 0.2
  - slope of the consumption function is 0.5
  - slope of the consumption function is 1000.

**Answer: C****Topic: Shifts in the Consumption Function, Real Interest Rate****Skill: Analytical**

- 46) If the real interest rate rises, the consumption function
- shifts upward.
  - shifts downward.
  - is unaffected.
  - has a steeper slope.

**Answer: B****Topic: Shifts in the Consumption Function, Real Interest Rate****Skill: Analytical**

- 47) If the real interest rate falls, the consumption function
- shifts upward.
  - shifts downward.
  - is unaffected.
  - has a flatter slope.

**Answer: A****Topic: Shifts in the Consumption Function, Wealth****Skill: Analytical**

- 48) If wealth increases, the consumption function
- shifts upward.
  - shifts downward.
  - is unaffected.
  - has a steeper slope.

**Answer: A****Topic: Shifts in the Consumption Function, Wealth****Skill: Analytical**

- 49) If wealth decreases, the consumption function
- shifts upward.
  - shifts downward.
  - is unaffected.
  - has a steeper slope.

**Answer: B****■ Real GDP with a Fixed Price Level****Topic: Aggregate Planned Expenditure****Skill: Recognition**

- 50) Read the two statements below and indicate if they are true or false.
- Autonomous expenditures change when GDP changes.
  - Aggregate planned expenditure is the sum of planned consumption expenditure, investment, government purchases, and net exports.
- I and II are both true.
  - I and II are both false.
  - I is true and II is false
  - I is false and II is true.

**Answer: D****Topic: Aggregate Expenditure Curve****Skill: Conceptual**

- 51) The curve that relates the level of total planned expenditure to the level of real GDP is the
- equilibrium GDP curve.
  - consumption function.
  - dissavings function.
  - aggregate expenditure curve.

**Answer: D****Topic: Aggregate Expenditure Curve****Skill: Recognition**

- 52) The graph of the aggregate expenditure curve has \_\_\_\_ on the  $y$ -axis and \_\_\_\_ on the  $x$ -axis.
- real GDP; aggregate planned expenditure
  - aggregate actual expenditure; real GDP
  - household expenditures; real GDP
  - aggregate planned expenditure; real GDP

**Answer: D****Topic: Aggregate Expenditure Curve****Skill: Recognition**

- 53) The slope of the aggregate expenditure curve equals the change in
- planned expenditure divided by the change in real GDP.
  - autonomous expenditure divided by the change in real GDP.
  - government expenditure divided by the change in real GDP.
  - real GDP divided by the change in planned expenditure.

**Answer: A**

**Topic: Aggregate Expenditure Curve****Skill: Conceptual**

- 54) The slope of the aggregate expenditure curve is
- 0.
  - greater than 0 and less than 1.
  - 1.
  - greater than 1.

**Answer: B****Topic: Induced Expenditure****Skill: Conceptual**

- 55) As a nation's GDP increases, that nation's
- autonomous consumption increases.
  - autonomous consumption decreases.
  - exports increase.
  - imports increase.

**Answer: D****Topic: Induced Expenditure****Skill: Recognition**

- 56) Any expenditure component that depends on the level of real GDP is called
- spurious expenditure.
  - equilibrium expenditure.
  - induced expenditure.
  - autonomous expenditure.

**Answer: C****Topic: Induced Expenditure****Skill: Conceptual**

- 57) A change in imports caused by rising U.S. incomes is
- an increase in autonomous expenditure.
  - a decrease in autonomous expenditure.
  - an increase in induced exports.
  - a change in induced expenditure.

**Answer: D****Topic: Autonomous Expenditure****Skill: Conceptual**

- 58) Autonomous expenditure is not influenced by
- the price level.
  - the interest rate.
  - real GDP.
  - any other variable.

**Answer: C****Topic: Autonomous Expenditure****Skill: Recognition**

- 59) Expenditure that does NOT depend on real GDP is called
- spurious expenditure.
  - equilibrium expenditure.
  - induced expenditure.
  - autonomous expenditure.

**Answer: D****Topic: Autonomous Expenditure****Skill: Recognition**

- 60) Autonomous expenditure refers to
- aggregate expenditure solely prompted by policy.
  - changes in short-run aggregate supply.
  - aggregate expenditure that varies because of changes in factors other than real GDP.
  - aggregate expenditure that varies because of changes in real GDP.

**Answer: C****Topic: Autonomous Expenditure****Skill: Recognition**

- 61) All else being constant, autonomous expenditure
- increases as real GDP increases.
  - increases as real GDP decreases.
  - does not change with changes in real GDP.
  - is assumed to be zero.

**Answer: C****Topic: Autonomous Expenditure****Skill: Conceptual**

- 62) Which of the following are included in autonomous expenditure?
- investment
  - government purchases
  - autonomous consumption expenditure
  - All of the above.

**Answer: D****Topic: Autonomous Expenditure****Skill: Recognition**

- 63) An increase in U.S. exports because of increasing foreign incomes is \_\_\_\_ in the United States.
- an increase in autonomous expenditure
  - a decrease in autonomous expenditure
  - an increase in induced expenditure
  - a decrease in induced expenditure

**Answer: A**

**Topic: Autonomous Expenditure****Skill: Recognition**

- 64) An increase in investment by U.S. firms that is intended to maintain U.S. competitiveness in world markets is \_\_\_\_ in the United States.
- an increase in autonomous expenditure
  - a decrease in autonomous expenditure
  - an increase in induced expenditure
  - a decrease in induced expenditure

**Answer: A****Topic: Autonomous Expenditure****Skill: Recognition**

- 65) Which of the following is NOT an autonomous expenditure in the aggregate expenditures model?
- investment
  - government purchases
  - imports
  - exports

**Answer: C****Topic: Autonomous Expenditure****Skill: Recognition**

- 66) Which of the following variables is NOT assumed to be completely autonomous in the aggregate expenditure model?
- investment
  - government purchases of goods and services
  - exports
  - imports

**Answer: D****Topic: Autonomous Expenditure****Skill: Conceptual**

- 67) A decrease in autonomous consumption will
- shift the aggregate expenditure function downward.
  - decrease the marginal propensity to save.
  - shift the consumption function upward.
  - change the slope of the consumption function.

**Answer: A****Topic: Convergence to Equilibrium****Skill: Conceptual**

- 68) Which of the following statements is correct?
- Actual aggregate expenditures does not always equal real GDP.
  - Planned investment exceeds actual investment when real GDP is greater than aggregate planned expenditures.
  - Actual investment exceeds planned investment when real GDP is less than aggregate planned expenditures.
  - None of the above are correct.

**Answer: D****Topic: Convergence to Equilibrium****Skill: Conceptual**

- 69) If prices are fixed, if aggregate planned expenditure exceeds real GDP, then
- inventories decrease, signaling firms to increase production and increase real GDP.
  - inventories increase, signaling firms to decrease production and decrease real GDP.
  - profits fall, signaling firms to decrease production and decrease real GDP.
  - None of the above answers are correct.

**Answer: A****Topic: Convergence to Equilibrium****Skill: Conceptual**

- 70) If aggregate planned expenditures are less than real GDP then
- the economy remains in disequilibrium until aggregate planned expenditures increase to the level of real GDP.
  - firms must increase their planned expenditures until aggregate planned expenditures increase to the level of real GDP.
  - firms' inventories will increase and real GDP will decrease as production falls.
  - firms' inventories will decrease and real GDP will decrease as production falls.

**Answer: C**

**Topic: Convergence to Equilibrium****Skill: Conceptual**

- 71) When investment is below planned investment, aggregate planned expenditure is \_\_\_\_ than actual aggregate expenditure and inventories are \_\_\_\_ than planned.
- greater; greater
  - greater; less
  - less; greater
  - less; less

**Answer: B****Topic: Convergence to Equilibrium****Skill: Conceptual**

- 72) When investment exceeds planned investment, aggregate planned expenditure is \_\_\_\_ than actual aggregate expenditure and inventories are \_\_\_\_ than planned.
- greater; greater
  - greater; less
  - less; greater
  - less; less

**Answer: C****Topic: Convergence to Equilibrium****Skill: Conceptual**

- 73) In the *AE* model, when aggregate output (real GDP) is greater than aggregate planned expenditure,
- unplanned inventories are being accumulated.
  - inventories are being depleted.
  - inventories are not being changed.
  - this cannot happen, because the two variables are always equal.

**Answer: A****Topic: Equilibrium Expenditure****Skill: Recognition**

- 74) Equilibrium expenditure is defined as the level of aggregate expenditure where
- actual aggregate expenditure equals real GDP.
  - total inventories equal zero.
  - aggregate planned expenditure equals real GDP.
  - spending equals output.

**Answer: C****Topic: Equilibrium Expenditure****Skill: Conceptual**

- 75) When the economy is in equilibrium,
- planned investment equals actual investment.
  - planned savings will equal zero.
  - there can be no unemployment.
  - changes in autonomous spending will have no impact on national income.

**Answer: A****Topic: Equilibrium Expenditure****Skill: Conceptual**

- 76) Equilibrium expenditure occurs where the aggregate expenditure curve crosses the
- 45-degree line.
  - horizontal axis.
  - vertical axis.
  - consumption function.

**Answer: A**

Real GDP	C	I	G	NX
2500	1430	540	400	90
2400	1360	540	400	100
2300	1290	540	400	110
2200	1220	540	400	120
2100	1150	540	400	130

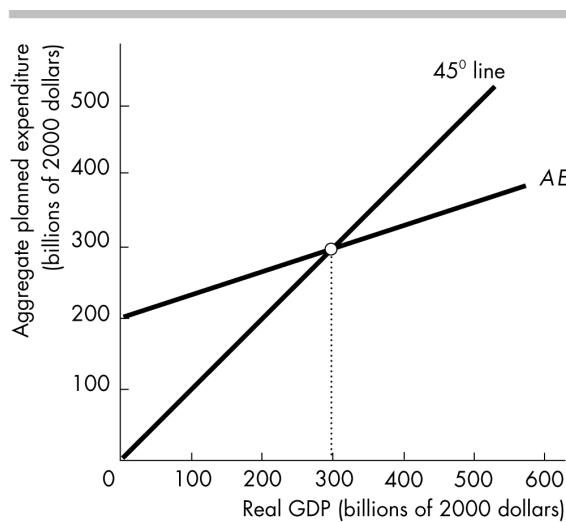
**Topic: Equilibrium Expenditure****Skill: Analytic**

- 77) In the above table, *C* is consumption expenditure, *I* is investment, *G* is government purchases, and *NX* is net exports. All entries are in dollars. The equilibrium level of real GDP is
- \$2,500.
  - \$2,400.
  - \$2,300.
  - \$2,200.

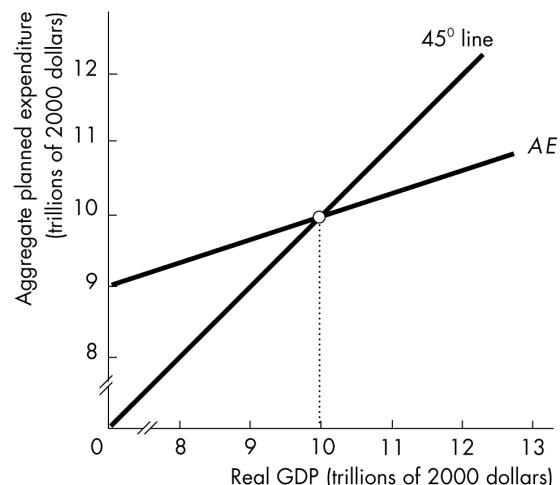
**Answer: B****Topic: Slope of the AE Curve****Skill: Analytic**

- 78) In the above table, *C* is consumption expenditure, *I* is investment, *G* is government purchases, and *NX* is net exports. All entries are in dollars. The slope of the aggregate expenditure function is
- 0.10.
  - 0.10.
  - 0.60.
  - 0.70.

**Answer: C**

**Topic: Actual Expenditure and Planned Expenditure****Skill: Analytical**

- 82) In the above figure, if real GDP is greater than \$300 billion, inventories will be
- below target levels so firms increase production.
  - below target levels so firms decrease production.
  - above target levels so firms increase production.
  - above target levels so firms decrease production.

**Answer: D****Topic: Equilibrium Expenditure****Skill: Analytical**

- 83) In the above figure, equilibrium expenditure is
- less than \$10 trillion.
  - \$10 trillion.
  - more than \$10 trillion.
  - some amount that cannot be determined without more information.

**Answer: B****Topic: Autonomous Expenditure****Skill: Analytical**

- 80) In the above figure, autonomous expenditure is
- \$100 billion.
  - \$200 billion.
  - \$300 billion.
  - some amount not given in the above answers.

**Answer: B****Topic: Actual Expenditure and Planned Expenditure****Skill: Analytical**

- 81) In the above figure, if real GDP is below \$300 billion, inventories will be
- below target levels, so firms increase production.
  - below target levels, so firms decrease production.
  - above target levels, so firms increase production.
  - above target levels, so firms decrease production.

**Answer: A****Topic: Actual Expenditure and Planned Expenditure****Skill: Analytical**

- 84) In the above figure, if the level of real GDP is \$11 trillion,
- inventories are above the levels planned by firms.
  - inventories are below the levels planned by firms.
  - inventories equal the levels planned by firms.
  - planned expenditures are zero.

**Answer: A**

**Topic: Actual Expenditure and Planned Expenditure****Skill: Analytical**

- 85) In the above figure, if the level of real GDP is \$9 trillion,
- inventories are above the levels planned by firms.
  - inventories are below the levels planned by firms.
  - inventories equal the levels planned by firms.
  - planned expenditures are zero.

**Answer: B****Topic: Actual Expenditure and Planned Expenditure****Skill: Conceptual**

- 86) When aggregate planned expenditure is less than actual real GDP, unplanned
- consumption expenditure occurs.
  - investment occurs.
  - government purchases are made.
  - exports are made.

**Answer: B****Topic: Actual Expenditure and Planned Expenditure****Skill: Conceptual**

- 87) The difference between planned and unplanned spending is \_\_\_\_.
- always negative
  - inventories
  - unplanned changes in inventories
  - always positive

**Answer: C****Topic: Actual Expenditure and Planned Expenditure****Skill: Conceptual**

- 88) When there is unplanned inventory investment, aggregate planned expenditure is \_\_\_\_ real GDP and actual investment is \_\_\_\_ planned investment.
- greater than; greater than
  - greater than; less than
  - less than; greater than
  - less than; less than

**Answer: C****Topic: Actual Expenditure and Planned Expenditure****Skill: Conceptual**

- 89) Actual expenditure might differ from planned expenditure because
- actual consumption expenditure differs from planned consumption expenditure.
  - actual investment differs from planned investment.
  - actual government purchases differ from planned government purchases.
  - actual net exports differ from planned net exports.

**Answer: B****Topic: Actual Expenditure and Planned Expenditure****Skill: Analytical**

- 90) If real GDP is \$2 billion and planned aggregate expenditure is \$2.25 billion, inventories will
- be depleted and output will increase.
  - be depleted and output will decrease.
  - pile up and output will decrease.
  - pile up and output will increase.

**Answer: A****■ The Multiplier****Topic: The Multiplier Effect****Skill: Conceptual**

- 91) The multiplier effect occurs because
- changes in price levels affect our willingness to invest, consume, import and export.
  - an autonomous change in expenditure causes an induced change in consumption expenditure.
  - of government stabilization policies.
  - of income taxes.

**Answer: B****Topic: The Multiplier Effect****Skill: Conceptual**

- 92) The multiplier effect exists because a change in autonomous expenditure
- leaves the economy in the form of imports.
  - leads to identical changes in income, which generate further spending.
  - prompts further exports.
  - will undergo its complete effect in one round.

**Answer: B**

**Topic: The Multiplier Effect****Skill: Conceptual**

- 93) In the short run, with fixed prices and no imports and no income taxes, a decrease in investment
- decreases real GDP by the same amount.
  - decreases real GDP by a smaller amount.
  - decreases real GDP by a larger amount.
  - increases real GDP because of the increase in induced expenditures.

**Answer: C****Topic: The Multiplier Effect****Skill: Recognition**

- 94) If prices are fixed, an increase in aggregate expenditures results in an increase in equilibrium GDP that
- is greater than the change in aggregate expenditure.
  - is equal to the change in aggregate expenditure.
  - is less than the change in aggregate expenditure.
  - has no necessary relationship to the size of the change in aggregate expenditure.

**Answer: A****Topic: The Multiplier****Skill: Recognition**

- 95) When prices are fixed and there are no imports or income taxes, the value of the multiplier is
- less than one.
  - greater than one.
  - equal to one.
  - equal to zero.

**Answer: B****Topic: The Multiplier Effect****Skill: Recognition**

- 96) The change in aggregate spending that is created by a change in real GDP is the basis of the
- law of diminishing returns.
  - multiplier.
  - one-third rule.
  - government budget deficit.

**Answer: B****Topic: The Multiplier Effect****Skill: Conceptual**

- 97) Because of the multiplier, a one-time change in expenditure will
- have little secondary effect on income.
  - expand income by an infinite amount.
  - generate more additional income than the initial change in expenditure.
  - decrease saving and investment activity and future income.

**Answer: C****Topic: The Multiplier Effect****Skill: Conceptual**

- 98) The multiplier is greater than 1 because
- most households are unable to save.
  - household spending exceeds income.
  - one person's spending becomes another's income.
  - corporate spending exceeds corporate income.

**Answer: C****Topic: The Multiplier and the MPC****Skill: Conceptual**

- 99) The multiplier is larger if the
- marginal propensity to consume is larger.
  - marginal propensity to save is larger.
  - income tax rate is higher.
  - marginal propensity to import is larger.

**Answer: A****Topic: The Multiplier and the MPC****Skill: Conceptual**

- 100) The larger the *MPC*, the
- larger the value of the multiplier.
  - smaller the value of the multiplier.
  - less likely that the multiplier will be affected.
  - more likely that the multiplier will be inconsequential.

**Answer: A**

**Topic: The Multiplier****Skill: Conceptual**

101) The expenditure multiplier equal to

- A)  $APC - APS$  where  $APC$  is the average propensity to consume and  $APS$  is the average propensity to save.
- B)  $1/MPS$  where  $MPS$  is the marginal propensity to save.
- C)  $MPC - MPS$  where  $MPC$  is the marginal propensity to consume and  $MPS$  is the marginal propensity to consume.
- D)  $1/APS$  where  $APS$  is the average propensity to save.

**Answer: B**

**Topic: The Multiplier****Skill: Analytical**

102) If investment increases by \$300 and, in response, equilibrium aggregate expenditure increases by \$600, the multiplier is

- A) 0.2.
- B) 0.5.
- C) 2.
- D) 5.

**Answer: C**

**Topic: The Multiplier and the MPC****Skill: Analytical**

103) If there are no income taxes or imports, the multiplier equals

- A)  $1/(1 - \text{marginal propensity to consume})$ .
- B)  $1/(1 - \text{marginal propensity to save})$ .
- C)  $1/(1 - \text{marginal propensity to import})$ .
- D)  $1/(1 - \text{marginal propensity to invest})$ .

**Answer: A**

**Topic: The Multiplier****Skill: Analytical**

104) If there are no taxes or imports and  $MPC=0.67$ , the multiplier is

- A) 1.5.
- B) 3.
- C) 6.
- D) 0.33.

**Answer: B**

**Topic: The Multiplier****Skill: Analytical**

105) If there are no taxes or imports and  $MPC=0.75$ , the multiplier equals

- A) 0.25.
- B) 1.33.
- C) 4.0.
- D) 6.0.

**Answer: C**

**Topic: The Multiplier****Skill: Analytical**

106) If there are no taxes or imports and  $MPC=0.5$ , the multiplier equals

- A) 0.5.
- B) 5.0.
- C) 6.0.
- D) 2.0.

**Answer: D**

**Topic: The Multiplier****Skill: Analytical**

107) Suppose that in 2002 the economy has an  $MPC$  of 0.67 and in 2003 the  $MPC$  changes to 0.8. Which of the following best describes what happens to the multiplier?

- A) It rises from 3 to 5.
- B) It falls from 5 to 3.
- C) It rises from 1.25 to 1.49.
- D) It falls from 1.49 to 1.25.

**Answer: A**

**Topic: The Multiplier****Skill: Analytical**

108) Suppose that  $MPC = 0.75$  and there are no taxes or imports. Then a \$100 increase in autonomous spending causes equilibrium expenditure to

- A) decrease by \$400.
- B) increase by \$400.
- C) decrease by \$750.
- D) increase by \$750.

**Answer: B**

**Topic: The Multiplier****Skill: Analytical**

- 109) Suppose that the  $MPC = 0.75$  and there are no taxes or imports. Then a \$100 decrease in autonomous spending causes equilibrium expenditure to
- decrease by \$400.
  - increase by \$400.
  - decrease by \$750.
  - increase by \$750.

**Answer: A****Topic: The Multiplier****Skill: Analytical**

- 110) Suppose the  $MPC = 0.67$  and there are no taxes or imports. Then a \$100 decrease in autonomous spending causes equilibrium expenditure to
- decrease by \$200.
  - increase by \$200.
  - decrease by \$300.
  - increase by \$300.

**Answer: C****Topic: The Multiplier****Skill: Analytical**

- 111) Suppose the  $MPC = 0.67$  and there are no taxes or imports. Then a \$100 increase in autonomous spending causes equilibrium expenditure to
- decrease by \$200.
  - increase by \$200.
  - decrease by \$300.
  - increase by \$300.

**Answer: D****Topic: The Multiplier****Skill: Analytical**

- 112) Suppose the marginal propensity to consume is equal to 0.8 and there are no income taxes or imports. If prices remain constant and government purchases increase by \$10 billion, what will be the change in real GDP?
- \$8 billion
  - \$2 billion
  - \$10 billion
  - \$50 billion

**Answer: D****Topic: The Multiplier****Skill: Quantitative**

- 113) Given an  $MPC$  of 0.6, if there are no income taxes or imports, the value of the multiplier is
- 2.5.
  - 0.4.
  - 1.67.
  - 4.0.

**Answer: A****Topic: The Multiplier****Skill: Analytical**

- 114) If the value of the multiplier is 3.33 and there are no imports or income taxes, then the value of the
- $MPC$  is 0.7.
  - $MPS$  is 0.3.
  - Both of the above answers are correct.
  - None of the above answers are correct.

**Answer: C****Topic: The Multiplier****Skill: Analytical**

- 115) Given an  $MPC$  of 0.80, if there are no income taxes or imports and prices are constant, then when investment increases by \$50 million, equilibrium GDP would
- increase by \$50 million.
  - increase by \$250 million.
  - increase by \$400 million.
  - To answer the question more information on income is needed.

**Answer: B****Topic: The Multiplier****Skill: Analytical**

- 116) In a simple economy in which prices are constant and with no income taxes or imports, the marginal propensity to save is 0.2. If exports increase \$50, what impact will that have on aggregate expenditure?
- increase by \$250
  - increase by \$100
  - decrease by \$250
  - decrease by \$100

**Answer: A**

**Topic: Slope of the Aggregate Expenditure Curve and The Multiplier****Skill: Conceptual**

- 117) In general, the steeper the aggregate expenditure curve, the
- greater autonomous expenditure.
  - lower the marginal propensity to consume.
  - larger the multiplier.
  - smaller the multiplier.

**Answer: C****Topic: Slope of the Aggregate Expenditure Curve and The Multiplier****Skill: Conceptual**

- 118) In general, the flatter the aggregate expenditure curve, the
- greater the autonomous expenditure.
  - larger the marginal propensity to consume.
  - larger the multiplier.
  - smaller the multiplier.

**Answer: D**

Real GDP (trillions of 2000 dollars)	Aggregate expenditure (trillions of 2000 dollars)
0	0.3
1.0	1.2
2.0	2.1
3.0	3.0
4.0	3.9
5.0	4.8

**Topic: Autonomous Expenditure****Skill: Analytical**

- 119) The data in the above table indicate that autonomous expenditure is
- \$0.3 trillion.
  - \$3.0 trillion.
  - \$4.8 trillion.
  - None of the above answers is correct.

**Answer: A****Topic: Equilibrium Expenditure****Skill: Analytical**

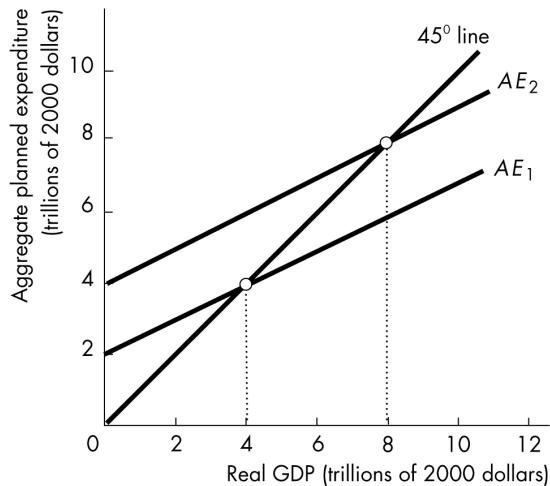
- 120) In the above table, equilibrium expenditure is
- \$0.3 trillion.
  - \$3.0 trillion.
  - \$4.8 trillion.
  - None of the above answers are correct.

**Answer: B****Topic: Slope of the Aggregate Expenditure Curve and The Multiplier****Skill: Analytical**

- 121) The data in the above table indicate that the slope of the  $AE$  curve is
- 0.30.
  - 0.50.
  - 0.90.
  - None of the above answers are correct.

**Answer: C****Topic: The Multiplier****Skill: Analytical**

- 122) In the above table, suppose investment decreases by \$0.1 trillion. The multiplier equals
- 5.0.
  - 9.0.
  - 10.0.
  - None of the above answers are correct.

**Answer: C****Topic: Autonomous Expenditure****Skill: Analytical**

- 123) In the above figure, autonomous expenditure along  $AE_1$  equals
- \$2 trillion.
  - \$4 trillion.
  - \$8 trillion.
  - an amount not given in the above answers.

**Answer: A**

**Topic: Autonomous Expenditure****Skill: Analytical**

- 124) In the above figure, autonomous expenditure along  $AE_2$  equals
- \$2 trillion.
  - \$4 trillion.
  - \$8 trillion.
  - an amount not given in the above answers.

**Answer: B****Topic: Equilibrium Expenditure****Skill: Analytical**

- 125) In the above figure, equilibrium expenditure along  $AE_2$  is
- \$2 trillion.
  - \$4 trillion.
  - \$8 trillion.
  - an amount not given in the above answers.

**Answer: C****Topic: Equilibrium Expenditure****Skill: Analytical**

- 126) In the above figure, equilibrium expenditure along  $AE_1$  is
- \$2 trillion.
  - \$4 trillion.
  - \$8 trillion.
  - an amount not given in the above answers.

**Answer: B****Topic: Slope of the Aggregate Expenditure Curve and The Multiplier****Skill: Analytical**

- 127) In the above figure, the multiplier is
- 1.5.
  - 2.0.
  - 2.5.
  - 3.0.

**Answer: B****Topic: Slope of the Aggregate Expenditure Curve and The Multiplier****Skill: Analytical**

- 128) The presence of income taxes and imports cause the slope of the aggregate expenditure curve to be
- the same as it would be without income taxes and exports.
  - steeper than it would be without income taxes and exports.
  - flatter than it would be without income taxes and exports.
  - probably different than it would be without income taxes and exports but income taxes make it steeper while imports make it flatter.

**Answer: C****Topic: Slope of the Aggregate Expenditure Curve****Skill: Conceptual**

- 129) The relationship between net exports and GDP makes the slope of the aggregate expenditure curve
- flatter than it would be otherwise.
  - steeper than it would be otherwise.
  - neither flatter nor steeper than it would be otherwise.
  - steeper at low levels of GDP and flatter at high levels of GDP.

**Answer: A****Topic: The Multiplier and Income Taxes****Skill: Conceptual**

- 130) Imports
- increase the size of the multiplier because imports make disposable income less than real GDP.
  - decrease the size of the multiplier because spending on imports does not increase real GDP in the domestic nation.
  - increase the size of the multiplier because imports are paid for by exports.
  - decrease the size of the multiplier because imports lead to an increase in taxes and government purchases.

**Answer: B**

**Topic: The Multiplier, Imports, and Income Taxes****Skill: Conceptual**

131) Which of the following will affect the size of the multiplier?

- I. marginal propensity to import
  - II. marginal propensity to consume
  - III. marginal income tax rate
- A) I only  
 B) II only  
 C) I and II only  
 D) I, II, and III

**Answer: D****Topic: The Multiplier, Imports, and Income Taxes****Skill: Analytical**

132) The presence of income taxes and imports cause the multiplier to

- A) fall in value but remain positive.  
 B) rise in value.  
 C) not change in value.  
 D) become negative.

**Answer: A****Topic: The Multiplier and Business Cycle Turning Points****Skill: Conceptual**

133) Business cycle turning points are

- A) unaffected by, and unrelated to the multiplier.  
 B) easy to predict.  
 C) brought about by changes in autonomous expenditures that are then subject to the multiplier effect.  
 D) None of the above are correct.

**Answer: C****Topic: The Multiplier and Business Cycle Turning Points****Skill: Conceptual**

134) Which of the following does NOT occur as the economy moves from an expansion to a recession?

- A) An initial decrease in autonomous spending is the trigger that creates the business cycle turning point.  
 B) The change in planned spending exceeds the change in real GDP.  
 C) The multiplier process reinforces any decrease in spending and pushes the economy into recession.  
 D) Incomes fall during recessions as firms cut production in response to unplanned increases in inventories.

**Answer: B****Topic: The Multiplier and Business Cycle Turning Points****Skill: Conceptual**

135) Which of the following is incorrect?

- A) Expansions usually begin with an increase in autonomous spending.  
 B) Firms experience unplanned decreases in inventories as expansions begin.  
 C) Firms increase production in response to unplanned decreases in inventories.  
 D) The multiplier dampens the increase in income that occurs during expansions and brings the economy to a new equilibrium GDP.

**Answer: D****■ The Multiplier and the Price Level****Topic: Aggregate Demand Curve and the Price Level****Skill: Recognition**

136) The wealth effect of an increase in the price level results from a

- A) change in the price of current goods relative to future goods.  
 B) change in the purchasing power of assets.  
 C) change in the price of foreign goods relative to domestic goods.  
 D) Both answers B and C are correct.

**Answer: B**

**Topic: Aggregate Demand Curve and the Price Level****Skill: Recognition**

- 137) The intertemporal substitution effect of a change in the price level results from a
- change in the price of current goods relative to future goods.
  - change in the purchasing power of wealth.
  - change in the price of foreign goods relative to domestic goods.
  - Both answers B and C are correct.

**Answer: A****Topic: Aggregate Demand Curve and the Price Level****Skill: Recognition**

- 138) The international substitution effect of a change in the price level results from a
- change in the price of current goods relative to future goods.
  - change in the purchasing power of wealth.
  - change in the price of foreign goods relative to domestic goods.
  - Both answers B and C are correct.

**Answer: C****Topic: AE Curve, AD Curve, and the Price Level****Skill: Conceptual**

- 139) Because the short-run aggregate expenditure model assumes that the price level is \_\_\_\_, its predicted effect of changes in autonomous expenditure on equilibrium output is \_\_\_\_ than the prediction of the AD/SAS model.
- fixed; greater
  - fixed; less
  - flexible; greater
  - flexible; less

**Answer: A****Topic: AE Curve, AD Curve, and the Price Level****Skill: Conceptual**

- 140) A fall in the price level
- shifts the aggregate expenditure curve upward and increases the quantity of real GDP demanded.
  - shifts the aggregate demand curve rightward and increases equilibrium GDP.
  - decreases aggregate planned expenditures and shifts the aggregate demand curve leftward.
  - shifts both the aggregate expenditures curve and aggregate demand curve upward.

**Answer: A****Topic: AE Curve, AD Curve, and the Price Level****Skill: Conceptual**

- 141) Any change in the price level will result in a
- shift in the *AE* curve and a movement along the *AD* curve.
  - movement along the *AE* curve and a shift of the *AD* curve.
  - shift in the *AE* and *AD* curves in the same direction.
  - shift in the *AE* and *AD* curves in opposite directions.

**Answer: A****Topic: AE Curve, AD Curve, and the Price Level****Skill: Conceptual**

- 142) If the price level increases, the *AE* curve shifts
- upward and the *AD* curve shifts leftward.
  - downward and the *AD* curve shifts rightward.
  - upward and we move along the *AD* curve.
  - downward and we move along the *AD* curve.

**Answer: D****Topic: Aggregate Expenditure and the Price Level****Skill: Conceptual**

- 143) An increase in the price level decreases planned expenditure because
- real wealth decreases, thus decreasing consumption expenditure.
  - current prices rise relative to future prices, increasing consumption expenditure.
  - domestic prices rise relative to foreign prices, increasing net exports.
  - the real interest rate rises, increasing consumption expenditure.

**Answer: A**

**Topic: Aggregate Expenditure and the Price Level****Skill: Conceptual**

- 144) An increase in the price level decreases planned expenditures because
- real wealth increases, decreasing consumption expenditure.
  - current prices rise relative to future prices, decreasing consumption expenditure.
  - domestic prices rise relative to foreign prices, increasing net exports.
  - the real interest rate rises, increasing consumption expenditure.

**Answer: B****Topic: Aggregate Demand****Skill: Conceptual**

- 145) When autonomous expenditure changes, the horizontal distance by which the aggregate demand curve shifts
- depends on the size of the multiplier.
  - depends on the size of the wealth effect.
  - is accentuated by automatic stabilizers.
  - is determined by the inverse of the multiplier.

**Answer: A****Topic: Change in Aggregate Demand****Skill: Conceptual**

- 146) In general, a decrease in autonomous expenditure that is NOT caused by a price change results in a
- rightward shift of the  $AD$  curve.
  - movement upward along the  $AD$  curve.
  - movement downward along the  $AD$  curve.
  - leftward shift of the  $AD$  curve.

**Answer: D****Topic: Change in Aggregate Demand****Skill: Conceptual**

- 147) In general, an increase in autonomous expenditure that is NOT created by a price change results in a
- rightward shift of the  $AD$  curve.
  - movement upward along the  $AD$  curve.
  - movement downward along the  $AD$  curve.
  - leftward shift of the  $AD$  curve.

**Answer: A****Topic: Long-Run Multiplier****Skill: Conceptual**

- 148) After an increase in autonomous spending, in the long run, changes in the price level
- will make the  $AE$  curve steeper.
  - will make the  $AE$  curve flatter.
  - will reduce the effect of the multiplier.
  - will not affect the multiplier.

**Answer: C****Topic: Long-Run Multiplier****Skill: Conceptual**

- 149) In the long run, the multiplier
- is greater than 1 because of the position and slope of the  $SAS$  curve.
  - is twice the short-run multiplier.
  - is 0.
  - depends on the slope of the  $AD$  curve.

**Answer: C****■ The Algebra of the Multiplier****Topic: The Algebra of the Multiplier****Skill: Analytical**

- 150) If  $AE = 50 + 0.6Y$  and  $Y = 200$ , where  $Y$  is real GDP, inventories
- increases are 75 above their target level.
  - increases are 30 above their target level.
  - decreases are 75 below their target level.
  - decreases are 30 below their target level.

**Answer: B****Topic: The Algebra of the Multiplier****Skill: Analytical**

- 151) If  $AE = 150 + 0.6Y$  and  $Y = 200$ , where  $Y$  is real GDP, inventories are
- accumulating 75 above their target.
  - accumulating 30 above their target.
  - falling 70 below their target.
  - falling 30 below their target.

**Answer: C**

Consumption expenditure:	$C = 8 + 0.7Y$
Investment:	$I = 5$
Government purchases:	$G = 7$
Exports:	$X = 10$
Imports:	$M = 0.2Y$

**Topic: The Algebra of the Multiplier****Skill: Analytical**

152) The equations above describe the economy of La La Land. What is the equation for the aggregate expenditure curve?

- A)  $AE = 13 + 0.5Y$ .
- B)  $AE = 30 - 0.5Y$ .
- C)  $AE = 30 + 0.5Y$ .
- D)  $AE = 30 + 0.9Y$ .

**Answer: C****Topic: The Algebra of the Multiplier****Skill: Analytical**

153) The equations above describe the economy of La La Land. What is the equilibrium level of expenditure?

- A) 60.
- B) 90.
- C) 30.
- D) 29.

**Answer: A****Topic: The Algebra of the Multiplier****Skill: Analytical**

154) The equations above describe the economy of La La Land. What is the equilibrium level of consumption expenditure?

- A) 50.
- B) 60.
- C) 40.
- D) None of the above answers are correct.

**Answer: A**

Consumption function:  $C = 600 + 0.8Y$

Aggregate expenditure function:  $AE = 1000 + 0.5Y$

**Topic: The Algebra of the Multiplier****Skill: Analytical**

155) Based on the two equations above, autonomous aggregate expenditure is

- A) 0.8.
- B) 600.
- C) 1,000.
- D) 0.5.

**Answer: C****Topic: The Algebra of the Multiplier****Skill: Analytical**

156) Based on the two equations above, the marginal propensity to consume is

- A) 0.8.
- B) 600.
- C) 1,000.
- D) 0.5.

**Answer: A****Topic: The Algebra of the Multiplier****Skill: Analytical**

157) Based on the two equations above, the slope of the aggregate expenditure curve is

- A) 0.8.
- B) 600.
- C) 1,000.
- D) 0.5.

**Answer: D****Topic: The Algebra of the Multiplier****Skill: Analytical**

158) Based on the two equations above, equilibrium expenditure is

- A) 1,000.
- B) 1,600.
- C) 2,000.
- D) 3,000.

**Answer: C****■ Study Guide Questions****Topic: Study Guide Question, Consumption Function****Skill: Conceptual**

159) Consumption expenditure decreases when \_\_\_\_\_ decreases.

- A) the interest rate
- B) the price level
- C) disposable income
- D) saving

**Answer: C**

**Topic: Study Guide Question, Shifts in the Consumption Function****Skill: Conceptual**

- 160) Which of the following conditions shifts the consumption function upward?
- A decrease in current disposable income.
  - A decrease in future expected income.
  - An increase in wealth.
  - A decrease in wealth.

**Answer: C****Topic: Study Guide Question, Consumption Function and Saving Function****Skill: Conceptual**

- 161) A decrease in expected future income \_\_\_\_ consumption expenditure and \_\_\_\_ saving.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer: C****Topic: Study Guide Question, Autonomous Expenditure****Skill: Conceptual**

- 162) A decrease in autonomous expenditure shifts the *AE* curve
- downward and leaves its slope unchanged.
  - downward and makes it steeper.
  - downward and makes it flatter.
  - upward and makes it steeper.

**Answer: A****Topic: Study Guide Question, The Multiplier Effect****Skill: Analytical**

- 163) If investment increases by \$150 and, in response, equilibrium expenditure rises by \$600,
- the multiplier is 0.25.
  - the multiplier is 4.0.
  - the *MPC* is 4.
  - the slope of the *AE* curve is 3.0.

**Answer: B****Topic: Study Guide Question, Aggregate Demand and the Price Level****Skill: Conceptual**

- 164) A fall in the price level shifts the *AE* curve \_\_\_\_ and \_\_\_\_ equilibrium expenditure.
- upward; increases
  - upward; decreases
  - downward; increases
  - downward; decreases

**Answer: A****Topic: Study Guide Question, The Multiplier and Aggregate Demand****Skill: Analytical**

- 165) If the multiplier is 4.0 and, owing to a decrease in expected future profit, investment decreases by \$2.5 billion, the *AD* curve
- shifts rightward by \$10 billion.
  - shifts rightward by less than \$10 billion.
  - shifts leftward by \$10 billion.
  - shifts leftward by more than \$30 billion.

**Answer: C****Topic: Study Guide Question, Short-Run Multiplier****Skill: Analytical**

- 166) The multiplier is 2.5 and the *SAS* curve is upward sloping. Investment increases by \$20 billion. In the short run, equilibrium real GDP will
- increase by \$50 billion.
  - increase by less than \$50 billion.
  - decrease by \$50 billion.
  - decrease by less than \$50 billion.

**Answer: B****Topic: Study Guide Question, Long-Run Multiplier****Skill: Analytical**

- 167) Say that the multiplier is 5.0 and investment increases by \$30 billion. If potential real GDP is unaffected, in the long run, equilibrium real GDP will
- increase by \$50 billion.
  - increase by more than \$50 billion.
  - increase by less than \$50 billion.
  - not change.

**Answer: D**

## ■ MyEconLab Questions

### Topic: Expenditure Plans

#### Level I: Definitions and Concepts

- 168) The sum of planned consumption expenditure, planned investment, planned government purchases, and planned net exports is \_\_\_\_.
- aggregate expenditure
  - real GDP
  - aggregate planned expenditure
  - the expenditure approach to real GDP

**Answer: C**

### Topic: Consumption Function

#### Level I: Definitions and Concepts

- 169) The consumption function is the relationship between consumption expenditure and \_\_\_\_, other things remaining the same.
- potential GDP
  - disposable income
  - saving
  - the 45 degree line

**Answer: B**

### Topic: Marginal Propensity to Consume

#### Level I: Definitions and Concepts

- 170) The marginal propensity to consume is the \_\_\_\_.
- fraction of total disposable income consumed
  - fraction of GDP consumed
  - fraction of a change in disposable income that is consumed.
  - total amount of disposable income consumed

**Answer: C**

### Topic: Slopes and Marginal Propensities

#### Level I: Definitions and Concepts

- 171) The marginal propensity to save is \_\_\_\_.
- always greater than the marginal propensity to consume
  - equal to the slope of the saving function
  - equal to 1 plus the slope of the consumption function
  - equal to the inverse of the marginal propensity to consume

**Answer: B**

### Topic: Marginal Propensity to Import

#### Level I: Definitions and Concepts

- 172) The marginal propensity to import is the \_\_\_\_ that is spent on imports.
- fraction of an increase in real GDP
  - total amount of real GDP
  - total amount of potential GDP
  - fraction of an increase in potential GDP

**Answer: A**

### Topic: Autonomous Expenditures

#### Level I: Definitions and Concepts

- 173) The part of aggregate planned expenditure that does not vary with real GDP \_\_\_\_.
- equals equilibrium expenditure
  - is autonomous expenditure
  - is induced expenditure
  - equals zero

**Answer: B**

### Topic: Induced Expenditures

#### Level I: Definitions and Concepts

- 174) Induced expenditure includes \_\_\_\_.
- induced consumption and government purchases
  - induced consumption expenditure plus imports
  - autonomous expenditure
  - induced consumption expenditure minus imports

**Answer: B**

### Topic: Equilibrium Expenditure

#### Level I: Definitions and Concepts

- 175) All of the following statements about equilibrium expenditure are true EXCEPT \_\_\_\_.
- aggregate planned expenditure equals real GDP
  - actual investment is less than planned investment
  - aggregate planned expenditure equals actual aggregate expenditure
  - unplanned inventory investment is zero

**Answer: B**

**Topic: The Multiplier****Level 1: Definitions and Concepts**

- 176) The multiplier is the amount by which \_\_\_\_ is multiplied to determine \_\_\_\_.
- autonomous expenditure; real GDP
  - induced expenditure; real GDP
  - the change in autonomous expenditure; the change in equilibrium expenditure
  - the change in induced expenditure; the change in equilibrium expenditure

**Answer: C****Topic: The Multiplier****Level 1: Definitions and Concepts**

- 177) The multiplier is greater than 1 because the change in autonomous expenditure leads to \_\_\_\_.
- more investment
  - more saving
  - less consumption expenditure
  - more induced expenditure

**Answer: D****Topic: Slopes and Marginal Propensities****Level 2: Using Definitions and Concepts**

- 178) Which of the following events will make the consumption function steeper?
- An increase in disposable income
  - An increase in real GDP
  - An increase in the marginal propensity to consume
  - An increase in unplanned inventory investment

**Answer: C****Topic: Consumption Function****Level 2: Using Definitions and Concepts**

- 179) There is a movement along the consumption function shifts if there is \_\_\_\_.
- an increase in autonomous consumption
  - a decrease in the real interest rate
  - an increase in the expected future income
  - an increase in disposable income

**Answer: D****Topic: Slopes and Marginal Propensities****Level 2: Using Definitions and Concepts**

- 180) If the slope of a saving function is 0.27, then the marginal propensity to \_\_\_\_.
- import is less than 0.27
  - save is 0.73
  - consume is 0.73
  - consume is 0.27

**Answer: C****Topic: Consumption Function****Level 2: Using Definitions and Concepts**

- 181) An increase in expected future income \_\_\_\_.
- decreases consumption expenditure
  - increases saving
  - shifts the consumption function upward
  - shifts the saving function upward

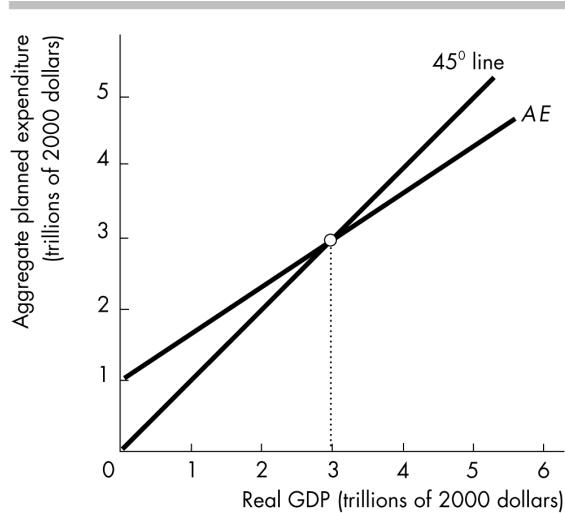
**Answer: C****Topic: Saving Function****Level 2: Using Definitions and Concepts**

- 182) As disposable income increases, there is a \_\_\_\_ the saving function.
- leftward shift of the
  - movement along
  - rightward shift of
  - change in the slope of

**Answer: B****Topic: Aggregate Expenditure Curve****Level 2: Using Definitions and Concepts**

- 183) As autonomous expenditure decreases, \_\_\_\_.
- the  $AE$  curve shifts downward
  - there is a movement down along the  $AE$  curve
  - the  $AE$  curve becomes less steep
  - the  $AE$  curve shifts upward

**Answer: A**

**Topic: Actual Expenditure and Planned Expenditure****Level 2: Using Definitions and Concepts**

- 184) The figure shows Tropical Isle's aggregate planned expenditure curve. When aggregate planned expenditure is 4 trillion dollars, aggregate planned expenditure is \_\_\_\_ than real GDP, firms' inventories \_\_\_\_, and firms \_\_\_\_ their production.

- A) greater; increase; decrease
- B) less; decrease; increase
- C) less; increase; decrease
- D) greater; decrease; increase

**Answer: D****Topic: The Multiplier****Level 2: Using Definitions and Concepts**

- 185) Suppose the price level is fixed. If investment increases by \$1 million, and in response equilibrium expenditure increases by \$10 million, then \_\_\_\_\_.

- A) the slope of the  $AE$  curve is 0.1.
- B) the multiplier is 10.0.
- C) the multiplier is 0.1.
- D) both the marginal propensity to consume and the multiplier are 0.1.

**Answer: B****Topic: The Multiplier****Level 2: Using Definitions and Concepts**

- 186) The larger the marginal propensity to save, \_\_\_\_.
- A) the greater is the value of the multiplier
  - B) the smaller is slope of the saving function
  - C) the steeper is the consumption function
  - D) the smaller is the value of the multiplier

**Answer: D****Topic: AE, AD, and the Price Level****Level 2: Using Definitions and Concepts**

- 187) An increase in \_\_\_\_ shifts the  $AE$  curve \_\_\_\_ and an increase in \_\_\_\_ shifts the aggregate demand curve \_\_\_\_.

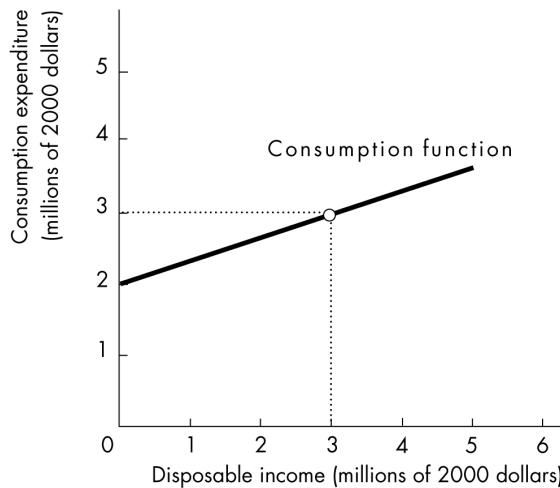
- A) autonomous expenditure; upward; the price level; leftward
- B) the price level; downward; autonomous expenditure; rightward
- C) the price level; upward; autonomous expenditure; leftward
- D) autonomous expenditure; upward; the price level; rightward

**Answer: B****Topic: Consumption and Saving****Level 3: Calculations and Predictions**

- 188) Disposable income is \$6 billion and planned saving is \$2 billion. What is the value of planned consumption expenditure?

- A) \$8 billion
- B) 0.33
- C) 0.67
- D) \$4 billion

**Answer: D**

**Topic: Slopes and Marginal Propensities****Level 3: Calculations and Predictions**

189) The figure above illustrates an economy's consumption function. What is the marginal propensity to consume in this economy?

- A) 0.67
- B) 1.00
- C) 0.75
- D) 0.33

**Answer: A**

**Topic: Slopes and Marginal Propensities****Level 3: Calculations and Predictions**

190) The figure above illustrates an economy's consumption function. What is the marginal propensity to save in this economy?

- A) 0.67
- B) 1.00
- C) 0.75
- D) 0.33

**Answer: D**

**Topic: Consumption Function****Level 3: Calculations and Predictions**

191) The figure above illustrates an economy's consumption function. What is autonomous consumption in this economy?

- A) \$0
- B) \$2 million
- C) \$3 million
- D) None of the above answers is correct.

**Answer: B**

**Topic: Actual Expenditure and Planned Expenditure****Level 3: Calculations and Predictions**

192) Real GDP equals \$20 billion and aggregate planned expenditure is \$30 billion. There is an unplanned \_\_\_\_ in inventories of \_\_\_\_ and real GDP will \_\_\_\_.

- A) increase; \$10 billion; increase
- B) increase; \$50 billion; decrease
- C) decrease; \$10 billion; increase
- D) decrease; \$10 billion; decrease

**Answer: C**

**Topic: The Multiplier****Level 3: Calculations and Predictions**

193) If a \$75 billion increase in autonomous expenditure increases equilibrium expenditure by \$150 billion, then the multiplier is \_\_\_\_.

- A) \$225 billion
- B) 0.625
- C) \$75 billion
- D) 2

**Answer: D**

**Topic: The Multiplier and the MPS****Level 3: Calculations and Predictions**

194) An economy has no imports and no taxes. The marginal propensity to save is 0.1. A \_\_\_\_ increase in autonomous expenditure increases equilibrium expenditure by \$60 billion and the multiplier is \_\_\_\_.

- A) \$60 billion; 5
- B) \$60 billion; 10
- C) \$12 billion; 5
- D) \$6 billion; 10

**Answer: D**

**Topic: Slope of the Aggregate Expenditure Curve****Level 3: Calculations and Predictions**

195) The slope of the aggregate expenditure curve increases when the marginal propensity to consume \_\_\_\_ or the marginal propensity to import \_\_\_\_.

- A) increases; decreases
- B) decreases; increases
- C) decreases; decreases
- D) increases; increases

**Answer: A**

**Topic: The Multiplier and Business Cycles****Level 3: Calculations and Predictions**

- 196) You observe that unplanned inventories are increasing. You predict that there will be \_\_\_\_.
- a business cycle
  - an expansion
  - a trough
  - a recession

**Answer: D****Topic: Long-Run Multiplier****Level 3: Calculations and Predictions**

- 197) When the economy is at full employment and investment increases, the price level will \_\_\_\_ and in the long run real GDP will \_\_\_\_.
- increase; increase
  - decrease; not change
  - decrease; decrease
  - increase; not change

**Answer: D**

Real GDP	<i>C</i>	<i>I</i>	<i>G</i>
0	0.3	0.4	0.5
1	1.0	0.4	0.5
2	1.7	0.4	0.5
3	2.4	0.4	0.5
4	3.1	0.4	0.5
5	3.8	0.4	0.5
6	4.5	0.4	0.5
7	5.2	0.4	0.5

**Topic: Equilibrium Expenditure****Level 4: Advanced Calculations and Predictions**

- 198) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. Equilibrium expenditure occurs when real GDP equals \_\_\_\_.
- \$2 billion
  - \$3 billion
  - \$4 billion
  - \$5 billion

**Answer: C****Topic: Slope of the Aggregate Expenditure Curve****Level 4: Advanced Calculations and Predictions**

- 199) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. Autonomous expenditure is \_\_\_\_ and the slope of the aggregate expenditure curve is \_\_\_\_.
- \$1.2 billion; 0.7
  - \$2.4 billion; 0.3
  - zero; 0.3
  - \$3 billion; 0.7

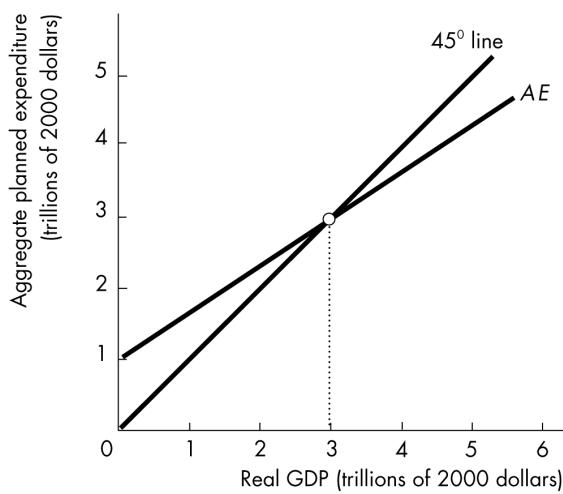
**Answer: A****Topic: Slope of the Aggregate Expenditure Curve and The Multiplier****Level 4: Advanced Calculations and Predictions**

- 200) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. If investment increases by \$0.3 billion, equilibrium expenditure increases to \_\_\_\_ and the multiplier is \_\_\_\_.
- \$3 billion;  $-10/3$
  - \$4 billion; 0
  - \$5 billion;  $5/3$
  - \$5 billion;  $10/3$

**Answer: D****Topic: The Multiplier****Level 4: Advanced Calculations and Predictions**

- 201) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. The multiplier is \_\_\_\_, and for equilibrium expenditure to decrease by \$1 billion, autonomous expenditure must decrease by \_\_\_\_.
- 3.3; \$0.3 billion
  - 1; \$1 billion
  - 0.3; \$0.3 billion
  - zero; \$1 billion

**Answer: A**

**Topic: Actual Expenditure and Planned Expenditure****Level 4: Advanced Calculations and Predictions**

- 202) The figure above shows the economy of Tropical Isle. The price level is 100. When aggregate planned expenditure equals \$2 trillion seashells, aggregate planned expenditure is \_\_\_\_ than real GDP, there is an unplanned \_\_\_\_ in inventories, and real GDP will \_\_\_\_.

- A) less; decrease; increase
- B) greater; increase; decrease
- C) less; increase; decrease
- D) greater; decrease; increase

**Answer: D****Topic: The Aggregate Expenditure Curve****Level 4: Advanced Calculations and Predictions**

- 203) An increase in autonomous expenditure will \_\_\_\_ the aggregate expenditure curve and an increase in the marginal propensity to save will \_\_\_\_ the aggregate expenditure curve, all other things remaining the same.
- A) shift; shift
  - B) shift; decrease the slope of
  - C) increase the slope of; shift
  - D) increase the slope of; decrease the slope of

**Answer: B****Topic: Slope of the Aggregate Expenditure Curve and The Multiplier****Level 4: Advanced Calculations and Predictions**

- 204) The \_\_\_\_ the marginal propensity to save, the \_\_\_\_ is the slope of the aggregate expenditure curve and the \_\_\_\_ is the multiplier.

- A) larger; greater; larger
- B) larger; greater; smaller
- C) larger; lower; larger
- D) smaller; greater; larger

**Answer: D****Topic: The Multiplier****Level 4: Advanced Calculations and Predictions**

- 205) The multiplier is 2. A decrease in investment of \$6 billion will shift the aggregate demand curve \_\_\_\_ by \_\_\_\_.

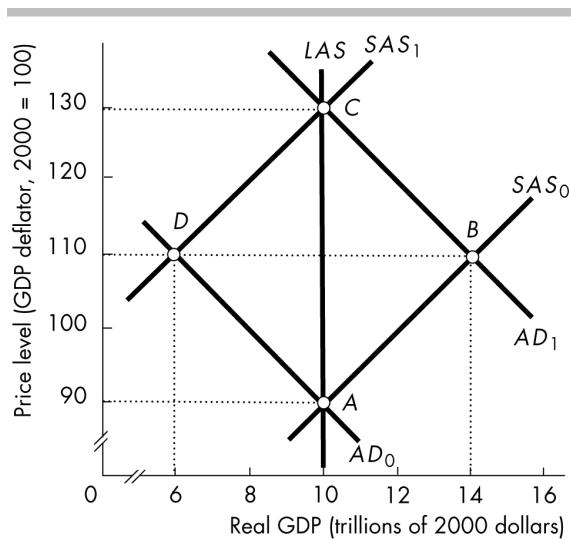
- A) leftward; \$3 billion
- B) leftward; \$12 billion
- C) rightward; \$3 billion
- D) rightward; \$12 billion

**Answer: B****Topic: The Multiplier and the Price Level****Level 4: Advanced Calculations and Predictions**

- 206) The multiplier is 2. If investment decreases by \$6 billion and the SAS curve slopes upward, then in the short run, real GDP will decrease by \_\_\_\_.

- A) \$12 billion
- B) less than \$12 billion
- C) more than \$12 billion
- D) None of the above answers is correct because real GDP will increase.

**Answer: B**



**Topic: Long-Run Multiplier**

**Level 4: Advanced Calculations and Predictions**

207) An economy is at point *A* in the figure. Investment increases. The economy will move to point \_\_\_\_ in the short run and to point \_\_\_\_ in the long run.

- A) D; C
- B) D; A
- C) B; C
- D) B; A

**Answer: C**



## ■ Cycle Patterns, Impulses, and Mechanisms

**Topic: Business Cycle Patterns****Skill: Recognition**

- 1) A business cycle is
  - A) the downward trend in real GDP.
  - B) an irregular fluctuation in real GDP about its trend.
  - C) the trend increase in real GDP.
  - D) a periodic and predictable fluctuation in real GDP about its trend.

**Answer: B****Topic: Business Cycle Patterns****Skill: Recognition**

- 2) The precise dating of expansions, recessions and turning points in the business cycle is done by the
  - A) Bureau of Economic Activity.
  - B) National Bureau of Economic Research.
  - C) Conference Board.
  - D) Federal Reserve Board.

**Answer: B****Topic: Business Cycle Patterns****Skill: Recognition**

- 3) Since 1920, the average length of a recession has been about \_\_\_\_ and the average length of an expansion has been about \_\_\_\_.
  - A) 1 month; 4 years
  - B) 6 months; 3 years
  - C) 1 year; 4 years
  - D) 18 months; 3 years

**Answer: C****Topic: Business Cycle Patterns****Skill: Recognition**

- 4) According to the National Bureau of Economic Research, since 1920 the average length of recessions has been approximately
  - A) one year.
  - B) a year and a half.
  - C) two years.
  - D) four years.

**Answer: A****Topic: Business Cycle Patterns****Skill: Recognition**

- 5) Which of the following statements regarding business cycles is correct?
  - A) Expansions and recessions are about equal in length
  - B) The average length of a recession is just over one year
  - C) Between 1920 and 2003 there have been 10 recessions
  - D) In recent years, business cycle expansions have been getting shorter in duration

**Answer: B****Topic: Business Cycle Patterns****Skill: Recognition**

- 6) Measured by duration, the longest business cycle expansion occurred during the
  - A) 1930s.
  - B) 1960s.
  - C) 1980s.
  - D) 1990s.

**Answer: D**

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\* This is Chapter 30 in *Economics*.

**Topic: Business Cycle Patterns****Skill: Recognition**

- 7) Which one of the following statements concerning business cycles is NOT correct?
- Between 1920 and 2003 there have been more than 10 business cycle expansions.
  - The longest business cycle expansion occurred after 1980.
  - Between 1920 and 2003 there have been more than 10 business cycle recessions.
  - The three longest business cycle recessions have all occurred since 1960.

**Answer: D****Topic: Business Cycle Patterns****Skill: Recognition**

- 8) The average length of recessions has been \_\_\_\_, while the average length of expansions has been \_\_\_\_.
- 2 years; 2 years
  - 4 years; 1 year
  - 1 year; 4 years
  - 4 years; 4 years

**Answer: C****Topic: Business Cycle Patterns****Skill: Recognition**

- 9) Which of the following are true regarding business cycles?
- The National Bureau of Economic Research (NBER) officially identifies phases of the business cycle.
  - Expansions last, on average, four years.
  - Recessions, on average, last for no more than six months.
- I only.
  - I and II.
  - II and III.
  - I, II and III.

**Answer: B****Topic: Business Cycle Patterns****Skill: Conceptual**

- 10) Since 1920, the average peak to trough decline in real GDP during a recession has been about
- 1 percent.
  - 6 percent.
  - 10 percent.
  - 20 percent.

**Answer: B****Topic: Business Cycle Patterns****Skill: Recognition**

- 11) According to the National Bureau of Economic Research, since 1920 the average drop in real GDP during recessions has been approximately
- 2 percent.
  - 6 percent.
  - 10 percent.
  - 13 percent.

**Answer: B****Topic: Business Cycle Patterns****Skill: Recognition**

- 12) During the Great Depression, real GDP fell by
- 50 percent.
  - 33 percent.
  - 20 percent.
  - 13 percent.

**Answer: B****Topic: Business Cycle Patterns****Skill: Recognition**

- 13) Which of the following periods has shown the greatest variation of real GDP across recessions and expansions, that is, in which period were the business cycles the most severe?
- 1910s-1920s.
  - 1930s-1940s.
  - 1950s-1960s.
  - 1970s-1980s.

**Answer: B****Topic: Cycle Impulses and Mechanisms****Skill: Recognition**

- 14) A business cycle impulse is the
- economic event that ends a business cycle fluctuation.
  - economic event that begins a business cycle fluctuation.
  - mechanism that causes a cycle to continue.
  - policy response to the actions of the public that start a business cycle.

**Answer: B****Topic: Cycle Impulses and Mechanisms****Skill: Recognition**

- 15) A business cycle mechanism
- ends business cycle fluctuations.
  - starts business cycle fluctuations.
  - eliminates the effects of economic shocks.
  - transmits economic shocks to the economy.

**Answer: D**

**Topic: Role of Investment and Capital****Skill: Recognition**

- 16) Which of the following correctly describes recessions?
- I. Recessions, on average, last one year.
  - II. Declines in investment in new capital trigger recessions.
  - III. Recessions are easily predictable.
- I only.
  - III only.
  - I and II.
  - II and III.

**Answer: C****Topic: Role of Investment and Capital****Skill: Recognition**

- 17) When shocks hit the economy, the variable they tend to affect the most is
- consumption expenditure.
  - investment.
  - government purchases of goods and services.
  - net exports.

**Answer: B****Topic: Role of Investment and Capital****Skill: Recognition**

- 18) The various business cycle theories agree that the crucial variable affected by shocks to the economy is
- consumption expenditure.
  - government expenditure.
  - investment expenditure.
  - net exports.

**Answer: C****Topic: Role of Investment and Capital****Skill: Recognition**

- 19) Which of the following describes economists' abilities to forecast or explain the business cycle?
- Economists are very successful in forecasting when recessions will start.
  - Economists are very successful in forecasting when recessions will end.
  - Economists agree that consumption plays an important role in predicting recessions.
  - Economists agree that increases in investment precede an economic expansion.

**Answer: D****Topic: Role of Investment and Capital****Skill: Recognition**

- 20) Economists generally agree that
- consumption expenditure, but not capital accumulation, drives business cycles.
  - increasing returns to capital plays an important role in new capital investment.
  - capital and investment play an important role in driving the business cycle.
  - investment usually increases at the beginning of a recession.

**Answer: C****Topic: Role of Investment and Capital****Skill: Recognition**

- 21) As the capital stock increases, the profit rate falls because of the
- law of demand.
  - laws of the market.
  - law of diminishing returns.
  - laws of production.

**Answer: C****Topic: Role of Investment and Capital****Skill: Recognition**

- 22) Which component of expenditure plays a central role in the business cycle?
- Consumption expenditure
  - Government purchases
  - Investment
  - Net Exports

**Answer: C****Topic: Role of Investment and Capital****Skill: Conceptual**

- 23) The capital stock and the profit rate are \_\_\_\_\_ related because of the \_\_\_\_\_.
- negatively; law of production
  - negatively; law of diminishing returns
  - positively; law of production
  - positively; law of diminishing returns

**Answer: B****Topic: Role of Investment and Capital****Skill: Recognition**

- 24) At the start of a recession, investment typically
- decreases because of low profits.
  - decreases because of low interest rates.
  - increases because prices decrease.
  - increases to take advantage of "down time."

**Answer: A**

**Topic: Role of Investment and Capital****Skill: Recognition**

- 25) During a recession, investment is
- high and the capital stock grows rapidly.
  - low and the capital stock grows rapidly.
  - high and the capital stock grows slowly.
  - low and the capital stock grows slowly.

**Answer: D****Topic: Role of Investment and Capital****Skill: Conceptual**

- 26) In a recession,
- investment is low and the capital stock grows quickly.
  - investment is low and the capital stock grows slowly.
  - investment is high and consumption is low.
  - consumption is high and government spending is low.

**Answer: B****Topic: Role of Investment and Capital****Skill: Recognition**

- 27) During an expansion investment is
- high and the capital stock grows rapidly.
  - low and the capital stock grows rapidly.
  - high and the capital stock grows slowly.
  - low and the capital stock grows slowly.

**Answer: A****Topic: Role of Investment and Capital****Skill: Recognition**

- 28) Which of the following is TRUE regarding shocks to the economy?
- In an expansion, investment speeds up.
  - Investment in new capital slows during a recession.
  - Diminishing returns to capital occurs during an expansion.
- I and II.
  - I and III.
  - II and III.
  - I, II and III.

**Answer: D****■ Aggregate Demand Theories of the Business Cycle****Topic: Aggregate Demand Theories of the Business Cycle****Skill: Recognition**

- 29) The \_\_\_\_\_ theory is considered a(n) \_\_\_\_\_ theory of the business cycle?

- Monetarist; real business cycle
- Keynesian; aggregate demand
- Rational expectations; supply side
- New Keynesian; supply side

**Answer: B****Topic: Aggregate Demand Theories of the Business Cycle****Skill: Recognition**

- 30) According to \_\_\_\_\_ the business cycle is the result of shifts in the economy's AD curve.

- the Keynesian theory only
- only the Keynesian and monetarist theories
- the Keynesian, monetarist, and real business cycle theories
- the Keynesian, monetarist, and rational expectations theories

**Answer: D****Topic: Aggregate Demand Theories of the Business Cycle****Skill: Recognition**

- 31) Which of the following is a theory that economists use to describe the business cycle?

- Contractionary/expansionary model.
- Keynesian model.
- Circular flow model.
- Impulse model.

**Answer: B****Topic: Aggregate Demand Theories of the Business Cycle****Skill: Recognition**

- 32) Business cycle events that arise solely from aggregate demand shifts are emphasized by the

- Keynesian and real business cycle theories.
- monetarist and real business cycle theories.
- Keynesian and monetarist theories.
- none of the major theories.

**Answer: C**

**Topic: Aggregate Demand Theories of the Business Cycle**

**Skill: Recognition**

- 33) Which of the following is NOT an aggregate demand theory of the business cycle?
- Keynesian theory
  - Monetarist theory
  - Rational expectations theory
  - Real business cycle theory

**Answer: D**

**Topic: Keynesian Theory**

**Skill: Conceptual**

- 34) In the Keynesian business cycle theory, business cycles begin with changes in
- inflation expectations.
  - consumer sentiment.
  - business expectations about sales and profits.
  - the public's expectations about Fed policies.

**Answer: C**

**Topic: Keynesian Theory**

**Skill: Conceptual**

- 35) In the Keynesian business cycle theory, business cycle impulses are
- expectations about government policy.
  - firms' expectations about sales and profits.
  - consumers' expectations about future income.
  - the public's expectations about Fed policies.

**Answer: B**

**Topic: Keynesian Theory**

**Skill: Recognition**

- 36) Keynes used the term "animal spirits" to refer to the
- animalistic behavior of investors.
  - irrational behavior of financial markets.
  - business leaders' volatility of expected sales and profits.
  - all of the above.

**Answer: C**

**Topic: Keynesian Theory**

**Skill: Recognition**

- 37) Which theory emphasizes frequent changes in investment because of "animal spirits" as the main source of economic fluctuations?
- Real business cycle theory.
  - Rational expectations theory.
  - Keynesian theory.
  - Monetarist theory.

**Answer: C**

**Topic: Keynesian Theory**

**Skill: Recognition**

- 38) The impulse in the Keynesian theory of the business cycle is
- the growth rate of the quantity of money.
  - changes in government spending.
  - the real interest rate.
  - expected future sales and profits.

**Answer: D**

**Topic: Keynesian Theory**

**Skill: Conceptual**

- 39) One model of the business cycle claims that volatile expectations about future sales and profits are the primary impulse in starting a business cycle. This model is the
- real business cycle model.
  - Keynesian theory.
  - aggregate supply model.
  - circular flow model.

**Answer: B**

**Topic: Keynesian Theory**

**Skill: Conceptual**

- 40) Which theory maintains that the main impulse of a business cycle is expectations of future sales and profits?
- Keynesian theory
  - Monetarist theory
  - Rational expectations theory, both new classical and new Keynesian
  - Real business cycle theory

**Answer: A**

**Topic: Keynesian Theory**

**Skill: Recognition**

- 41) The impulse that leads to business cycle events within Keynesian theory is
- the growth rate in labor productivity.
  - the growth rate in the quantity of money.
  - adverse shocks to international trade.
  - expected future sales and profits of firms.

**Answer: D**

**Topic: Keynesian Theory****Skill: Conceptual**

- 42) Which theory assumes that business cycles occur because of changes in expected future sales and profits?
- Monetarist theory.
  - Rational expectations theory.
  - New classical theory.
  - Keynesian theory.

**Answer: D****Topic: Keynesian Theory****Skill: Conceptual**

- 43) Suppose that managers forecasted a large decline in expected sales and profits. According to the \_\_\_\_\_, this forecast is an impulse that may start a business cycle.
- Keynesian model
  - circular flow model
  - real business cycle model
  - aggregate supply model

**Answer: A****Topic: Keynesian Theory****Skill: Conceptual**

- 44) In the Keynesian business cycle theory, the short-run aggregate supply curve is assumed to
- be vertical.
  - be horizontal.
  - have a positive slope.
  - have a negative slope.

**Answer: B****Topic: Keynesian Theory****Skill: Conceptual**

- 45) Because the Keynesian business cycle theory proposes a(n) \_\_\_\_\_ short-run aggregate supply curve, a decrease in aggregate demand results in \_\_\_\_\_.
- horizontal; the price level rising
  - vertical; the price level rising
  - horizontal; no change in the price level
  - upward sloping; the price level falling

**Answer: C****Topic: Keynesian Theory****Skill: Conceptual**

- 46) Which of the following are main elements of Keynesian business cycle theory?
- Sticky wages.
  - Horizontal short-run aggregate supply curve.
  - Horizontal long-run aggregate supply curve.
- I.
  - I and II.
  - II and III.
  - I, II, and III.

**Answer: B****Topic: Keynesian Theory****Skill: Conceptual**

- 47) All of the following are key elements in the Keynesian theory of the business cycle EXCEPT
- volatile expectations.
  - animal spirits.
  - a sticky money wage rate.
  - growth rate of productivity.

**Answer: D****Topic: Keynesian Theory****Skill: Recognition**

- 48) Which of the following describes the Keynesian approach to the business cycle?
- Unanticipated shocks to aggregate supply drive expansions and recessions.
  - The Keynesian theory is a real business cycle model of the economy.
  - A decrease in expected sales can trigger a recession.
- I only.
  - III only.
  - I and II.
  - II and III.

**Answer: B**

**Topic: Keynesian Theory****Skill: Recognition**

- 49) According to the Keynesian theory of the business cycle, an increase in \_\_\_\_ will trigger a business cycle by creating \_\_\_\_.
- forecasted profits; a leftward shift in the aggregate supply curve
  - growth rate of the quantity of money; a leftward shift in the aggregate supply curve
  - forecasted sales; a rightward shift in the aggregate demand curve
  - expectations of future sales; rightward shift in the long-run aggregate supply curve

**Answer: C****Topic: Keynesian Theory****Skill: Recognition**

- 50) According to the Keynesian business cycle theory, which component of aggregate demand is most volatile and hence the primary source of the business cycle?
- Consumption spending
  - Investment spending
  - Government spending
  - Net exports

**Answer: B****Topic: Keynesian Theory****Skill: Recognition**

- 51) Evidence indicates that a recession occurs at about the same time as a decrease in investment. According to the Keynesian theory, a decrease in investment is attributable to
- a fall in animal spirits.
  - a decline in the growth rate of productivity.
  - a decline in the growth rate of the quantity of money.
  - intertemporal substitution in working decisions.

**Answer: A****Topic: Keynesian Theory****Skill: Conceptual**

- 52) According to the Keynesian theory of the business cycle, a(n)
- decrease in profit expectations will decrease investment only and will not change real GDP or consumption expenditure.
  - decrease in profit expectations will decrease investment, real GDP and consumption expenditures.
  - increase in profit expectations will increase investment only and will not change real GDP or consumption expenditure.
  - decrease in sales expectations will affect the price level and not real GDP.

**Answer: B****Topic: Keynesian Theory****Skill: Recognition**

- 53) Which of the following business cycle theories stress the “multiplier effect?”
- The Real Business Cycle model.
  - The Monetarist Model
  - The Keynesian Model
- I only.
  - III only.
  - I and II.
  - I and III.

**Answer: B****Topic: Keynesian Theory****Skill: Conceptual**

- 54) In Keynesian business cycle theory, the business cycle mechanism is the multiplier and a
- vertical aggregate demand curve.
  - vertical short-run aggregate supply curve.
  - horizontal short-run aggregate supply curve.
  - horizontal aggregate demand curve.

**Answer: C**

**Topic: Keynesian Theory****Skill: Conceptual**

- 55) In Keynesian business cycle theory, the money wage rate
- never changes.
  - rises when unemployment is less than the natural rate but does not change if unemployment exceeds the natural rate.
  - rises when unemployment is less than the natural rate and falls if unemployment exceeds the natural rate.
  - does not change if unemployment is less than the natural rate but falls if unemployment exceeds the natural rate.

**Answer: B****Topic: Keynesian Theory****Skill: Conceptual**

- 56) Using the Keynesian model to describe the business cycle, the model predicts the
- money wage rate increases during a recession.
  - money wage rate increases during an expansion.
  - the price level decreases during an expansion.
  - money wage rate decreases during an expansion.

**Answer: B****Topic: Keynesian Theory****Skill: Conceptual**

- 57) In Keynesian business cycle theory, money wage rates \_\_\_\_ when aggregate demand decreases so that GDP is less than potential GDP and money wage rates \_\_\_\_ when aggregate demand increases so that GDP exceeds potential GDP.
- do not fall; rise
  - fall; rise
  - fall; do not change
  - rise; fall

**Answer: A****Topic: Keynesian Theory****Skill: Conceptual**

- 58) According to Keynesian theory, an inflationary gap during which real GDP exceeds potential GDP will
- self-correct through an increase in the money wage rate.
  - self-correct through a decrease in the money wage rate.
  - self-correct through an increase in prices.
  - not self-correct.

**Answer: A****Topic: Keynesian Theory****Skill: Conceptual**

- 59) According to Keynesian theory, a recessionary gap during which real GDP is less than potential GDP will
- self-correct through an increase in money wages.
  - self-correct through a decrease in money wages.
  - self-correct through an increase in prices.
  - not self-correct.

**Answer: D****Topic: Keynesian Theory****Skill: Conceptual**

- 60) According to Keynes, the economy can get stuck in a recession because
- investors are animalistic.
  - wages and prices are flexible.
  - wages are sticky downwards.
  - fiscal policy is ineffective.

**Answer: C****Topic: Keynesian Theory****Skill: Conceptual**

- 61) Which theory maintains that asymmetric changes in money wage rates lead to recessions that don't self-correct and expansions that cause inflation?
- Keynesian theory
  - Monetarist theory
  - Rational expectations theory
  - Real business cycle theory

**Answer: A****Topic: Keynesian Theory****Skill: Conceptual**

- 62) In Keynesian business cycle theory, the money wage rate is \_\_\_\_ in the downward direction and \_\_\_\_ in the upward direction.
- rigid; flexible
  - market-determined; flexible
  - flexible; market-determined
  - flexible; rigid

**Answer: A****Topic: Keynesian Theory****Skill: Recognition**

- 63) According to the Keynesian model of the business cycle, the money wage rate is
- sticky in the upward direction.
  - flexible in the upward direction.
  - sticky in the downward direction.
  - Both answers B and C are correct.

**Answer: D**

**Topic: Keynesian Theory****Skill: Recognition**

- 64) In the Keynesian theory of the business cycle, the response of the money wage rate to changes in aggregate demand is
- symmetrical so that wages are sticky on the upside and the downside.
  - symmetrical so that wages are flexible on the upside and the downside.
  - asymmetrical so that wages are sticky on the upside and flexible on the downside.
  - asymmetrical so that wages are flexible on the upside and sticky on the downside.

**Answer: D****Topic: Keynesian Theory****Skill: Recognition**

- 65) What happens to the price level in the Keynesian version of a recession?
- The price level initially falls.
  - The price level initially rises.
  - The price level changes very little, if at all.
  - The price level is unpredictable; it may fall or rise.

**Answer: C****Topic: Keynesian Theory****Skill: Conceptual**

- 66) Based on the Keynesian theory of the business cycle, if the economy is at its full-employment equilibrium and aggregate demand increases then
- the price level and real GDP both increase.
  - the price level rises but real GDP remains unchanged.
  - the price level and GDP both decrease.
  - real GDP decreases and the price level remains unchanged.

**Answer: B****Topic: Keynesian Theory****Skill: Recognition**

- 67) According to Keynesian theory, when real GDP is
- either above or below potential GDP, prices and wages change rapidly, and return the economy to full employment.
  - above potential GDP, prices and wages rise very slowly, and return the economy to full employment.
  - below potential GDP, prices and wages rise very slowly, and return the economy to full employment.
  - None of the above answers are correct.

**Answer: D****Topic: Keynesian Theory****Skill: Conceptual**

- 68) In the Keynesian theory of the business cycle, a decrease in investment demand leads in the short run to a
- leftward shift in the  $AD$  curve and a fall in the price level.
  - rightward shift in the  $AD$  curve and an increase in the price level.
  - leftward shift in the  $AD$  curve but no immediate fall in the price level.
  - rightward shift in the  $AD$  curve but no immediate rise in the price level.

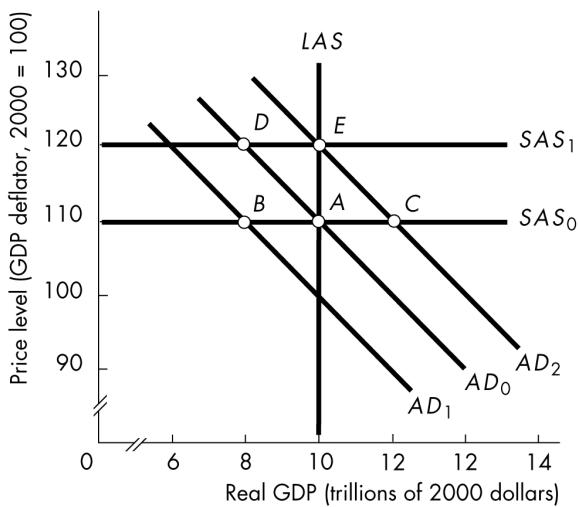
**Answer: C****Topic: Keynesian Theory****Skill: Conceptual**

- 69) According to Keynesian theory, the short-run aggregate supply curve is \_\_\_, so that a decrease in aggregate demand results in a \_\_\_ decrease in real GDP.
- horizontal; large
  - horizontal; small
  - vertical; large
  - vertical; small

**Answer: A**

**Topic: Keynesian Theory****Skill: Conceptual**

- 70) In the Keynesian theory of the business cycle, when the economy is in a recession,
- the short-run aggregate supply curve is positively-sloped.
  - the short-run aggregate supply curve is negatively-sloped.
  - an increase in aggregate demand leads to a change in real GDP but no change occurs in the price level.
  - an increase in aggregate demand changes real GDP and the price level.

**Answer: C****Topic: Keynesian Theory****Skill: Analytical**

- 71) In the above figure, the economy is initially at point A and investment decreases. In Keynesian business cycle theory, the economy will move to point
- B.
  - C.
  - D.
  - E.

**Answer: A****Topic: Keynesian Theory****Skill: Analytical**

- 72) In the above figure, suppose the economy is at point A. According to Keynesian business cycle theory, what could lead the economy to move to point B?
- expectations that interest rates will fall.
  - expectations that the quantity of money will increase.
  - expectations that profits from investment will fall.
  - expectations that sales will increase.

**Answer: C****Topic: Keynesian Theory****Skill: Analytical**

- 73) In the above figure, suppose the economy is at point B and policy makers want to end this recession by moving to point A. In Keynesian business theory, this movement could be accomplished by
- decreasing the quantity of money.
  - increasing the multiplier.
  - decreasing money wages.
  - decreasing taxes so that investment increases.

**Answer: D****Topic: Keynesian Theory****Skill: Analytical**

- 74) In the above figure, the economy is initially at point B. The government increases its purchases so that the aggregate demand curve becomes  $AD_2$ . As a result, the economy moves to point
- A.
  - C.
  - D.
  - E.

**Answer: D****Topic: Monetarist Theory****Skill: Conceptual**

- 75) In monetarist business cycle theory, the impulse for a business cycle is changes in
- consumer spending.
  - investment spending.
  - money growth.
  - net exports.

**Answer: C**

**Topic: Monetarist Theory****Skill: Conceptual**

- 76) In monetarist business cycle theory, decreasing the growth rate of the quantity of money \_\_\_\_ and increasing the growth rate of the quantity of money \_\_\_\_.
- increases real GDP; decreases the inflation rate
  - decreases real GDP; decreases the inflation rate
  - causes the economy to enter a recession; causes the economy to enter an expansion
  - causes the economy to enter an expansion; causes the economy to enter a recession

**Answer: C****Topic: Monetarist Theory****Skill: Conceptual**

- 77) In monetarist business cycle theory, increases in money growth temporarily \_\_\_\_ real GDP because interest rates \_\_\_\_.
- increase; rise
  - increase; fall
  - decrease; rise
  - decrease; fall

**Answer: B****Topic: Monetarist Theory****Skill: Conceptual**

- 78) In monetarist business cycle theory, decreases in money growth temporarily \_\_\_\_ real GDP because interest rates \_\_\_\_.
- increase; rise
  - increase; fall
  - decrease; rise
  - decrease; fall

**Answer: C****Topic: Monetarist Theory****Skill: Conceptual**

- 79) An assumption of the monetarist business cycle theory is that the money wage rate is
- temporarily sticky.
  - fixed under long-term contracts.
  - rigid downwards.
  - rigid upwards.

**Answer: A****Topic: Monetarist Theory****Skill: Conceptual**

- 80) In monetarist business cycle theory, the money wage rate
- cannot adjust to restore full employment, requiring government intervention to restore full employment.
  - adjusts over time to restore full employment.
  - can only restore full employment if the quantity of money increases.
  - can only restore full employment if the quantity of money decreases.

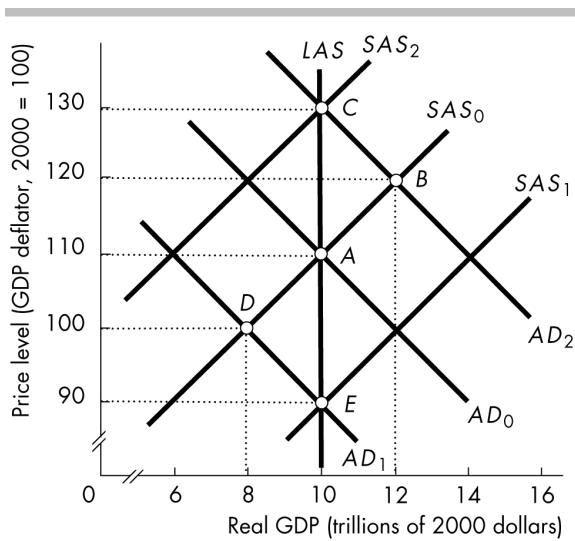
**Answer: B****Topic: Monetarist Theory****Skill: Conceptual**

- 81) In monetarist business cycle theory, the short-run aggregate supply curve
- is horizontal.
  - has a positive slope.
  - has a negative slope.
  - is vertical.

**Answer: B****Topic: Monetarist Theory****Skill: Recognition**

- 82) Using the monetarist model, place the following events in the order in which they occur in a business cycle.
- Money wages fall and the *SAS* curve shifts rightward.
  - The Federal Reserve decreases the growth rate of the quantity of money.
  - The *AD* curve shifts leftward.
- II, III, I.
  - III, II, I.
  - I, III, II.
  - the events are not part of a monetarist model of the business cycle.

**Answer: A**

**Topic: Monetarist Theory****Skill: Analytical**

- 83) In the above figure, suppose the economy starts at point A. The short-run response to a decrease in money growth in monetarist business cycle theory moves the economy to point

- A) B.
- B) C.
- C) D.
- D) E.

**Answer: C****Topic: Monetarist Theory****Skill: Analytical**

- 84) In the above figure, suppose the economy starts at point A. The short-run response to an increase in money growth in monetarist business cycle theory moves the economy to point

- A) B.
- B) C.
- C) D.
- D) E.

**Answer: A****Topic: Monetarist Theory****Skill: Analytical**

- 85) In the above figure, suppose the economy is at point A. According to the monetarist business cycle theory, an increase in money growth in the short run moves the economy to point \_\_\_\_ and in the long run moves the economy to point \_\_\_\_.

- A) B; A
- B) C; E
- C) B; C
- D) D; E

**Answer: C****Topic: Monetarist Theory****Skill: Analytical**

- 86) In the above figure, suppose the economy is at point A. According to the monetarist business cycle theory, a decrease in money growth in the short run moves the economy to point \_\_\_\_ and in the long run moves the economy to point \_\_\_\_.

- A) B; A
- B) C; E
- C) B; C
- D) D; E

**Answer: D****Topic: Monetarist Theory****Skill: Analytical**

- 87) In the above figure, suppose the economy starts at point A. The short-run response to an increase in the quantity of money in the monetarist business cycle theory is for

- A) the price level to fall to 90 and output to remain at \$10 trillion.
- B) the price level to rise to 120 and output to increase to \$12 trillion.
- C) the price level to rise to 130 and output to remain at \$10 trillion.
- D) the price level to remain at 110 and output to remain at \$10 trillion.

**Answer: B**

**Topic: Monetarist Theory****Skill: Analytical**

- 88) In the above figure, suppose the economy starts at point *A*. The long-run response to increase in money growth in the monetarist business cycle theory is for
- the price level to fall to 90 and output to remain at \$10 trillion.
  - the price level to rise to 120 and output to increase to \$12 trillion.
  - the price level to rise to 130 and output to remain at \$10 trillion.
  - the price level to remain at 110 and output to remain at \$10 trillion.

**Answer: C****Topic: New Classical Theory****Skill: Recognition**

- 89) The business cycle impulse in the new classical theory of the business cycle is
- unanticipated changes in aggregate demand.
  - anticipated changes in aggregate demand.
  - fluctuations in money growth with temporarily rigid wages.
  - fluctuations in investment coupled with rigid wages.

**Answer: A****Topic: New Classical Theory****Skill: Recognition**

- 90) A key element of the new classical model of the business cycle is
- sticky prices.
  - a horizontal *SAS* curve.
  - rational expectations.
  - random fluctuations in technology.

**Answer: C****Topic: New Classical Theory****Skill: Conceptual**

- 91) In the new classical rational expectations theory of the business cycle, money wages are
- rigid downward and downward.
  - able to adjust only upward but not downward.
  - flexible.
  - fixed for a time under long-term contracts.

**Answer: C****Topic: New Classical Theory****Skill: Conceptual**

- 92) An assumption of the new classical rational expectations theory of the business cycle is that the money wage rate is
- rigid for one time period only.
  - rigid for more than one time period.
  - rigidly set at all times.
  - renegotiated when economic conditions change.

**Answer: D****Topic: New Classical Theory****Skill: Conceptual**

- 93) In the new classical rational expectations theory of the business cycle, an unanticipated decrease in aggregate demand \_\_\_\_ the real wage rate and \_\_\_\_ employment.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer: B****Topic: New Classical Theory****Skill: Conceptual**

- 94) In the new classical rational expectations theory of the business cycle, an unanticipated increase in aggregate demand \_\_\_\_ the real wage rate and \_\_\_\_ employment.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer: C****Topic: New Keynesian Theory****Skill: Conceptual**

- 95) In the new Keynesian business cycle theory, \_\_\_\_ can effect real GDP.
- only anticipated changes in aggregate demand
  - anticipated and unanticipated changes in aggregate demand
  - only unanticipated changes in aggregate demand
  - only unanticipated changes in the money wage rate

**Answer: B**

**Topic: New Keynesian Theory****Skill: Conceptual**

- 96) In the new Keynesian rational expectations theory of the business cycle, the money wage rate is
- permanently rigid downward and upward.
  - able to adjust only in an asymmetric way.
  - flexible.
  - fixed for a time under long-term contracts.

**Answer: D****Topic: New Keynesian Theory****Skill: Conceptual**

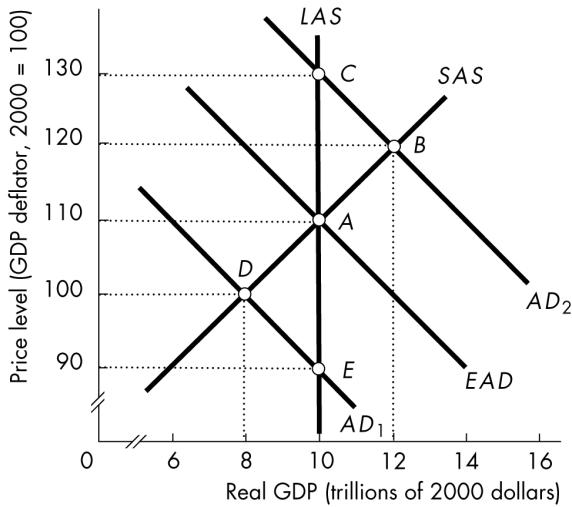
- 97) An assumption of the new Keynesian rational expectations theory of the business cycle is that the money wage rate is
- rigid upward but not downward.
  - rigid for some period of time.
  - rigid and never changes.
  - completely flexible upward and downward at all times.

**Answer: B****Topic: New Classical and New Keynesian Theories****Skill: Conceptual**

- 98) The business cycle impulse in the \_\_\_\_\_ theory is unexpected fluctuations in aggregate demand while in the \_\_\_\_\_ theory both unanticipated and anticipated fluctuations in aggregate demand are impulses.
- new classical; monetarist
  - new classical; new Keynesian
  - new Keynesian; Keynesian
  - monetarist; new Keynesian

**Answer: B****Topic: New Classical and New Keynesian Theories****Skill: Conceptual**

- 99) According to the rational expectations theory of the business cycle, an unexpected decrease in the quantity of money shifts the  $AD$  curve \_\_\_\_\_ and \_\_\_\_\_ the price level.
- leftward; lowers
  - leftward; leaves unchanged
  - rightward; raises
  - rightward; leaves unchanged

**Answer: A****Topic: New Classical Theory****Skill: Analytical**

- 100) In the above figure, suppose the economy is initially at point A. In the new classical model, if there is an unexpected increase in exports, the economy shifts to point

- B.
- C.
- D.
- E.

**Answer: A****Topic: New Classical Theory****Skill: Analytical**

- 101) In the above figure, suppose the economy is initially at point A. In the new classical model, if there is an unexpected decrease in government purchases, the economy shifts to point

- B.
- C.
- D.
- E.

**Answer: C**

**Topic: New Keynesian Theory****Skill: Analytical**

- 102) In the above figure, suppose that the economy is initially at point *A*. If the expected level of aggregate demand is given by the *EAD* curve and if actual aggregate demand is given by the *AD<sub>1</sub>* curve, according to the new Keynesian theory the economy will shift to point
- A) *B*.
  - B) *C*.
  - C) *D*.
  - D) *E*.

**Answer: C****Topic: New Keynesian Theory****Skill: Analytical**

- 103) In the above figure, suppose the economy is initially at point *A*. If the expected level of aggregate demand is given by the *EAD* curve and if actual aggregate demand is given by the *EAD* curve, according to the new Keynesian theory, the economy will
- A) shift to point *B*.
  - B) shift to point *C*.
  - C) remain at point *A*.
  - D) shift to point *E*.

**Answer: C****■ Real Business Cycle Theory****Topic: RBC Impulse****Skill: Recognition**

- 104) In real business cycle theory, the impulse for a business cycle is
- A) changes in investment.
  - B) changes in the quantity of money.
  - C) unexpected changes in aggregate demand.
  - D) technological change.

**Answer: D****Topic: RBC Impulse****Skill: Recognition**

- 105) The impulse in the real business cycle theory is changes in the growth rate of
- A) the quantity of money.
  - B) productivity.
  - C) labor supply.
  - D) the money wage rate.

**Answer: B****Topic: RBC Impulse****Skill: Conceptual**

- 106) In real business cycle models, business cycles exist because of
- A) changes in technology.
  - B) policy errors by the Fed.
  - C) repeated errors by Congress in timing policy changes.
  - D) frequent changes in the public's labor supply.

**Answer: A****Topic: RBC Impulse****Skill: Conceptual**

- 107) According to the \_\_\_\_ theory, technological change can be so rapid that some existing capital becomes obsolete and \_\_\_\_.
- A) real business cycle; aggregate demand increases
  - B) new classical; productivity falls
  - C) new classical; aggregate demand increases
  - D) real business cycle; productivity falls

**Answer: D****Topic: RBC Mechanism****Skill: Conceptual**

- 108) In the real business cycle theory, the aggregate supply curve is
- A) horizontal.
  - B) upward sloping.
  - C) vertical.
  - D) downward sloping.

**Answer: C****Topic: RBC Mechanism****Skill: Conceptual**

- 109) According to the real business cycle theory, the immediate effects from a change in productivity include which of the following?
- I. Investment demand changes.
  - II. Demand for labor changes.
  - III. Government purchases changes.
- A) I.
  - B) I and II.
  - C) I and III.
  - D) II and III.

**Answer: B**

**Topic: RBC Mechanism****Skill: Recognition**

- 110) "Intertemporal substitution" in labor supply describes shifts in labor supply in response to changes in
- personal tax rates.
  - investment spending.
  - the real interest rate.
  - consumer demand for goods.

**Answer: C****Topic: RBC Mechanism****Skill: Conceptual**

- 111) In a real business cycle model, labor supply
- increases if the nominal interest rate rises.
  - is independent of the real interest rate.
  - decreases if the real interest rate rises.
  - decreases if the real interest rate falls.

**Answer: D****Topic: RBC Mechanism****Skill: Conceptual**

- 112) According to real business cycle theory, a fall in the real interest rate \_\_\_\_ current labor supply and \_\_\_\_ current employment.
- increases; increases
  - increases; decreases
  - decreases; increases
  - decreases; decreases

**Answer: D****Topic: RBC Mechanism****Skill: Conceptual**

- 113) If the real interest rate is 4 percent and workers expect real wages to be 2 percent year higher next year, according to real business cycle theory, workers will work
- more this year and less next year.
  - less this year and less next year.
  - more this year and more next year.
  - less this year and more next year.

**Answer: A****Topic: RBC Mechanism****Skill: Conceptual**

- 114) If the real interest rate is 2 percent and workers expect real wages to be 4 percent higher next year, according to real business cycle theory, workers will work
- more this year and less next year.
  - less this year and less next year.
  - more this year and more next year.
  - less this year and more next year.

**Answer: D****Topic: Real Business Cycle Theory****Skill: Conceptual**

- 115) In real business cycle models, a positive technology shock \_\_\_\_ real GDP and \_\_\_\_ the price level.
- increases; increases
  - increases; decreases
  - decrease; increases
  - decreases; decreases

**Answer: B****Topic: Real Business Cycle Theory****Skill: Conceptual**

- 116) In real business cycle models, by itself a change in aggregate demand
- has no impact on the price level.
  - determines how the real interest rate changes.
  - determines real output.
  - affects only the price level.

**Answer: D****Topic: Real Business Cycle Theory****Skill: Conceptual**

- 117) In real business cycle models, the quantity of money
- can change real wages.
  - can increase the real interest rate.
  - has no effect on real GDP.
  - can decrease the effect from technology shocks.

**Answer: C**

**Topic: Real Business Cycle Theory****Skill: Conceptual**

- 118) According to which theory of the business cycle do changes in the quantity of money *never* play a role in helping to explaining fluctuations in real variables?

- A) Keynesian
- B) Monetarist
- C) Rational Expectations
- D) Real business cycle

**Answer: D****Topic: Real Business Cycle Theory****Skill: Conceptual**

- 119) In real business cycle models, in order to increase real GDP after a negative technology shock, the government can

- I. increase the quantity of money.
- II. increase government purchases.
- A) Only I.
- B) Only II.
- C) Both I and II.
- D) Neither I nor II.

**Answer: D****Topic: Criticisms of Real Business Cycle Theory****Skill: Conceptual**

- 120) Critics of the real business cycle model argue that
- A) investment spending is strongly related to the real interest rate.
  - B) labor supply is only weakly related to the real interest rate.
  - C) investment spending is only weakly related to the real interest rate.
  - D) labor supply is very strongly related to the real interest rate.

**Answer: B****Topic: Criticisms of Real Business Cycle Theory****Skill: Conceptual**

- 121) Which of the following is NOT one of the criticisms of real business cycle theory?
- A) The money wage rate is sticky in the short run
  - B) Inter-temporal substitution is too weak
  - C) Productivity fluctuations are the result of the business cycle, not the cause of business cycles
  - D) The theory is built on weak microeconomic foundations

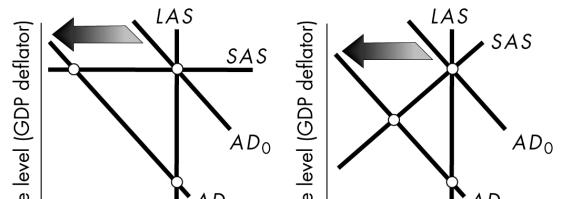
**Answer: D**

Figure A

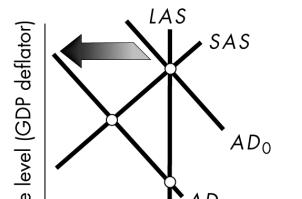


Figure B

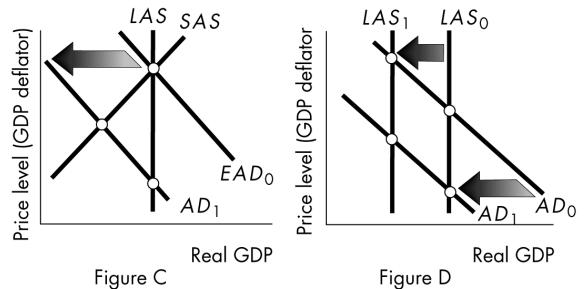


Figure C

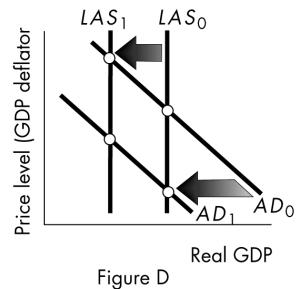


Figure D

**Topic: Keynesian Theory****Skill: Analytical**

- 122) In the above figure, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a Keynesian model of the economy?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: A****Topic: Monetarist Theory****Skill: Analytical**

- 123) In the above figure, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a monetarist model of the economy?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

**Answer: B**

**Topic: New Classical Theory****Skill: Analytical**

- 124) In the above, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a new classical model of the economy?
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: C****Topic: New Keynesian Theory****Skill: Analytical**

- 125) In the above, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a new Keynesian model of the economy?
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: C****Topic: Real Business Cycle Theory****Skill: Analytical**

- 126) In the above, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a real business cycle model of the economy?
- Figure A.
  - Figure B.
  - Figure C.
  - Figure D.

**Answer: D**

## ■ Expansion and Recession During the 1990s and 2000s

**Topic: U.S. Expansion of the 1990s****Skill: Recognition**

- 127) Which of the following are elements of the U.S. expansion in the 1990s?
- computer technology.
  - increased government spending.
  - unanticipated decreases the growth rate of the quantity of money.
- I and III.
  - I and II.
  - I only.
  - III only.

**Answer: C****Topic: The U.S. Expansion of the 1990s****Skill: Recognition**

- 128) In the United States during the 1990s,
- fiscal and monetary policy generally were both contractionary.
  - fiscal and monetary policy generally were both expansionary.
  - fiscal policy was restrained and monetary policy was expansionary.
  - fiscal policy was expansionary and monetary policy was restrained.

**Answer: C****Topic: The U.S. Expansion of the 1990s****Skill: Recognition**

- 129) In the United States in the 1990s, technological change
- reduced the need for investment but has increased production.
  - reduced the need for investment and has decreased production.
  - required additional investment which has increased aggregate demand but not supply.
  - required additional investment which has increased both aggregate demand and supply.

**Answer: D**

**Topic: The U.S. Expansion of the 1990s****Skill: Conceptual**

- 130) The widespread implementation of computers in American workplaces during the 1990s, along with the corresponding gains in labor productivity, are most likely responsible for
- the decrease in rational expectations.
  - the rise in U.S. inflation.
  - the increase in fiscal policy measures.
  - the high growth in real GDP and potential GDP.

**Answer: D****Topic: U.S. Expansion of the 1990s****Skill: Recognition**

- 131) Which of the following is the most accurate characterization of the U.S. economic expansion during the 1990s?
- Although it lasted a long time, real GDP grew very little during this expansion
  - Expansionary monetary and fiscal policies were the main factors leading to the expansion
  - A high pace of technological progress shifted both the *AS* and *AD* curves rightward
  - U.S. exports declined and slowed the pace of the expansion

**Answer: C****Topic: U.S. Expansion of the 1990s****Skill: Conceptual**

- 132) The economic expansion of the 1990s is most consistent with which theory of the business cycle?
- Keynesian
  - Monetarist
  - Rational Expectations
  - Real business cycle

**Answer: D****The Great Depression****Topic: The Great Depression****Skill: Recognition**

- 133) The 1920s in the United States were years of
- economic stagnation.
  - recession.
  - prosperity.
  - stable, slow economic growth.

**Answer: C****Topic: The Great Depression****Skill: Recognition**

- 134) In the stock market crash of 1929, stock prices
- were relatively constant.
  - fell by roughly 33 percent in two weeks.
  - fell by roughly 75 percent in two weeks.
  - rose by roughly 25 percent overnight.

**Answer: B****Topic: The Great Depression****Skill: Recognition**

- 135) During the Great Depression, the unemployment rate
- remained low as wages fell.
  - climbed to 10 percent.
  - climbed to 25 percent.
  - remained stable but asset prices fell.

**Answer: C****Topic: The Great Depression****Skill: Recognition**

- 136) During the Great Depression, real GDP \_\_\_\_\_ and the price level \_\_\_\_\_.
- increased; rose
  - increased; fell
  - decreased; rose
  - decreased; fell

**Answer: D****Topic: Why the Great Depression Happened****Skill: Recognition**

- 137) A major source of uncertainty during the Great Depression was the
- real wage rate.
  - real interest rate.
  - international sector.
  - future rate of consumption expenditure.

**Answer: C****Topic: Why the Great Depression Happened****Skill: Conceptual**

- 138) At the onset of the Great Depression,
- the Fed contracted the monetary base.
  - investment decreased as a result of uncertainty about the future.
  - government transfer payments rose to 15 percent of GDP.
  - household spending increased to pay off debts.

**Answer: B**

**Topic: Why the Great Depression Happened****Skill: Conceptual**

- 139) Which of the following factors do economists agree played a role in causing the contractionary phase of the Great Depression?
- Increased pessimism.
  - Contraction of the quantity of money.
  - Increased money wage rate.
- A) I.  
B) I and II.  
C) II and III.  
D) I, II, and III.

**Answer: B****■ Study Guide Questions****Topic: Study Guide Question, Business Cycle Patterns****Skill: Recognition**

- 140) An average recession lasts for about \_\_\_\_; an average expansion lasts for about \_\_\_\_.
- A) 1 year; 1 year  
B) 4 years; 1 year  
C) 1 year; 4 years  
D) 4 years; 4 years

**Answer: C****Topic: Study Guide Question, Role of Investment and Capital****Skill: Recognition**

- 141) Recessions begin when \_\_\_\_ decreases.
- A) consumption expenditure  
B) investment  
C) government purchases  
D) net exports

**Answer: B****Topic: Study Guide Question, Keynesian Theory****Skill: Recognition**

- 142) Which of the following is the impulse in the Keynesian business cycle theory?
- A) An unexpected change in aggregate demand.  
B) A change by the Fed in the growth rate of the quantity of money.  
C) A change in expectations about future sales and profits.  
D) A change in the growth rate of productivity.

**Answer: C****Topic: Study Guide Question, Monetarist Theory****Skill: Recognition**

- 143) Which of the following is the impulse in the monetarist business cycle theory?
- A) An unexpected change in aggregate demand.  
B) A change by the Fed in the growth rate of the quantity of money.  
C) A change in expectations about future sales and profits.  
D) A change in the growth rate of productivity.

**Answer: B****Topic: Study Guide Question, New Classical Theory****Skill: Recognition**

- 144) Which of the following is the impulse in the new classical business cycle theory?
- A) An unexpected change in aggregate demand.  
B) A change by the Fed in the growth rate of the quantity of money.  
C) A change in expectations about future sales and profits.  
D) A change in the growth rate of productivity.

**Answer: A****Topic: Study Guide Question, Real Business Cycle Theory****Skill: Recognition**

- 145) Which of the following is the impulse in the real business cycle theory?
- A) An unexpected change in aggregate demand.  
B) A change by the Fed in the growth rate of the quantity of money.  
C) A change in expectations about future sales and profits.  
D) A change in the growth rate of productivity.

**Answer: D****Topic: Study Guide Question, Real Business Cycle Theory****Skill: Conceptual**

- 146) By itself, an increase in aggregate demand increases GDP by the least amount in the \_\_\_\_.
- A) Keynesian theory  
B) monetarist theory  
C) new Keynesian theory  
D) real business cycle theory

**Answer: D**

**Topic: Study Guide Question, U.S. Expansion in the 1990s****Skill: Recognition**

- 147) The length of the 1991–2001 expansion in the United States was
- somewhat shorter than the average expansion.
  - somewhat longer than the average expansion.
  - equal to the length of the average expansion.
  - longer than any other expansion in U.S. economic history.

**Answer: D****Topic: Study Guide Question, U.S. Expansion in the 1990s****Skill: Recognition**

- 148) The expansion in the United States during the 1990s most closely resembles the type of expansion predicted by the \_\_\_\_ theory.
- Keynesian
  - monetarist
  - new Keynesian
  - real business cycle

**Answer: D****Topic: Study Guide Question, Why the Great Depression Happened****Skill: Recognition**

- 149) The Great Depression started as a result of a \_\_\_\_ shift of the aggregate \_\_\_\_ curve.
- leftward; supply
  - rightward; supply
  - rightward; demand
  - leftward; demand

**Answer: D****Topic: Study Guide Question, Why the Great Depression Happened****Skill: Recognition**

- 150) According to monetarists such as Milton Friedman, the Great Depression was the result of
- the stock market crash of 1929.
  - a massive contraction of the quantity of money, leading to large decreases in aggregate demand.
  - an expansion of the quantity of money, leading to higher inflation.
  - loss of business and consumer confidence.

**Answer: D****■ MyEconLab Questions****Topic: Business Cycle Patterns****Level I: Definitions and Concepts**

- 151) The economy functions as if it \_\_\_\_.
- swings to and fro like a rocking horse
  - cycles like a tennis ball that is hit by a tennis racket
  - is hit by shocks, cycles indefinitely, or cycles in swings until another shock appears
  - cycles like the earth from day into night

**Answer: C****Topic: Keynesian Theory****Level I: Definitions and Concepts**

- 152) The \_\_\_\_ states that the main source of economic fluctuations is volatile expectations.
- real business cycle theory
  - AS-AD* theory of the business cycle
  - Keynesian theory of the business cycle
  - monetarist theory of the business cycle

**Answer: C****Topic: Keynesian Theory****Level I: Definitions and Concepts**

- 153) A Keynesian expansion begins when a rise in animal spirits \_\_\_\_.
- increases aggregate demand
  - increases long-run aggregate supply
  - increases short-run aggregate supply
  - decreases aggregate demand

**Answer: A****Topic: Monetarist Theory****Level I: Definitions and Concepts**

- 154) The monetarist theory of the business cycle regards the impulse of the business cycle as \_\_\_\_.
- the unanticipated increase in aggregate demand
  - the growth rate of the quantity of money
  - volatility in the interest rate
  - volatility in the demand for money

**Answer: B**

**Topic: Rational Expectation****Level I: Definitions and Concepts**

- 155) Maureen forecasts that the economy will enter a recession in 2003. Her forecast is based on all the relevant information that is available. Maureen's forecast is called a \_\_\_\_.
- rational expectation
  - rational forecast
  - relevant expectation
  - correct forecast

**Answer: A****Topic: New Classical Theory****Level I: Definitions and Concepts**

- 156) The \_\_\_ theory of the business cycle states that only unanticipated fluctuations in aggregate demand are the main source of economic fluctuations.
- new Keynesian
  - new classical
  - rational expectations
  - monetarist

**Answer: B****Topic: New Keynesian Theory****Level I: Definitions and Concepts**

- 157) The new Keynesian theory of the business cycle regards \_\_\_ as the main source of economic fluctuations.
- unanticipated fluctuations in aggregate demand
  - anticipated and unanticipated fluctuations in aggregate demand
  - anticipated fluctuations in aggregate supply
  - volatile expectations

**Answer: B****Topic: RBC Impulse****Level I: Definitions and Concepts**

- 158) The theory that regards random fluctuations in productivity as the main source of economic fluctuations is the \_\_\_ of the business cycle.
- real business cycle theory
  - productivity theory
  - dynamic general equilibrium theory
  - Keynesian theory

**Answer: A****Topic: U.S. Recession of 2001****Level I: Definitions and Concepts**

- 159) The 2001 recession resulted from a \_\_\_ short-run aggregate supply \_\_\_ aggregate demand.
- decrease in both; and
  - percentage increase in; that was smaller than the percentage decrease in
  - percentage decrease in; that was larger than the percentage increase in
  - percentage decrease in; that was smaller than the percentage increase in

**Answer: A****Topic: The Great Depression****Level I: Definitions and Concepts**

- 160) The Great Depression began with a widespread expectation that the price level would fall that lead to \_\_\_ and increased uncertainty that resulted in \_\_\_.
- a decrease in the money supply; a increase in the money wage rate
  - a lower real wage rate; an increase in investment
  - a decrease in the money wage rate; a decrease in investment
  - an increase in the real wage rate; an increase in investment

**Answer: C****Topic: Keynesian Theory****Level 2: Using Definitions and Concepts**

- 161) Expected future sales and profits are the main impulse of the \_\_\_ of the business cycle.
- Keynesian theory
  - new Keynesian theory
  - rational expectations theories
  - monetarist theory

**Answer: A****Topic: Keynesian Theory****Level 2: Using Definitions and Concepts**

- 162) The Keynesian recession begins when a \_\_\_ in animal spirits \_\_\_ investment.
- fall; increases
  - fall; decreases
  - rise; decreases
  - rise; increases

**Answer: B**

**Topic: Monetarist Theory****Level 2: Using Definitions and Concepts**

- 163) The monetarist cycle mechanism begins with \_\_\_\_ and then \_\_\_\_ responds to the \_\_\_\_.
- a change in aggregate supply; aggregate demand; change in the price level
  - a change in monetary policy; aggregate supply; change in aggregate demand
  - a change in the quantity of money; the wage rate; price level
  - the Fed changing the money growth rate; government; change in aggregate demand

**Answer: B****Topic: New Keynesian Theory****Level 2: Using Definitions and Concepts**

- 164) New Keynesian economists believe that \_\_\_\_ is influenced by \_\_\_\_.
- yesterday's money wage rate ; today's rational expectations of the money wage
  - today's money wage rate; yesterday's rational expectations of the price level
  - yesterday's rational expectations of the price level; today's money wage rate
  - today's money wage rate; today's rational expectations of the price level

**Answer: B****Topic: RBC Impulse****Level 2: Using Definitions and Concepts**

- 165) In real business cycle theory, all of the following events can be sources of fluctuation in productivity except \_\_\_\_.
- the pace of technological change
  - climate fluctuations
  - the growth rate of money
  - natural disasters

**Answer: C****Topic: Real Business Cycle Theory****Level 2: Using Definitions and Concepts**

- 166) According to real business proponents, in an expansion an increase in the rate of technological change \_\_\_\_ investment demand, \_\_\_\_ the demand for labor, and \_\_\_\_ the supply of labor. The real interest rate will \_\_\_\_.
- increases; increases; there is no change in; fall
  - increases; increases; there is no change in; rise
  - decreases; decreases; decreases; fall
  - increases; increases; increases; rise

**Answer: D****Topic: Real Business Cycle Theory****Level 2: Using Definitions and Concepts**

- 167) The key ripple effect in real business cycle theory is the \_\_\_\_ decision and it depends on the \_\_\_\_.
- when-to-invest; real interest rate
  - when-to-work; real interest rate
  - what-to-save; nominal interest rate
  - where-to-work; real wage rate

**Answer: B****Topic: U.S. Recession of 2001****Level 2: Using Definitions and Concepts**

- 168) \_\_\_\_ the recession of 2001.
- Major fiscal policy shocks triggered
  - All components of aggregate demand fell during
  - Labor productivity and the real wage rate increased during
  - Major monetary policy shocks triggered

**Answer: C****Topic: U.S. Expansion in the 1990s****Level 2: Using Definitions and Concepts**

- 169) From March 1991 through March 2001, U.S. \_\_\_\_.
- short-run aggregate supply increased by more than aggregate demand
  - real GDP grew by 40 percent
  - potential GDP did not change
  - demand for labor decreased

**Answer: B****Topic: Can the Great Depression Happen Again?****Level 2: Using Definitions and Concepts**

- 170) A severe depression is less likely today than it was 60 years ago for all of the following reasons except \_\_\_\_.
- multi-income families
  - the Fed's decision to avoid use of monetary policy
  - bank deposit insurance
  - the size of the government sector

**Answer: B**

**Topic: Role of Investment and Capital****Level 3: Calculations and Predictions**

- 171) During a recession, the marginal product of capital \_\_\_\_ because the amount of capital per hour of labor \_\_\_\_.

- A) increases; increases
- B) decreases; decreases
- C) decreases; increases
- D) increases; decreases

**Answer: D****Topic: Keynesian Theory****Level 3: Calculations and Predictions**

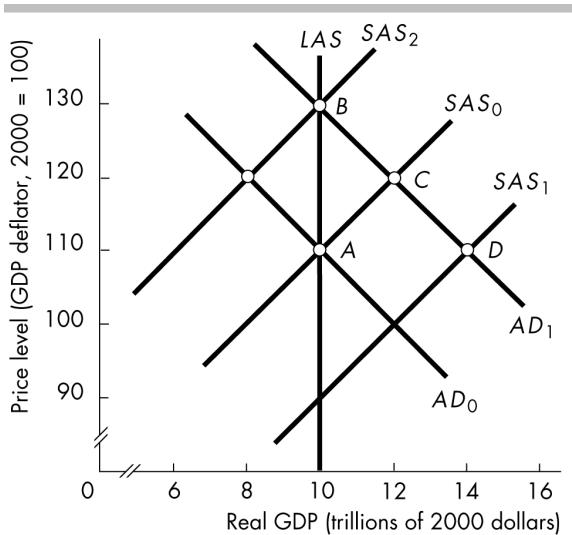
- 172) The \_\_\_\_ theory predicts that a decrease in aggregate demand will lead to a larger decrease in real GDP than that predicted by the alternative theories because the short-run aggregate supply curve is \_\_\_\_.

- A) Keynesian; horizontal
- B) Keynesian; vertical
- C) monetarist; horizontal
- D) monetarist; vertical

**Answer: A****Topic: Monetarist Theory****Level 3: Calculations and Predictions**

- 173) An economy is at full employment and potential GDP is \$50 billion. When the central bank in this economy increases the money growth rate, the monetarist theory of the business cycle predicts that in the long run, real GDP will \_\_\_\_.

- A) exceed \$50 billion and the price level will be higher
- B) exceed \$50 billion and the price level will be unchanged
- C) remain at \$50 billion and the price level will be unchanged
- D) remain at \$50 billion and the price level will be higher

**Answer: D****Topic: New Classical Theory****Level 3: Calculations and Predictions**

- 174) On the island of Beach, the economy is currently at point A in the figure above. The new classical theory of the business cycle predicts that an anticipated increase in aggregate demand will move the economy to point \_\_\_\_ and an unanticipated increase in aggregate demand will move the economy to point \_\_\_\_.

- A) A; C
- B) C; B
- C) B; C
- D) B; D

**Answer: C****Topic: Rational Expectations Theories****Level 3: Calculations and Predictions**

- 175) The rational expectations theories predict that a \_\_\_\_ than anticipated increase in aggregate \_\_\_\_ brings an expansion and a \_\_\_\_ than anticipated increase in aggregate demand brings a recession.

- A) smaller; demand; larger
- B) smaller; supply; smaller
- C) larger; demand; smaller
- D) larger; supply; larger

**Answer: C**

**Topic: New Keynesian Theory****Level 3: Calculations and Predictions**

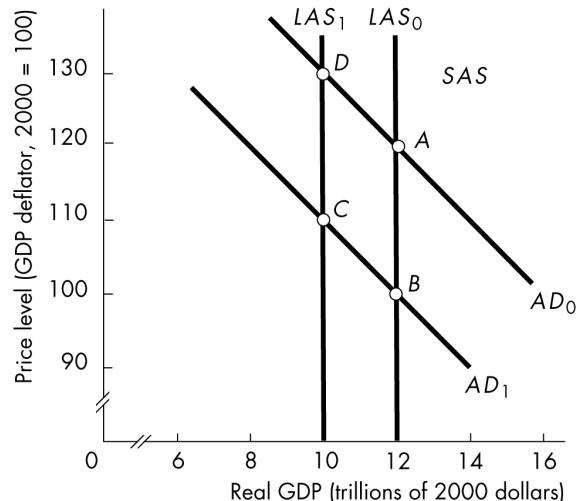
- 176) An economy is at potential GDP when the people in the economy expect that the government will cut taxes. The new Keynesian theory of the business cycle predicts that real GDP will \_\_\_, employment will \_\_\_, and the price level will \_\_\_\_.
- decrease; decrease; remain constant
  - decrease; increase; fall
  - increase; increase; remain constant
  - increase; increase; rise

**Answer: D****Topic: Real Business Cycle Theory****Level 3: Calculations and Predictions**

- 177) Today, the real wage rate is \$10 an hour and the real interest rate is 5 percent a year. People expect the real wage rate to be \$10.05 an hour in one year. The \$10 an hour earned now will be worth \_\_\_ a year from now. The intertemporal substitution effect tells us that people will want to work \_\_\_\_.
- \$10.50 an hour; more next year and less now
  - \$10.50 an hour; more now and less next year
  - \$10.05 an hour; more both now and next year
  - \$15.00 an hour; the same amount now and next year

**Answer: B****Topic: Real Business Cycle Theory****Level 3: Calculations and Predictions**

- 178) Real business cycle theory predicts that an increase in the growth rate of productivity resulting from technological change will \_\_\_ aggregate demand and will \_\_\_ potential GDP.
- increase; increase
  - increase; decrease
  - decrease; increase
  - decrease; decrease

**Answer: A****Topic: Real Business Cycle Theory****Level 3: Calculations and Predictions**

- 179) On the island of Beach, the economy is at point a in the figure above. If the economy is hit by a technology shock that decreases investment, real business cycle theory predicts that the economy will \_\_\_\_.
- move to point D
  - remain at point A
  - move to point C
  - move to point B

**Answer: C****Topic: Real Business Cycle Theory****Level 3: Calculations and Predictions**

- 180) In real business cycle theory, the unemployment rate \_\_\_ the natural rate in an expansion and \_\_\_ the natural rate in a recession.
- is equal to; rises above
  - falls below; is equal to
  - falls below; rises above
  - is equal to; is equal to

**Answer: D**

**Topic: Keynesian Theory****Level 4: Advanced Calculations and Predictions**

- 181) The economy is in a recession when businesses begin to expect future sales and profits to increase. The Keynesian theory of the business cycle predicts that aggregate demand will \_\_\_\_, real GDP will \_\_\_\_, and as wages \_\_\_\_, the price level will \_\_\_\_.
- decrease; decrease; fall; fall
  - decrease; decrease; remain sticky; remain the same
  - increase; increase; remain sticky; rise
  - increase; increase; rise; rise

**Answer: D****Topic: Rational Expectations Theories****Level 4: Advanced Calculations and Predictions**

- 182) The rational expectations theories predict that a recession will occur when \_\_\_\_.
- a larger than anticipated increase in aggregate demand occurs
  - a larger than anticipated increase in short-run aggregate supply occurs
  - a larger than anticipated increase in long-run aggregate supply occurs
  - a smaller than anticipated increase in aggregate demand occurs

**Answer: D****Topic: Rational Expectations Theories****Level 4: Advanced Calculations and Predictions**

- 183) In rational expectations theories, a business cycle is generated as real GDP fluctuates \_\_\_\_\_. But in real business cycle theory, a business cycle is generated as real GDP fluctuates \_\_\_\_\_.
- with potential GDP; along the short-run aggregate supply curve
  - with short-run aggregate supply; with short-run aggregate supply
  - along the short-run aggregate supply curve; with potential GDP
  - with short-run aggregate supply; with long-run aggregate supply

**Answer: C****Topic: Monetarist Theory****Level 4: Advanced Calculations and Predictions**

- 184) The monetarist business cycle is generated as follows: The Fed changes the growth rate of the quantity of money. Then \_\_\_\_\_.
- aggregate demand changes, the price level changes, the money wage rate changes, and the price level changes in the opposite direction
  - investment changes, the real interest rate changes, productivity changes, and employment changes in the opposite direction
  - aggregate demand changes, real GDP changes, the money wage rate changes, and real GDP changes in the opposite direction
  - there are swings of the long-run aggregate supply curve and swings in real GDP

**Answer: C****Topic: Real Business Cycle Theory****Level 4: Advanced Calculations and Predictions**

- 185) In real business cycle theory, a decrease in productivity leads to all of the following events except \_\_\_\_\_.
- a decrease in the demand for labor
  - a decrease in investment demand
  - a rise in the real wage rate
  - a fall in the interest rate

**Answer: C****Topic: Real Business Cycle Theory****Level 4: Advanced Calculations and Predictions**

- 186) Real business cycle theory predicts that a productivity shock that increases investment will \_\_\_\_\_.
- decrease employment and increase the real wage rate
  - increase the real interest rate and decrease employment
  - increase employment and increase the real wage rate
  - decrease the real wage rate and increase the real interest rate

**Answer: C**

	1995	1996
Real GDP (billions of 1995 neutrons)	4,000	3,800
Price level (GDP deflator, 1995 = 100)	100	90

**Topic: Real Business Cycle Theory****Level 4: Advanced Calculations and Predictions**

187) The table above gives data regarding the economy of Photon. In 2003, Photon was at full employment. Real business cycle theory explains the data as follows: Between 2003 and 2004, the aggregate demand \_\_\_\_.

- A) decreases and long-run aggregate supply increases
- B) increases and long-run aggregate supply decreases
- C) and long-run aggregate supply both decrease
- D) and long-run aggregate supply both increase

**Answer: C**

**Topic: New Keynesian Theory****Level 4: Advanced Calculations and Predictions**

188) The table above gives data regarding the economy of Photon. In 2003, Photon was at full employment. New Keynesian theory of the business cycle explains the data as follows: Between 2003 and 2004, the aggregate demand \_\_\_\_.

- A) did not change and the short-run aggregate supply increased
- B) and short-run aggregate supply increased by the same amount
- C) decreased unexpectedly
- D) and the long-run aggregate supply both increased

**Answer: C**

**Topic: Keynesian Theory****Level 4: Advanced Calculations and Predictions**

189) When aggregate demand fluctuates, the \_\_\_\_ theory of the business cycle will predict a business cycle with the biggest swings in real GDP.

- A) new classical
- B) Keynesian
- C) real business cycle
- D) monetarist

**Answer: B**



**The Federal Budget****Topic: The Federal Budget****Skill: Recognition**

- 1) Which of the following is considered a purpose of the federal budget?
- To help the economy achieve full employment.
  - To finance the activities of the federal government.
  - To promote sustained economic growth.
- A) I and II.  
B) I and III.  
C) II and III.  
D) I, II and III.

**Answer: D****Topic: The Federal Budget****Skill: Recognition**

- 2) Which branches of the government play a role in enacting the federal budget?
- the President.
  - the House of Representatives.
  - the Senate.
- A) I and II.  
B) II and III.  
C) I, II and III.  
D) I.

**Answer: C****Topic: Fiscal Policy****Skill: Recognition**

- 3) Fiscal policy includes
- only decisions related to the purchase of government goods and services.
  - only decisions related to the purchase of government goods and services and the value of transfer payments.
  - only decisions related to the value of transfer payments and tax revenue.
  - decisions related to the purchase of government goods and services, the value of transfer payments, and tax revenue.

**Answer: D****Topic: Fiscal Policy****Skill: Recognition**

- 4) The purpose of fiscal policy is to
- achieve full employment.
  - promote economic growth.
  - maintain price level stability.
  - All of the above answers are correct.

**Answer: D****Topic: The Employment Act of 1946****Skill: Recognition**

- 5) The purpose of the Employment Act of 1946 was to
- establish goals for the federal government that would promote maximum employment, purchasing power, and production.
  - establish an unemployment compensation system.
  - set up the Federal Reserve System.
  - set targets for the unemployment rate to be achieved by the president.

**Answer: A**

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\* This is Chapter 31 in *Economics*.

**Topic: Tax Revenues****Skill: Recognition**

- 6) Which of the following is NOT a revenue source for the Federal government?
- Personal income taxes.
  - Indirect taxes.
  - Interest on corporate bond holdings.
  - Social security taxes.

**Answer: C****Topic: Tax Revenues****Skill: Recognition**

- 7) The largest source of government revenues is \_\_\_\_\_.  
 A) personal income taxes  
 B) indirect taxes  
 C) corporate income taxes  
 D) social security taxes

**Answer: A****Topic: Government Expenditures****Skill: Recognition**

- 8) Which of the following is NOT a government expenditure item?
- Transfer payments.
  - Purchases of goods and services.
  - Debt interest on the government's debt.
  - Purchases of foreign bonds.

**Answer: D****Topic: Government Expenditures****Skill: Recognition**

- 9) All of the following are government expenditure items EXCEPT
- interest on the government's debt.
  - transfer payments.
  - purchases of corporate bonds.
  - purchases of goods and services.

**Answer: C**

Component	Dollars (billion)
Personal income taxes	500
Social security taxes	400
Corporate income taxes	150
Indirect taxes	75
Transfer payments	1,200
Purchases of goods and services	225
Debt interest	75

**Topic: Tax Revenues****Skill: Analytical**

- 10) Consider the above table with data for a country's government budget. The country has government revenues of \_\_\_\_ billion.
- \$900
  - \$1125
  - \$725
  - \$1700

**Answer: B****Topic: Government Expenditures****Skill: Analytical**

- 11) Consider the above table with data for a country's government budget. Government expenditures for the economy equal \_\_\_\_ billion.
- \$1200
  - \$1275
  - \$1500
  - \$1425

**Answer: C****Topic: Budget Surplus and Deficit****Skill: Analytical**

- 12) Consider the above table with data for a country's government budget. The data show the government is running a \_\_\_\_ billion.
- budget surplus of \$300
  - budget deficit of \$375
  - budget deficit of \$550
  - budget surplus of \$650

**Answer: B**

**Topic: Budget Surplus and Deficit****Skill: Recognition**

- 13) The government's budget deficit or surplus equals the
- change in expenditure divided by change in revenue.
  - average expenditure divided by average revenue.
  - change in revenue minus change in purchases.
  - total tax revenue minus total government expenditure.

**Answer: D****Topic: Budget Surplus and Deficit****Skill: Recognition**

- 14) A balanced budget occurs when government
- expenditure exceeds revenue.
  - revenue exceeds expenditure.
  - revenue equals expenditure.
  - revenue is expenditure.

**Answer: C****Topic: Budget Surplus and Deficit****Skill: Recognition**

- 15) A budget surplus occurs when government
- expenditure exceeds tax revenue.
  - tax revenue exceeds expenditure.
  - tax revenue equals expenditure.
  - tax revenue is expenditure.

**Answer: B****Topic: Budget Surplus and Deficit****Skill: Recognition**

- 16) Whenever the federal government spends more than it receives in tax revenue, then by definition it
- runs a budget surplus.
  - operates a balanced budget.
  - runs a budget deficit.
  - increases economic growth.

**Answer: C****Topic: Budget Surplus and Deficit****Skill: Recognition**

- 17) The budget deficit
- is the total outstanding borrowing by the government.
  - is the difference between government expenditures and revenues.
  - decreased during the Reagan Administration.
  - reached its peak during the Vietnam War.

**Answer: B****Topic: Budget Surplus and Deficit****Skill: Recognition**

- 18) Which of the following statements regarding the U.S government's budget surpluses and deficits is correct?
- If tax revenues exceed expenditures, the government has a budget deficit.
  - Since 1970, federal revenues have generally exceeded expenditures.
  - Budget deficits tend to shrink during periods of recession.
  - During the 1980s large deficits arose from a combination of tax cuts and expenditure increases.

**Answer: D****Topic: Budget Surplus and Deficit****Skill: Conceptual**

- 19) In 2003, the U.S. government budget registered a deficit. By definition, then,
- tax revenues were less than government expenditure.
  - tax revenues were equal to government expenditure.
  - tax revenues were greater than government expenditure.
  - the government debt became negative.

**Answer: A****Topic: Budget Surplus and Deficit****Skill: Conceptual**

- 20) Suppose the only revenue taken in by the government is in the form of income tax, and the tax rate is 10 percent. If aggregate income is \$800 billion, and government expenditures are \$100 billion then the government budget has
- a deficit of \$20 billion.
  - a surplus of \$20 billion.
  - neither a surplus nor a deficit.
  - a deficit of \$80 billion.

**Answer: A****Topic: Deficits and Debt****Skill: Recognition**

- 21) The sum of accumulated annual federal budget deficits in excess of budget surpluses refers to
- the national debt.
  - the cyclically unbalanced budget.
  - the trade deficit.
  - the federal government net worth.

**Answer: A**

**Topic: Deficits and Debt****Skill: Recognition**

- 22) If the government has a balanced budget, the total amount of government debt is
- increasing.
  - decreasing.
  - constant.
  - zero.

**Answer: C****Topic: Deficits and Debt****Skill: Recognition**

- 23) If the government runs a surplus, the total amount of government debt is
- increasing.
  - decreasing.
  - constant.
  - zero.

**Answer: B****Topic: Deficits and Debt****Skill: Recognition**

- 24) If the government runs a deficit, the total amount of government debt is
- increasing.
  - decreasing.
  - constant.
  - zero.

**Answer: A****Topic: Deficits and Debt****Skill: Conceptual**

- 25) When the government's expenditures exceed its revenues
- it needs to borrow.
  - it incurs a budget deficit.
  - the federal government debt increases.
  - All of the above answers are correct.

**Answer: D****Topic: Deficits and Debt****Skill: Conceptual**

- 26) An increase in the government \_\_\_\_ reduces the government's \_\_\_\_.
- budget deficit; debt
  - budget surplus; debt
  - debt; budget deficit
  - None of the above answers is correct.

**Answer: B****Topic: Deficits and Debt****Skill: Recognition**

- 27) The difference between the government debt and the budget deficit is
- the government debt shows the annual discrepancy between government spending and tax revenue and the budget deficit shows the accumulated balance of past government debts.
  - the budget deficit shows the annual discrepancy between government spending and tax revenue and the government debt shows the accumulated balance of past government debts.
  - not significant because both move in the same direction.
  - none.

**Answer: B****Topic: Deficits and Debt****Skill: Conceptual**

- 28) Suppose a country has been running a persistent government budget deficit. If the deficit is reduced, but remains positive,
- government debt will increase.
  - government debt will decrease.
  - the country will experience a budget surplus.
  - interest payments on the debt immediately will decrease.

**Answer: A****Topic: Deficits and Debt****Skill: Conceptual**

- 29) If tax revenue equal \$1.5 billion and government expenditures equal \$1.6 billion, then
- the government budget has a deficit of \$0.1 billion.
  - the government budget has a surplus of \$0.1 billion.
  - the government debt is equal to \$0.1 billion.
  - the government debt declines by \$0.1 billion.

**Answer: A**

Year	Government tax revenues (billions of dollars)	Government expenditures (billions of dollars)
1	240	240
2	250	245
3	260	255
4	300	320
5	325	340

**Topic: Budget Surplus or Deficit****Skill: Analytical**

- 30) What is the amount of the surplus or deficit incurred in year 1 by the government shown in the above table?
- \$0.
  - \$25 billion deficit.
  - \$25 billion surplus.
  - \$240 billion surplus.

**Answer: A****Topic: Budget Surplus or Deficit****Skill: Analytical**

- 31) What is the amount of the surplus or deficit incurred in year 2 by the government shown in the above table?
- \$0.
  - \$5 billion surplus.
  - \$5 billion deficit.
  - \$250 billion surplus.

**Answer: B****Topic: Budget Surplus or Deficit****Skill: Analytical**

- 32) What is the amount of the surplus or deficit incurred in year 3 by the government shown in the above table?
- \$0.
  - \$5 billion surplus.
  - \$5 billion deficit.
  - \$260 billion surplus.

**Answer: B****Topic: Budget Surplus or Deficit****Skill: Analytical**

- 33) What is the amount of the surplus or deficit incurred in year 4 by the government shown in the above table?
- \$20 billion deficit.
  - \$35 billion surplus.
  - \$5 billion surplus.
  - \$320 billion surplus.

**Answer: A****Topic: Budget Surplus or Deficit****Skill: Analytical**

- 34) What is the amount of the surplus or deficit incurred in year 5 by the government shown in the above table?
- \$15 billion deficit.
  - \$35 billion surplus.
  - \$5 billion surplus.
  - \$325 billion surplus.

**Answer: A****Topic: Deficits and Debt****Skill: Analytical**

- 35) The government begins year 1 with \$25 billion of debt. Based on the information in the above table, what is the amount of debt following year 1?
- \$0.
  - \$25 billion.
  - \$240 billion.
  - Not enough information is provided to answer the question.

**Answer: B****Topic: Deficits and Debt****Skill: Analytical**

- 36) The government begins year 1 with \$25 billion of debt. Based on the information in the above table, what is the amount of debt following year 2?
- \$245 billion.
  - \$5 billion.
  - \$250 billion.
  - \$20 billion.

**Answer: D**

**Topic: Deficits and Debt****Skill: Analytical**

- 37) The government begins year 1 with \$25 billion of debt. Based on the information in the above table, what is the amount of debt following year 3?
- \$15 billion.
  - \$5 billion.
  - \$20 billion.
  - \$260 billion.

**Answer: A****Topic: Deficits and Debt****Skill: Analytical**

- 38) The government begins year 1 with \$25 billion of debt. Based on the information in the above table, what is the amount of debt following year 4?
- \$20 billion (The government has net saving rather than debt).
  - \$35 billion.
  - \$5 billion.
  - \$320 billion.

**Answer: B****Topic: Deficits and Debt****Skill: Analytical**

- 39) The government begins year 1 with \$25 billion of debt. Based on the information in the above table, what is the amount of debt following year 5?
- \$20 billion (The government has net saving rather than debt).
  - \$35 billion.
  - \$50 billion.
  - \$325 billion.

**Answer: C**

## ■ The Supply Side: Employment and Potential GDP

**Topic: Supply Side Effects****Skill: Conceptual**

- 40) Looking at the supply-side effects on aggregate supply shows that a tax hike on labor income
- weakens the incentive to work.
  - decreases potential GDP.
  - will increase potential GDP because people work more to pay the higher taxes.
  - Both answers A and B are correct.

**Answer: D****Topic: Supply Side Effects****Skill: Conceptual**

- 41) Once supply side effects are taken into account, tax cuts for labor income can change
- the supply of labor
  - potential GDP.
- I only.
  - I and II.
  - II only.
  - Neither I nor II.

**Answer: B****Topic: Tax Wedge****Skill: Recognition\***

- 42) If we compare the United States to France, the U.S. tax wedge is \_\_\_\_ the French tax wedge.
- larger than
  - equals to
  - smaller than
  - not comparable to

**Answer: C****Topic: Laffer Curve****Skill: Conceptual\***

- 43) According to the Laffer curve, raising the tax rate
- always increases the amount of tax revenue.
  - always decreases the amount of tax revenue.
  - does not change the amount of tax revenue.
  - might increase, decrease, or not change the amount of tax revenue.

**Answer: C****Topic: Laffer Curve****Skill: Conceptual\***

- 44) The Laffer curve shows that increasing \_\_\_\_ increases \_\_\_\_ when \_\_\_\_ low.
- tax revenue; potential GDP; tax revenue is
  - tax rates; tax revenue; tax rates are
  - potential GDP; tax revenue; tax revenue is
  - None of the above answers is correct.

**Answer: D**

## ■ The Supply Side: Investment, Saving, and Economic Growth

### Topic: Fiscal Policy and Aggregate Supply

#### Skill: Conceptual

- 45) The supply side effects of a cut in tax rates include \_\_\_\_ in the supply of labor and \_\_\_\_ in the supply of capital.
- an increase; an increase
  - an increase; a decrease
  - a decrease; an increase
  - a decrease; a decrease

**Answer: A**

### Topic: Investment

#### Skill: Recognition

- 46)  $I$  equals
- $C + S + T$ .
  - $S + T - G - NX$ .
  - $S + T + G$ .
  - $C + T + G + NX$ .

**Answer: B**

### Topic: After-Tax Real Interest Rate

#### Skill: Analytical\*

- 47) Suppose the tax rate on interest income is 25 percent, the real interest rate is 4 percent, and the inflation rate is 4 percent. In this case, the real after-tax interest rate is
- .5 percent.
  - 3.5 percent.
  - 4.0 percent.
  - 2.0 percent.

**Answer: D**

### Topic: Government Saving

#### Skill: Conceptual

- 48) When a government has a budget surplus,
- it helps finance investment.
  - it crowds-out private saving.
  - it must be subtracted from private saving.
  - it increases the world real interest rate.

**Answer: A**

### Topic: Direct Effect of Government Saving

#### Skill: Conceptual

- 49) When government saving is negative,
- the real interest rate increases if the Ricardo-Barro effect does not apply.
  - the real interest rate decreases if the Ricardo-Barro effect does not apply.
  - investment is required to increase.
  - the real interest rate falls if the crowding-out effect applies.

**Answer: A**

### Topic: Direct Effect of Government Saving

#### Skill: Conceptual

- 50) If the government has a budget deficit and the Ricardo-Barro effect does not apply,
- the real interest rate increases.
  - investment decreases by the same amount as the deficit.
  - investment decreases, but by an amount less than the deficit.
  - Both answers A and C are correct.

**Answer: D**

### Topic: Crowding-Out Effect

#### Skill: Recognition

- 51) The idea that a government budget deficit decreases investment is called
- government dissaving.
  - the crowding-out effect.
  - the Ricardo-Barro effect.
  - the capital investment effect.

**Answer: B**

### Topic: Crowding Out

#### Skill: Recognition

- 52) The term “crowding out” relates to
- an effect of government dissaving.
  - increases in the real interest rate due to government budget deficit.
  - decreases in private investment because of government dissaving.
  - All of the above answers are correct.

**Answer: D**

**Topic: Crowding Out****Skill: Analytical**

- 53) If the government begins to run a larger budget deficits, then assuming there is no Ricardo-Barro effect,
- saving decreases and the real interest rate falls..
  - saving decreases and the real interest rate rises..
  - saving increases and the real interest rate rises..
  - saving increases and the real interest rate falls..

**Answer: B****Topic: Crowding Out****Skill: Analytic**

- 54) In the absence of the Ricardo-Barro effect, an increase in the government deficit results in a \_\_\_\_\_ real interest rate and a \_\_\_\_\_ equilibrium quantity of investment.
- higher; higher
  - higher; lower
  - lower; higher
  - lower; lower

**Answer: B****Topic: Crowding Out****Skill: Conceptual**

- 55) If government saving is negative (that is, if government is running a budget deficit), crowding out might occur. Crowding out leads to all of the following EXCEPT
- a higher real interest rate.
  - a decreased quantity of investment.
  - a smaller capital stock in the future.
  - decreased private saving.

**Answer: D****Topic: Ricardo-Barro Effect****Skill: Recognition**

- 56) The tendency for private saving to increase in response to growing government deficits is known as the
- crowding out effect.
  - money illusion effect.
  - Keynes effect.
  - Ricardo-Barro effect.

**Answer: D****Topic: Ricardo-Barro Effect****Skill: Recognition**

- 57) The Ricardo-Barro effect holds that
- equal increases in taxes and government purchases have no effect on equilibrium real GDP.
  - government budget deficits have no effect on the real interest rate.
  - a government budget deficit crowds out private investment.
  - a government budget deficit induces a decrease in saving that magnifies the crowding out effect.

**Answer: B****Topic: Ricardo-Barro Effect****Skill: Recognition**

- 58) According to the Ricardo-Barro effect, government deficits
- lead to a rise in the equilibrium real interest rate, crowding out investment.
  - lead to simultaneous increases in private saving and no effect on the equilibrium real interest rate and investment.
  - lead to simultaneous decreases in private saving and decreases in the equilibrium real interest rate and investment.
  - lead to a fall in the equilibrium real interest rate and a rise in investment.

**Answer: B****Topic: Ricardo-Barro Effect****Skill: Recognition**

- 59) According to the Ricardo-Barro effect,
- the government budget has no effect on the real interest rate.
  - a government budget deficit crowds out private investment.
  - financing government spending with taxes has a less severe effect on private investment than financing through government borrowing.
  - None of the above answers are correct.

**Answer: A****Topic: Ricardo-Barro Effect****Skill: Conceptual\***

- 60) The Ricardo-Barro effects assets that government
- saving affects private saving.
  - budget deficits crowd out private borrowing.
  - spending affects private spending.
  - taxation raises interest rates.

**Answer: A**

**Topic: Ricardo-Barro Effect****Skill: Analytical**

- 61) If the Ricardo-Barro effect is present, a government budget deficit raises the equilibrium real interest rate by \_\_\_\_ and decreases the equilibrium quantity of investment by \_\_\_\_ than if the Ricardo-Barro effect is absent.
- more; more
  - more; less
  - less; more
  - less; less

**Answer: D****■ Generational Effects of Fiscal Policy****Topic: Present Value****Skill: Conceptual\***

- 62) The \_\_\_\_ the interest rate, the \_\_\_\_ the present value of a given future amount.
- higher; larger
  - higher; smaller
  - lower; lower
  - None of the above answers is correct because the interest rate has nothing to do with the present value.

**Answer: C****Topic: Fiscal Imbalance****Skill: Recognition\***

- 63) Splitting the fiscal imbalance between current and future generations is called
- genealogical accounting.
  - actuarial accounting.
  - generational imbalance.
  - actuarial balance.

**Answer: C****Topic: Fiscal Imbalance****Skill: Recognition\***

- 64) Comparing the fiscal imbalance for the current generation versus future generations, it is the case that
- future generations pay a larger share of the fiscal imbalance.
  - the current generation pays a larger share of the fiscal imbalance.
  - each generation pays half of the fiscal imbalance.
  - each generation pays all of its fiscal imbalance.

**Answer: A****Topic: International Debt****Skill: Recognition\***

- 65) In order for the United States to repay its international debt, the United States would need to
- have a current account deficit.
  - cut taxes.
  - have a surplus of imports over exports.
  - have a surplus of exports over imports.

**Answer: D****■ Stabilizing the Business Cycle****Topic: Discretionary Fiscal Policy****Skill: Recognition**

- 66) A discretionary fiscal policy is a fiscal policy that
- involves a change in government defense spending.
  - is triggered by the state of the economy.
  - requires action by the Congress.
  - involves a change in corporate tax rates.

**Answer: C****Topic: Discretionary Fiscal Policy****Skill: Conceptual**

- 67) An example of a discretionary fiscal policy is when
- tax receipts fall as incomes fall.
  - unemployment compensation payments rise with unemployment rates.
  - food stamp payments rise when the economy is in a recession.
  - Congress passes a law that raises personal marginal tax rates.

**Answer: D****Topic: Discretionary Fiscal Policy****Skill: Conceptual**

- 68) The tax cuts passed by Congress in 2003 to help move the economy more rapidly toward potential GDP are an example of
- automatic fiscal policy.
  - discretionary fiscal policy.
  - lump-sum taxes.
  - contractionary fiscal policy.

**Answer: B**

**Topic: Government Purchases Multiplier****Skill: Conceptual**

- 69) The effects of a change in government purchases is multiplied throughout an economy
- only when there is an increase in purchases.
  - only when there is a decrease in purchases.
  - because these purchases generate changes in consumption expenditure.
  - because taxes are left unchanged.

**Answer: C****Topic: Tax Multiplier****Skill: Conceptual**

- 70) The effect of a change in taxes is less than the same sized change in government purchases because
- the amount by which consumption initially changes is the *MPC* times the tax change.
  - the amount by which taxes change is affected by the *MPC*.
  - changes in government spending do not directly affect consumption.
  - tax rates are the same regardless of income levels.

**Answer: A****Topic: Tax Multiplier****Skill: Conceptual**

- 71) The tax multiplier is
- larger than the government purchases multiplier.
  - smaller than the government purchases multiplier.
  - equal to the government purchases multiplier.
  - negative.

**Answer: B****Topic: Expansionary Fiscal Policy****Skill: Recognition**

- 72) An expansionary fiscal policy is
- a cut in taxes.
  - an increase in taxes.
  - a decrease in government purchases.
  - None of the above is an expansionary fiscal policy.

**Answer: A****Topic: Contractionary Fiscal Policy****Skill: Recognition**

- 73) A contractionary fiscal policy is
- a cut in taxes.
  - an increase in taxes.
  - an increase in government purchases.
  - None of the above is a contractionary fiscal policy.

**Answer: B****Topic: Contractionary Fiscal Policy****Skill: Analytical**

- 74) With a steep short-run aggregate supply curve,
- an increase in government spending will not have an impact on the price level.
  - fiscal policy will be an effective tool to reduce unemployment without raising prices too much.
  - an increase in taxes that does not change potential GDP will not decrease real GDP by much.
  - there is a large change in real GDP whenever the price level rises.

**Answer: C****Topic: Fiscal Policy****Skill: Analytical**

- 75) An increase in government purchases shifts the *AD* curve \_\_\_\_ and an increase in taxes shifts the *AD* curve \_\_\_\_.
- rightward; rightward
  - rightward; leftward
  - leftward; rightward
  - leftward; leftward

**Answer: B****Topic: Fiscal Policy****Skill: Analytical**

- 76) A decrease in government purchases shifts the *AD* curve \_\_\_\_ and a decrease in taxes shifts the *AD* curve \_\_\_\_.
- rightward; rightward
  - rightward; leftward
  - leftward; rightward
  - leftward; leftward

**Answer: C**

**Topic: Equilibrium GDP and the Price Level****Skill: Conceptual**

- 77) If the government wants to engage in fiscal policy to increase real GDP, it could
- increase government purchases in order to increase aggregate supply.
  - decrease government purchases in order to increase aggregate supply.
  - increase government purchases in order to increase aggregate demand.
  - decrease government purchases in order to decrease aggregate demand.

**Answer: C****Topic: Equilibrium GDP and the Price Level****Skill: Conceptual**

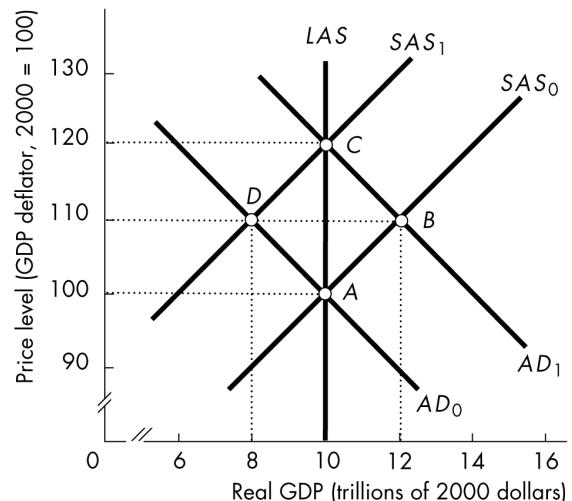
- 78) An economy has real GDP of \$300 billion and potential GDP of \$240 billion. To move the economy to potential GDP, the government should \_\_\_\_ taxes and/or \_\_\_\_ government purchases.
- increase; increase
  - increase; decrease
  - decrease; increase
  - decrease; decrease

**Answer: B****Topic: Equilibrium GDP and the Price Level****Skill: Conceptual**

- 79) Using the *AD-AS* model, an increase in government spending
- has no impact on real GDP.
  - has no impact on real GDP, but will increase potential GDP.
  - increases both real GDP and the price level.
  - has a full multiplier effect on real GDP, leaving unchanged the price level in the short run.

**Answer: C****Topic: Equilibrium GDP and the Price Level****Skill: Conceptual**

- 80) The government increases its purchases. The steeper the *SAS* curve, the \_\_\_\_ will be the increase in the price level and the \_\_\_\_ will be the increase in real GDP.
- larger; larger
  - larger; smaller
  - smaller; larger
  - smaller; smaller

**Answer: B****Topic: Equilibrium GDP and the Price Level****Skill: Analytical**

- 81) In the above figure, if the economy is initially at point *D* and government purchases increase, the economy will move to point
- move to point *C*.
  - move to point *A*.
  - move to point *B*.
  - stay at point *D*.

**Answer: A****Topic: Equilibrium GDP and the Price Level****Skill: Analytical**

- 82) In the above figure, if the economy is initially at point *B* and government purchases decrease, the economy will
- move to point *C*.
  - move to point *A*.
  - move to point *D*.
  - stay at point *B*.

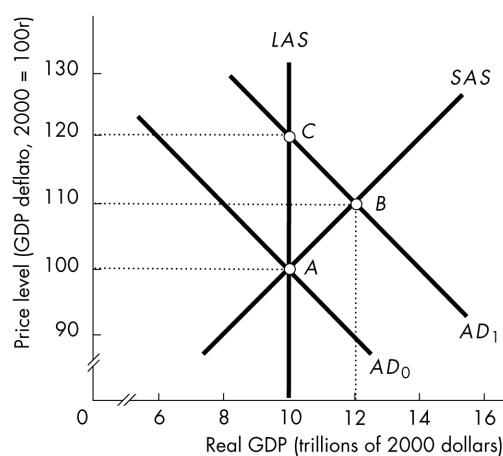
**Answer: B****Topic: Equilibrium GDP and the Price Level****Skill: Analytical**

- 83) In the above figure, if the economy is initially at point *D* and taxes are cut, if potential GDP does not change then the economy will move to point
- move to point *C*.
  - move to point *A*.
  - move to point *B*.
  - stay at point *D*.

**Answer: A**

**Topic: Equilibrium GDP and the Price Level****Skill: Analytical**

- 84) In the above figure, if the economy is initially at point *B* and taxes are cut, if potential GDP does not change then the economy will move to point
- move to point *C*.
  - move to point *A*.
  - move to point *D*.
  - stay at point *B*.

**Answer: B****Topic: Equilibrium GDP and the Price Level****Skill: Analytical**

- 85) In the above figure, if the economy initially is at point *A* and government purchases increase, in the short run the economy will move to point
- B*.
  - C*.
  - A*, that is, the equilibrium will NOT change.
  - None of the above answers is correct.

**Answer: A****Topic: Equilibrium GDP and the Price Level****Skill: Conceptual**

- 86) Suppose that real GDP equals potential GDP, but the government believes that the economy is in a below full-employment equilibrium. As a result, the government increases its purchases of goods and services. In response to the government's expansionary fiscal policy,
- aggregate demand will increase.
  - an equilibrium with real GDP less than potential GDP will occur.
  - potential GDP decreases.
  - None of the above answers is correct..

**Answer: D****Topic: Fiscal Policy, the Price Level, and Aggregate Supply****Skill: Analytical**

- 87) Suppose a tax cut affects both aggregate demand and aggregate supply. The larger is the supply-side effect of the tax cut, the \_\_\_ is the increase in real GDP and the \_\_\_ is the increase in the price level.

- larger; larger
- larger; smaller
- smaller; larger
- smaller; smaller

**Answer: B****Topic: Automatic Stabilizer****Skill: Recognition**

- 88) An automatic stabilizer
- requires action by the Congress.
  - is triggered by the state of the economy.
  - involves a change in government purchases.
  - involves a change in personal tax rates.

**Answer: B****Topic: Automatic Stabilizer****Skill: Recognition**

- 89) Income taxes and transfer payments
- act like economic shock absorbers and stabilize fluctuations in income.
  - prevent the economy from moving toward equilibrium.
  - increase the effects of investment and imports.
  - increase the rate of long-run income growth.

**Answer: A**

**Topic: Automatic Stabilizer****Skill: Conceptual**

- 90) An example of an automatic fiscal policy stabilizer is when
- tax revenues decrease as real GDP decreases.
  - Congress passes a law that raises tax rates.
  - Congress decides to cut government spending.
  - the president drafts a bill to reduce defense spending.

**Answer: A****Topic: Automatic Stabilizer****Skill: Conceptual**

- 91) Because of automatic stabilizers, when real GDP decreases
- government expenditures decrease and tax revenues increase.
  - government expenditures increase and tax revenues decrease.
  - government expenditures equal tax revenues.
  - the economy will automatically go to full employment.

**Answer: B****Topic: Automatic Stabilizer****Skill: Conceptual**

- 92) Because of automatic stabilizers, when real GDP increases
- government expenditures decrease and tax revenues increase.
  - government expenditures increase and tax revenues decrease.
  - government expenditures equal tax revenues.
  - the economy will automatically go to full employment.

**Answer: A****Topic: Automatic Stabilizer****Skill: Conceptual**

- 93) Because of automatic stabilizers, when GDP fluctuates the
- government's budget remains in balance.
  - government's deficit fluctuates directly with GDP so that it is larger when GDP increases.
  - government's deficit fluctuates inversely with GDP so that it is larger when GDP decreases.
  - the economy will automatically go to full employment.

**Answer: C****Topic: Induced Taxes****Skill: Recognition**

- 94) The term "induced taxes" refers to
- the taxes that we are forced to pay.
  - sales taxes that we pay but could avoid if we choose not to purchase the item.
  - the rise in taxes due to a rise in GDP.
  - local property taxes that we pay in addition to the federal income tax.

**Answer: C****Topic: Induced Taxes****Skill: Recognition**

- 95) Induced taxes
- are autonomous.
  - are independent of real GDP.
  - vary with real GDP.
  - are fixed over time.

**Answer: C****Topic: Induced Taxes****Skill: Conceptual**

- 96) Induced taxes
- decrease during recessions and expansions.
  - decrease during recessions and increase during expansions.
  - increase during recessions and decrease in expansions.
  - increase during recessions and expansions.

**Answer: B****Topic: Needs-Tested Spending****Skill: Conceptual**

- 97) Needs-tested spending
- decreases during recessions and expansions.
  - decreases during recessions and increases during expansions.
  - increases during recessions and decreases in expansions.
  - increases during recessions and expansions.

**Answer: C****Topic: Induced Taxes and Needs-Tested Spending****Skill: Conceptual**

- 98) The size of the government purchases multiplier is \_\_\_\_ by induced taxes and \_\_\_\_ by entitlement spending.
- increased; increased
  - increased; decreased
  - decreased; increased
  - decreased; decreased

**Answer: D**

**Topic: Induced Taxes and Needs-Tested Spending****Skill: Conceptual**

- 99) \_\_\_\_ taxes and transfer payments \_\_\_\_ the size of the government purchases multiplier.
- Induced; decrease
  - Induced; increase
  - Lump-sum; decrease
  - Lump-sum; increase

**Answer: A****Topic: Budget Deficit Over the Business Cycle****Skill: Conceptual**

- 100) Government transfer payments
- increase during expansions and recessions.
  - increase during expansions and decrease during recessions.
  - decrease during expansions and increase during recessions.
  - decrease during expansions and recessions.

**Answer: C****Topic: Budget Deficit Over the Business Cycle****Skill: Recognition**

- 101) During an expansion, tax revenues \_\_\_\_, while during a recession, tax revenues \_\_\_\_.
- decrease; increase
  - increase; decrease
  - remain stable; decrease
  - fail to cover expenditures; fail to match transfer payments

**Answer: B****Topic: Budget Deficit Over the Business Cycle****Skill: Recognition**

- 102) Historically, the budget deficit has tended to
- increase during a recession.
  - decrease during a recession.
  - remain the same over the business cycle.
  - decline steadily over time.

**Answer: A****Topic: Budget Deficit Over the Business Cycle****Skill: Recognition**

- 103) The government budget deficit tends to decline during the expansion phase of a business cycle because tax revenues \_\_\_\_ and government transfer payments \_\_\_\_.
- increase; increase
  - increase; decrease
  - decrease; increase
  - decrease; decrease

**Answer: B****Topic: Budget Deficit Over the Business Cycle****Skill: Recognition**

- 104) During an expansion, tax revenues \_\_\_\_ and government transfer payments \_\_\_\_.
- increase; increase
  - increase; decrease
  - decrease; increase
  - decrease; decrease

**Answer: B****Topic: Cyclical and Structural Balances****Skill: Recognition**

- 105) The structural deficit or surplus is the
- difference between actual government expenditures and actual government receipts.
  - change in national debt that will result from current budgetary policies.
  - government budget deficit or surplus that would occur if the economy were at potential GDP.
  - actual government budget deficit or surplus minus expenditures for capital improvements.

**Answer: C****Topic: Cyclical and Structural Balances****Skill: Recognition**

- 106) The structural deficit is the deficit
- during a recession.
  - during a recovery.
  - that would occur at full employment.
  - caused by the business cycle.

**Answer: C****Topic: Cyclical and Structural Balances****Skill: Recognition**

- 107) The structural surplus is the surplus
- during a recession.
  - during a recovery.
  - that would occur at full employment.
  - caused by the business cycle.

**Answer: C**

**Topic: Cyclical and Structural Balances****Skill: Recognition**

- 108) A structural deficit occurs when the government budget has a deficit
- even though real GDP is less than potential GDP.
  - even though real GDP is greater than structural GDP.
  - even though real GDP is equal to potential GDP.
  - that is nominal, as opposed to a real budget deficit.

**Answer: C****Topic: Cyclical and Structural Balances****Skill: Recognition**

- 109) The structural deficit is the deficit that occurs when
- real GDP departs from potential GDP.
  - real GDP equals potential GDP.
  - aggregate demand is greater than short-run aggregate supply.
  - short-run aggregate supply is greater than aggregate demand.

**Answer: B****Topic: Cyclical and Structural Balances****Skill: Recognition**

- 110) A cyclical surplus is a
- budget surplus only because real GDP is less than potential GDP.
  - budget surplus only because real GDP is greater than potential GDP.
  - budget surplus only because real GDP is equal to potential GDP.
  - nominal, as opposed to real, budget surplus.

**Answer: B****Topic: Cyclical and Structural Balances****Skill: Conceptual**

- 111) Which of the following relationships is correct?
- $\text{actual budget deficit} = \text{structural deficit} - \text{cyclical deficit}$
  - $\text{cyclical surplus} = \text{actual budget deficit} - \text{cyclical deficit}$
  - $\text{actual budget deficit} = \text{structural deficit} + \text{cyclical deficit}$
  - $\text{cyclical deficit} = \text{actual budget deficit} + \text{structural deficit}$

**Answer: C****Topic: Cyclical and Structural Balances****Skill: Conceptual**

- 112) The actual budget deficit is equal to the
- structural deficit.
  - cyclical deficit.
  - structural deficit minus the cyclical deficit.
  - structural deficit plus the cyclical deficit.

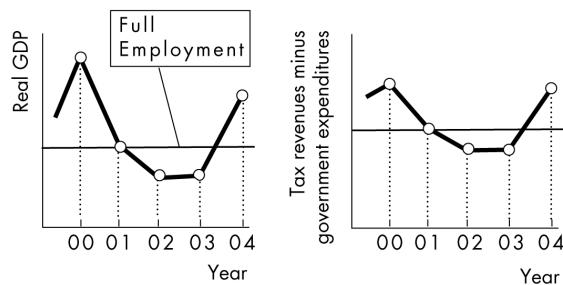
**Answer: D****Topic: Cyclical and Structural Deficits****Skill: Analytical**

- 113) If the budget deficit is \$50 billion and the structural deficit is \$10 billion, the cyclical deficit is
- \$10 billion.
  - \$40 billion.
  - \$60 billion.
  - \$50 billion

**Answer: B****Topic: Cyclical and Structural Deficits****Skill: Analytical**

- 114) If the economy has a structural deficit of \$25 billion and a cyclical deficit of \$75, we can conclude that the current budget deficit is \_\_\_\_ billion.
- \$25
  - \$50
  - \$75
  - \$100

**Answer: D**

**Topic: Cyclical and Structural Balances****Skill: Analytical**

- 115) Economic data for a mythical economy in the years 2000-2004 are summarized in the figure above. Assume that the spending formulas and tax schedules are identical for all years. When the economy is at full employment, the government has a
- budget surplus.
  - balanced budget.
  - budget deficit.
  - procyclical policy.

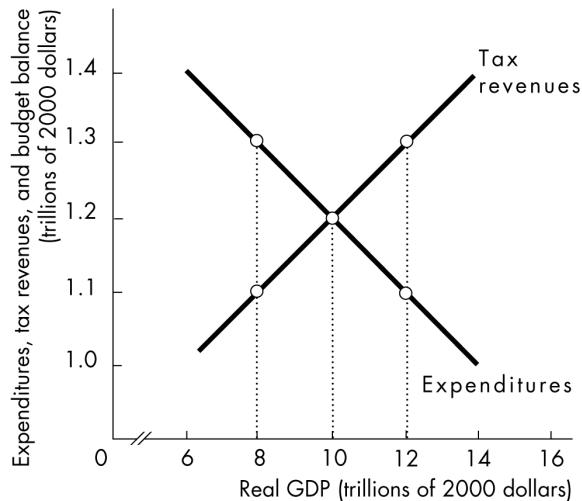
**Answer: B****Topic: Cyclical and Structural Balances****Skill: Analytical**

- 116) Economic data for a mythical economy in the years 2000-2004 are summarized in the figure above. Assume that the spending formulas and tax schedules are identical for all years. When the economy is above full employment, the government has a
- budget surplus.
  - balanced budget.
  - budget deficit.
  - procyclical policy.

**Answer: A****Topic: Cyclical and Structural Balances****Skill: Analytical**

- 117) Economic data for a mythical economy in the years 2000-2004 are summarized in the figure above. Assume that the spending formulas and tax schedules are identical for all years. When the economy is at less than full employment, the government has a

- budget surplus.
- balanced budget.
- budget deficit.
- procyclical policy.

**Answer: C****Topic: Cyclical and Structural Deficits****Skill: Analytical**

- 118) Using the above figure, if full employment occurs at \$12 trillion and the economy is actually producing \$12 trillion, then there is a
- cyclical deficit.
  - cyclical surplus.
  - structural deficit.
  - structural surplus.

**Answer: D**

**Topic: Cyclical and Structural Deficits****Skill: Analytical**

- 119) Using the above figure, if full employment occurs at \$10 trillion, but the economy is actually producing \$12 trillion, then there is a
- cyclical deficit.
  - cyclical surplus.
  - structural deficit.
  - structural surplus.

**Answer: B****■ Study Guide Questions****Topic: Study Guide Question, Budget Surplus and Deficit****Skill: Conceptual**

- 120) If the government's expenditures are \$1.5 trillion and its tax revenues are \$2.2 trillion, the government is running a budget
- surplus of \$0.7 trillion.
  - surplus of \$3.7 trillion.
  - deficit of \$0.7 trillion.
  - deficit of \$3.7 trillion.

**Answer: A****Topic: Study Guide Question, Government Purchases Multiplier****Skill: Analytical**

- 121) Which of the following reduces the size of the government purchases multiplier?
- A decrease in the marginal propensity to import.
  - A decrease in the marginal tax rate.
  - A decrease in the marginal propensity to consume.
  - An increase in the marginal propensity to consume.

**Answer: C****Topic: Study Guide Question, Government Purchases Multiplier****Skill: Analytical**

- 122) If the  $MPC$  is 0.75, what is the government purchases multiplier?
- 4.0.
  - 7.5.
  - 4.0.
  - 7.5.

**Answer: A****Topic: Study Guide Question, Government Purchases Multiplier****Skill: Analytical**

- 123) If the  $MPC$  is 0.9, what is the government purchases multiplier?
- 5.0.
  - 10.0.
  - 5.0.
  - 9.0.

**Answer: B****Topic: Study Guide Question, Government Purchases Multiplier****Skill: Analytical**

- 124) If the government purchases multiplier is 2.5 and government purchases increase by \$10 billion but prices do not change, equilibrium expenditure
- increases by \$25 billion.
  - increases by more than \$25 billion.
  - increases by less than \$25 billion.
  - is unaffected.

**Answer: A****Topic: Study Guide Question, Lump-Sum Tax Multiplier****Skill: Analytical**

- 125) If the  $MPC$  is 0.6, what is the lump-sum tax multiplier?
- 2.5.
  - 2.5.
  - 1.5.
  - 1.5.

**Answer: C****Topic: Study Guide Question, Multipliers****Skill: Conceptual**

- 126) Which of the following policies shifts the  $AD$  curve the farthest leftward?
- A rise in taxes of \$10 billion.
  - A cut in taxes of \$10 billion.
  - A decrease in government purchases of \$10 billion.
  - A decrease in both government purchases and taxes of \$10 billion.

**Answer: C**

**Topic: Study Guide Question, Marginal Tax Rate****Skill: Analytical**

- 127) How do higher marginal tax rates affect the size of the government purchases multiplier?
- They increase its size.
  - They have no effect on its size.
  - They reduce its size.
  - The answer depends on the presence of lump-sum taxes in the economy in addition to income taxes.

**Answer: C****Topic: Study Guide Question, Cyclical and Structural Balances****Skill: Conceptual**

- 128) If the government's budget is in surplus even when the economy is at full employment, the surplus is said to be
- persisting.
  - cyclical.
  - discretionary.
  - structural.

**Answer: D****■ MyEconLab Questions****Topic: The Federal Budget****Level I: Definitions and Concepts**

- 129) Prior to the Great Depression, the purpose of the federal budget was to \_\_\_\_.
- stabilize the economy
  - finance the activities of the government
  - maintain low interest rates
  - decrease unemployment

**Answer: B****Topic: Fiscal Policy****Level I: Definitions and Concepts**

- 130) Fiscal policy attempts to achieve all of the following objectives except \_\_\_\_.
- a stable money supply
  - price level stability
  - full employment
  - sustained economic growth

**Answer: A****Topic: Council of Economic Advisers****Level I: Definitions and Concepts**

- 131) The Council of Economic Advisors have the following roles except \_\_\_\_.
- proposing the federal government's budget to Congress
  - making forecasts of where the economy is heading
  - monitoring the U.S. economy
  - keeping the President informed about the current state of the economy

**Answer: A****Topic: Budget Surplus and Deficit****Level I: Definitions and Concepts**

- 132) When tax revenues exceed expenditures, the government has a \_\_\_\_, and when expenditures exceed tax revenues, the government has a \_\_\_\_.
- budget surplus; budget debt
  - budget deficit; budget surplus
  - budget debt; budget surplus
  - budget surplus; budget deficit

**Answer: D****Topic: Deficits and Debt****Level I: Definitions and Concepts**

- 133) The government debt is equal to the \_\_\_\_ plus \_\_\_\_.
- current deficit; the current surplus
  - current surplus; the sum of past deficits
  - sum of past deficits; the current deficit
  - sum of past deficits; the sum of past surpluses

**Answer: C****Topic: Automatic Fiscal Policy****Level I: Definitions and Concepts**

- 134) A fall in income that results in a decrease in tax revenues is an example of \_\_\_\_.
- automatic fiscal policy
  - lump-sum taxes
  - a recession
  - discretionary fiscal policy

**Answer: A**

**Topic: Discretionary Fiscal Policy****Level 1: Definitions and Concepts**

- 135) An increase in the income tax rates is an example of \_\_\_\_.
- discretionary fiscal policy
  - increasing the government debt
  - increasing the government deficit
  - needs-tested taxing change.

**Answer: A****Topic: Government Purchases Multiplier****Level 1: Definitions and Concepts**

- 136) The amount by which a change in government purchases of goods and services is multiplied to determine the change in aggregate demand that it generates is the \_\_\_\_.
- goods and services multiplier
  - government purchases multiplier
  - slope of the  $AE$  curve
  - increase in real GDP

**Answer: b****Topic: Budget Surplus and Deficit****Level 2: Using Definitions and Concepts**

- 137) A government that currently has a budget deficit can balance its budget by \_\_\_\_.
- increasing tax revenues by more than it increases expenditures
  - increasing both tax revenues and expenditures by the same amount
  - decreasing tax revenues by more than it decreases expenditures
  - decreasing tax revenues by more than it increases expenditures

**Answer: A****Topic: The Federal Budget****Level 2: Using Definitions and Concepts**

- 138) The largest item of government expenditure is \_\_\_\_.
- debt interest
  - transfer payments
  - purchases of goods and services
  - debt reduction

**Answer: B****Topic: Needs-Tested Spending****Level 2: Using Definitions and Concepts**

- 139) Spending on programs that result in transfer payments that depend on the economic state of individuals and businesses is called \_\_\_\_.
- transfer spending
  - welfare
  - needs-tested spending
  - business subsidies

**Answer: C****Topic: Automatic Stabilizers****Level 2: Using Definitions and Concepts**

- 140) An automatic stabilizer is at work if as real GDP increases, \_\_\_\_.
- transfer payments decrease and interest rates decrease
  - transfer payments increase and tax revenues decrease
  - tax revenues increase and transfer payments decrease
  - tax revenues decrease and interest rates increase

**Answer: C****Topic: Cyclical and Structural Balances****Level 2: Using Definitions and Concepts**

- 141) A structural deficit is a deficit that exists \_\_\_\_.
- even if the economy is at full employment
  - only because real GDP is less than potential GDP
  - during a business cycle expansion
  - only during a recession

**Answer: A****Topic: Cyclical and Structural Balances****Level 2: Using Definitions and Concepts**

- 142) When an economy is above full employment and the government has a budget deficit, that deficit \_\_\_\_.
- exceeds the structural deficit
  - is equal to the structural deficit minus the cyclical deficit
  - is equal to the cyclical deficit minus the structural deficit
  - is less than the structural deficit

**Answer: D**

**Topic: Contractionary Fiscal Policy****Level 2: Using Definitions and Concepts**

143) A decrease in government purchases of goods and services is an example of \_\_\_\_.

- A) expansionary fiscal policy
- B) decreasing structural deficit
- C) increasing induced taxes
- D) contractionary fiscal policy

**Answer: D**

**Topic: Contractionary Fiscal Policy****Level 2: Using Definitions and Concepts**

144) Contractionary fiscal policy \_\_\_\_ aggregate demand and in the short run \_\_\_\_ real GDP.

- A) decreases; decreases
- B) increases; increases
- C) decreases; increases
- D) increases; decreases

**Answer: A**

**Topic: Budget Surplus and Deficit****Level 3: Calculations and Predictions**

145) In 2004, the federal government of Happy Isle had tax revenues of \$1 million, and spent \$500,000 on transfer payments, \$250,000 on goods and services and \$300,000 on debt interest. In 2004, the government of Happy Isle had a \_\_\_\_.

- A) balanced budget
- B) budget deficit of \$50,000
- C) budget surplus of \$50,000
- D) budget deficit of \$1,050,000

**Answer: B**

**Topic: Deficits and Debt****Level 3: Calculations and Predictions**

146) A country has been in existence for only two years. In the first year, tax revenues were \$1.0 million and expenditures were \$1.5 million. In the second year, tax revenues were \$1.5 million and expenditures were \$2.0 million. At the end of the second year, the government had issued debt worth \_\_\_\_.

- A) \$0.5 million
- B) \$1 million
- C) \$2.5 million
- D) \$3.5 million

**Answer: B**

**Topic: Government Purchases Multiplier****Level 3: Calculations and Predictions**

147) The \_\_\_\_, the smaller is the government purchases multiplier.

- A) larger the investment
- B) smaller the marginal propensity to consume
- C) larger the marginal propensity to consume
- D) larger the total amount of government purchases

**Answer: B**

**Topic: Equilibrium GDP and the Price Level****Level 3: Calculations and Predictions**

148) In an economy, the government purchases multiplier is 3. If government purchases increase by \$1 million, then in the short run, the price level \_\_\_\_ and real GDP \_\_\_\_ \$3 million.

- A) falls; decreases by less than
- B) rises; equals
- C) rises; increases by less than
- D) rises; decreases by less than

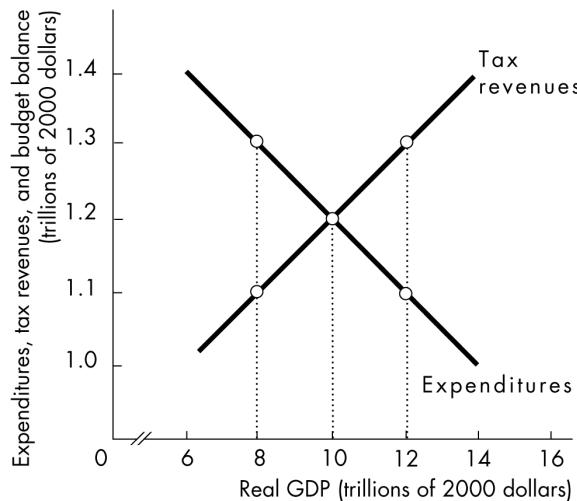
**Answer: C**

**Topic: Crowding Out****Level 3: Calculations and Predictions**

149) A fiscal policy that decreases government saving \_\_\_\_ saving, \_\_\_\_ the real interest rate, and \_\_\_\_ investment.

- A) increases; decreases; crowds out
- B) increases; decreases; increases
- C) decreases; increases; increases
- D) decreases; increases; crowds out

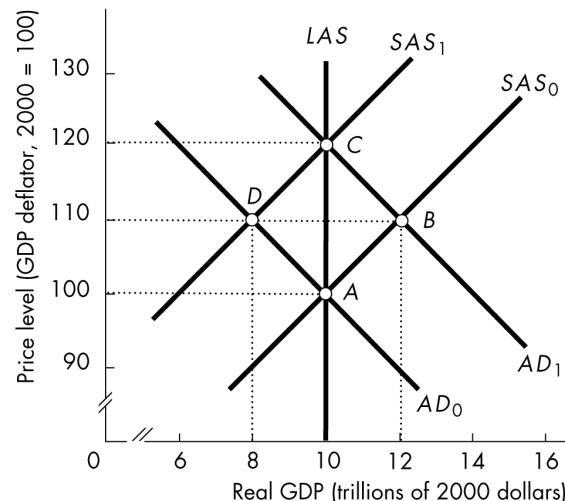
**Answer: D**

**Topic: Cyclical and Structural Balances****Level 4: Advanced Calculations and Predictions**

- 150) The figure above shows tax revenues and government expenditures in the economy of Meadowlake. Potential GDP is \$10 trillion. If real GDP is \$10 trillion, then the government has a \_\_\_\_.
- cyclical surplus
  - structural surplus
  - balanced budget
  - cyclical deficit

**Answer: C****Topic: Cyclical and Structural Balances****Level 4: Advanced Calculations and Predictions**

- 151) The figure above shows tax revenues and government expenditures in the economy of Meadowlake. Potential GDP is \$12 trillion. If real GDP is \$8 trillion, then the government has a \_\_\_\_.
- cyclical deficit
  - structural deficit
  - structural surplus
  - cyclical surplus

**Answer: A****Topic: Equilibrium GDP and the Price Level****Level 4: Advanced Calculations and Predictions**

- 152) The figure above illustrates the aggregate demand, short-run aggregate supply, and long-run aggregate supply in Lotus Land. The economy is currently at point D. Now the government increases its purchases of goods and services. The economy will move to \_\_\_\_\_. The price level will \_\_\_, and the change in real GDP will be \_\_\_ the increase in aggregate demand.
- point A; fall; less than
  - point D; rise; less than
  - point C; rise; less than
  - point B; remain constant; the same as

**Answer: C****Topic: Equilibrium GDP and the Price Level****Level 4: Advanced Calculations and Predictions**

- 153) The figure above illustrates the aggregate demand, short-run aggregate supply, and long-run aggregate supply in Lotus Land. The economy is currently at point D. Now the government decreases its taxes. The economy will move to \_\_\_\_\_. The price level will \_\_\_, and the change in real GDP will be \_\_\_ the increase in aggregate demand.
- point A; fall; less than
  - point D; rise; less than
  - point C; rise; less than
  - point B; remain constant; the same as

**Answer: C**



## ■ Instruments, Goals, Targets, and the Fed's Performance

**Topic: Policy Instruments****Skill: Recognition**

- 1) Which of the following is one of the Fed's policy instruments?
- A) help the President win reelection
  - B) discount rate
  - C) monetary base
  - D) price level stability.

**Answer: B****Topic: Policy Goals****Skill: Recognition**

- 2) Which of the following is one of the Fed's policy goals?
- A) help the President win reelection
  - B) discount rate
  - C) monetary base
  - D) price level stability.

**Answer: D****Topic: Intermediate Targets****Skill: Recognition**

- 3) Which of the following is one of the Fed's intermediate targets?
- A) help the President win reelection
  - B) discount rate
  - C) monetary base
  - D) price level stability.

**Answer: C****Topic: Policy****Skill: Conceptual**

- 4) Monetary policy affects macroeconomic performance by
- A) changing aggregate supply.
  - B) creating budget surpluses.
  - C) changing aggregate demand.
  - D) creating budget deficits.

**Answer: C****Topic: Monetary Policy Since 1971****Skill: Conceptual**

- 5) Measures of Fed policy activity include
- I. The budget deficit or surplus.
  - II. The federal funds rate.
  - III. The growth rate of M2.
- A) I and II.
  - B) I and III.
  - C) II and III.
  - D) I, II, and III.

**Answer: C****Topic: Monetary Policy Since 1971****Skill: Recognition**

- 6) In general, the monetary policy record since 1971 has shown
- A) an increase in government spending.
  - B) a decrease in the discount rate.
  - C) increases in M2 as presidential elections approach.
  - D) overall declines in interest rate.

**Answer: C**

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\* This is Chapter 32 in *Economics*.

## ■ Achieving Price Level Stability

**Topic: Policies**

**Skill: Recognition**

- 7) Monetary policy could be enacted on which of the following bases?
- variable-rule policy.
  - fixed-rule policy.
  - discretionary policy.
- A) I.  
B) I and II.  
C) II and III.  
D) I, II, and III.

**Answer: C**

**Topic: Fixed-Rule Policies**

**Skill: Recognition**

- 8) A policy that specifies an action to be pursued independently of the state of the economy is called a
- feedback rule.
  - fixed rule.
  - crowding-out rule.
  - standard rule.

**Answer: B**

**Topic: Fixed-Rule Policies**

**Skill: Recognition**

- 9) The views of fixed-rule advocates closely resemble the views of
- Keynesians.
  - feedback-rule advocates.
  - monetarists.
  - most non-economists.

**Answer: C**

**Topic: Fixed-Rule Policies**

**Skill: Conceptual**

- 10) An example of a fixed rule is to set the rate of growth of the quantity of money equal to
- the unemployment rate.
  - the rate of growth of real GDP.
  - the real interest rate.
  - a constant.

**Answer: D**

**Topic: Fixed-Rule Policies**

**Skill: Recognition**

- 11) A policy that requires the quantity of money to grow at a constant rate is a
- feedback rule.
  - fixed rule.
  - Keynesian rule.
  - Phillips rule.

**Answer: B**

**Topic: Fixed-Rule Policies**

**Skill: Recognition**

- 12) An example of a monetarist fixed-rule policy would be
- “every time GDP decreases, decrease the growth rate of the quantity of money.”
  - “every time GDP decreases, increase the growth rate of the quantity of money.”
  - “do not change the growth rate of the quantity of money.”
  - “use all information available to determine the growth rate of the quantity of money each time GDP changes.”

**Answer: C**

**Topic: Fixed-Rule Policies**

**Skill: Recognition\***

- 13) Monetarists believe that the best monetary policy is
- a discretionary policy.
  - no policy.
  - a fixed-rule policy.
  - a feedback-rule policy.

**Answer: C**

**Topic: Fixed-Rule Policies**

**Skill: Conceptual**

- 14) Economists who advocate fixed rules might suggest that
- the Fed should automatically adjust growth in the quantity of money to offset changes in the business cycle.
  - the economy is inherently unstable.
  - the quantity of money should expand at a constant rate.
  - Congress should delegate its money-creation powers to the president.

**Answer: C**

**Topic: Fixed-Rule Policies****Skill: Conceptual**

- 15) Under a fixed-rule policy, if the economy goes into a expansion, the Fed would
- decrease purchases of government bonds.
  - lower tax rates to keep revenue constant.
  - increase the quantity of money.
  - None of the above answers are correct.

**Answer: D****Topic: Feedback-Rule Policies****Skill: Recognition**

- 16) A policy that responds to current economic conditions is known as a
- business cycle rule.
  - fixed rule.
  - feedback rule.
  - monetarist policy.

**Answer: C****Topic: Feedback-Rule Policies****Skill: Conceptual**

- 17) Suppose the economy is in a recession and then the economy is pulled out of the recession by policy action. Based on this, you can determine that the government has adopted
- a fixed-rule policy.
  - a feedback-rule policy.
  - nondiscretionary policy.
  - None of the above answers are correct.

**Answer: B****Topic: Feedback-Rule Policies****Skill: Conceptual\***

- 18) If the Fed follows a feedback-rule monetary policy and aggregate demand decreases, the Fed
- increases the growth rate of the quantity of money.
  - does not change the quantity of money.
  - decreases the growth rate of the quantity of money.
  - None of the above answers is correct.

**Answer: A****Topic: Feedback-Rule Policies****Skill: Conceptual**

- 19) Under a feedback-rule that targets real GDP, if the economy goes into a recession, the Fed would
- increase the quantity of money.
  - reduce tax rates.
  - increase government purchases.
  - None of the above answers are correct.

**Answer: A****Topic: Stabilizing Aggregate Demand Shocks****Skill: Conceptual**

- 20) The economy is at full employment when aggregate demand temporarily decreases. A feedback-rule response to this decrease in aggregate demand would be to
- wait until the money wage rate increased.
  - wait until the money wage rate decreased.
  - perform expansionary policy.
  - perform contractionary policy.

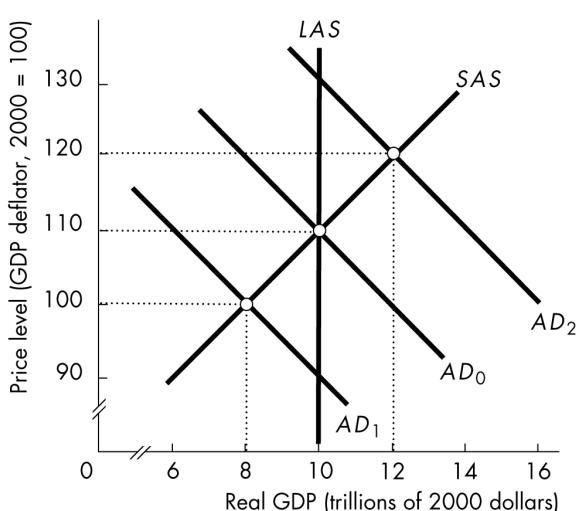
**Answer: C****Topic: Stabilizing Aggregate Demand Shocks****Skill: Analytical**

- 21) Suppose that the Fed is using this feedback rule: Every time real GDP exceeds potential GDP, contractionary policy is used and whenever real GDP is less than potential GDP, expansionary policy is used. GDP equals potential GDP and then aggregate demand increases. As a consequence of the policy action taken the resulting
- contractionary policy will lower the price level from what it otherwise would be.
  - contractionary policy will decrease unemployment from what it otherwise would be.
  - expansionary policy will decrease unemployment from what it otherwise would be.
  - expansionary policy will lower the price level from what it otherwise would be.

**Answer: A**

**Topic: Stabilizing Aggregate Demand Shocks****Skill: Analytical**

- 22) Suppose that a booming stock market permanently increases aggregate demand by \$0.4 trillion. A fixed-rule policy response to this change means that the Fed will \_\_\_\_.
- not attempt any change in aggregate demand
  - attempt to decrease aggregate demand by \$0.4 trillion
  - attempt to increase aggregate demand by \$0.4 trillion
  - attempt to increase aggregate supply by \$0.4 trillion

**Answer: A****Topic: Stabilizing Aggregate Demand Shocks****Skill: Analytical**

- 23) In the above figure, the economy experiences an unanticipated decrease in aggregate demand so that the aggregate demand curve shifts from  $AD_0$  to  $AD_1$ . If the Fed is following a feedback rule, it would \_\_\_\_.
- purchase bonds on the open market
  - sell bonds on the open market
  - lower taxes
  - increase government purchases

**Answer: A****Topic: Stabilizing Aggregate Demand Shocks****Skill: Analytical**

- 24) In the above figure, aggregate demand unexpectedly decreases so that the aggregate demand curve shifts from  $AD_0$  to  $AD_1$ . If the Fed is following a feedback rule, it will try to shift
- the  $AD$  curve to  $AD_2$ .
  - the  $AD$  curve back to  $AD_0$ .
  - the  $LAS$  curve rightward.
  - the  $SAS$  curve rightward.

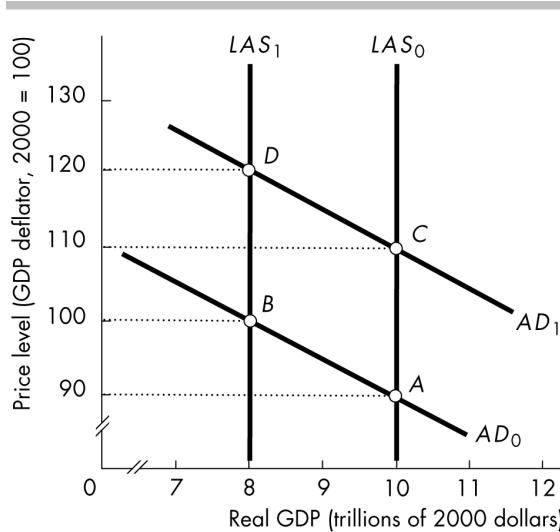
**Answer: B****Topic: Stabilizing Aggregate Supply Shocks****Skill: Analytical**

- 25) If potential real GDP decreases, a fixed rule results in actual real GDP \_\_\_\_ and the price level \_\_\_\_.
- increasing; rising
  - increasing; falling
  - decreasing; rising
  - decreasing; falling

**Answer: C****Topic: Stabilizing Aggregate Supply Shocks****Skill: Analytical**

- 26) If potential real GDP decreases, a feedback rule that increases the quantity of money
- results in a higher price level.
  - results in a lower price level.
  - shifts the aggregate supply curve rightward.
  - None of the above answers are correct.

**Answer: A**



**Topic: Stabilizing Productivity Shocks**  
**Skill: Analytical**

- 27) In the above figure, suppose the economy is initially at point A. Long-run aggregate supply decreases so that the long-run aggregate supply curve shifts from  $LAS_0$  to  $LAS_1$ . If a fixed-rule policy is in place,
- the economy never departs from point A.
  - the economy moves to point B.
  - the economy moves to point C.
  - the economy moves to point D.

**Answer: B**

**Topic: Stabilizing Productivity Shocks**  
**Skill: Analytical**

- 28) In the above figure, suppose the economy is initially at point A. Long-run aggregate supply decreases so that the long-run aggregate supply curve shifts from  $LAS_0$  to  $LAS_1$ . If a feedback rule that targets real GDP is in place,
- the economy never departs from point A.
  - the economy moves to point B.
  - the economy moves to point C.
  - the economy moves to point D.

**Answer: D**

**Topic: Stabilizing Productivity Shocks**

**Skill: Analytical**

- 29) In the above figure, suppose the economy is initially at point A. Long-run aggregate supply decreases so that the long-run aggregate supply curve shifts from  $LAS_0$  curve to  $LAS_1$ . If a feedback rule that targets the price level is in place,
- the economy never departs from point A.
  - the economy moves to point B.
  - the economy moves to point D.
  - None of the above answers is correct.

**Answer: D**

**Topic: Stabilizing Productivity Shocks**

**Skill: Analytical**

- 30) In the above figure, suppose the economy is initially at point A. Long-run aggregate supply decreases so that the long-run aggregate supply curve shifts from  $LAS_0$  curve to  $LAS_1$ . In comparing outcomes of the fixed-rule policy versus a feedback-rule that targets real GDP,
- real GDP is higher under the fixed-rule policy.
  - real GDP is higher under the feedback-rule policy.
  - the feedback-rule policy causes the price level to be higher than under the fixed-rule policy.
  - the fixed-rule policy causes the price level to be higher than under the feedback-rule policy.

**Answer: C**

**Topic: Cost-Push Pressure**

**Skill: Conceptual\***

- 31) If the Fed faces changes in cost-push pressure that shift the  $SAS$  curve, the Fed's monetary policy shifts the
- $AD$  curve.
  - $SAS$  curve.
  - $LAS$  curve.
  - $SAS$  and  $LAS$  curves.

**Answer: A**

**Topic: Cost-Push Pressure****Skill: Analytical**

- 32) If the Fed is following a fixed-rule policy when there is a leftward shift of the *SAS* curve, real GDP will \_\_\_\_ in the short run and then \_\_\_\_ in the long run.
- not change; the *AD* curve will shift rightward
  - increase; the *SAS* curve will shift leftward
  - decrease; the *LAS* curve will shift leftward
  - decrease; the *SAS* curve will shift leftward

**Answer: D****Topic: Cost-Push Pressure****Skill: Analytical\***

- 33) If the price of oil rises and the Fed follows a fixed-rule policy the price level
- rises and the Fed's policy shifts the *AD* curve leftward.
  - falls and the Fed's policy shifts the *AD* curve rightward.
  - rises and the Fed allows the economy to adjust on its own.
  - falls and the Fed allows the economy to adjust on its own.

**Answer: C****Topic: Cost-Push Pressure****Skill: Analytical**

- 34) Suppose that the economy is operating at full employment and the short-run aggregate supply curve shifts leftward as a result of a jump in the price of oil. If the quantity of money does not increase,
- prices will rise and stay at the higher level with no further increase in the price level.
  - in the short run real GDP will be less than potential GDP and the short-run aggregate supply curve will eventually shift rightward.
  - aggregate demand will increase and cause further inflation.
  - aggregate demand will decrease.

**Answer: B****Topic: Cost-Push Pressure****Skill: Analytical**

- 35) If the economy is at natural GDP when hit by a shock that shifts the short-run aggregate supply curve leftward, the
- AD* curve will shift rightward if the Fed is following a fixed-rule policy.
  - SAS* curve will shift back rightward if the Fed is following a feedback-rule policy that targets the price level.
  - AD* curve will shift leftward if the Fed is following a feedback-rule policy that targets real GDP.
  - SAS* will shift back rightward in the long run if the Fed is following a fixed-rule policy.

**Answer: D****Topic: Cost-Push Pressure****Skill: Conceptual**

- 36) If the price of oil rises and the Fed uses a feedback rule that targets real GDP, the result will be
- a higher price level and a decrease in aggregate demand when the Fed's actions take effect.
  - no change in the price level but a decrease in real GDP when the Fed's actions take effect.
  - a higher price level as real GDP returns to its original level when the Fed's actions take effect.
  - a higher price level and a leftward shift in the *AD* curve when the Fed's actions take effect.

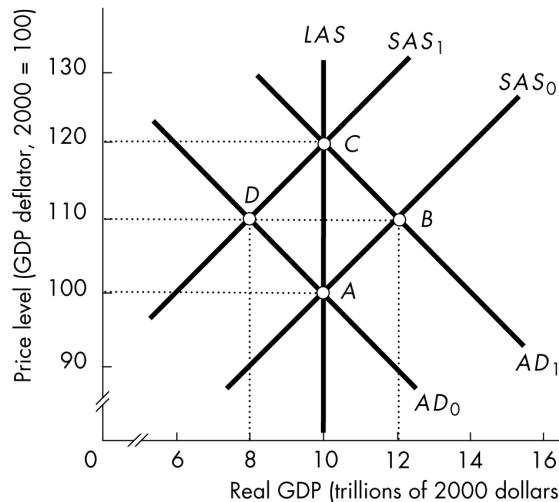
**Answer: C****Topic: Cost-Push Pressure****Skill: Conceptual**

- 37) Shocks that decrease the short-run aggregate supply are more likely to result in on-going inflation if
- fixed rules are used.
  - the quantity of money is constant.
  - the quantity of money rises in response to the cost shock.
  - an unanticipated reduction in the quantity of money occurs.

**Answer: C**

**Topic: Cost-Push Pressure****Skill: Conceptual**

- 38) Shocks that decrease the short-run aggregate supply are more likely to result in on-going inflation if
- fixed rules are used.
  - the quantity of money is constant.
  - a feedback rule that targets real GDP is used.
  - a feedback rule that targets the price level is used.

**Answer: C****Topic: Cost-Push Pressure****Skill: Analytical**

- 39) In the above figure, suppose that the economy is at point A and oil prices rise while the Fed is using a feedback rule that targets real GDP. As a result of the oil price hike *and* Fed policy, the economy will
- move to point D and then return to point A.
  - move to point B.
  - move to point C.
  - move to point D.

**Answer: C****Topic: Cost-Push Pressure****Skill: Analytical**

- 40) In the above figure, suppose the economy is at point A and oil prices rise while the Fed follows a fixed policy rule. As a result of the oil price hike *and* Fed policy, in the short run the economy will
- move to point D and then return to point A.
  - move to point B.
  - move to point C.
  - move to point D.

**Answer: D****■ Policy Credibility****Topic: Phillips Curve****Skill: Conceptual**

- 41) According to the Phillips curve, a recession can result from an
- anticipated slowdown in the rate of growth of the quantity of money.
  - unanticipated slowdown in the rate of growth of the quantity of money.
  - anticipated drop in the long-term interest rate.
  - unanticipated drop in the long-term interest rate.

**Answer: B****Topic: Credible Announcement****Skill: Conceptual**

- 42) Eliminating inflation requires enduring a recession if
- feedback rules are used.
  - no technology shocks occur in the economy.
  - Congress is unwilling to expand the quantity of money.
  - the Fed lacks credibility.

**Answer: D****Topic: Credible Announcement****Skill: Analytical**

- 43) If the Fed has full credibility, then when it announces its intention to slow the rate of growth of the quantity of money, the short-run Phillips curve will
- quickly shift downward.
  - quickly shift upward.
  - not shift.
  - become horizontal.

**Answer: A**

**Topic: Slowing Inflation****Skill: Analytical**

- 44) If the Fed announces its intention to reduce the rate of growth of the quantity of money, but it lacks credibility, the short-run Phillips curve will
- quickly shift downward.
  - quickly shift upward.
  - not shift.
  - be vertical.

**Answer: C****Topic: Slowing Inflation****Skill: Analytical**

- 45) If the Fed announces its intention to reduce the rate of growth of the quantity of money, but it lacks credibility, the long-run Phillips curve will
- quickly shift downward.
  - quickly shift upward.
  - not shift.
  - become horizontal.

**Answer: C****Topic: Slowing Inflation****Skill: Conceptual**

- 46) A reduction in the expected inflation rate shifts the
- short-run Phillips curve downward.
  - short-run Phillips curve upward.
  - long-run Phillips curve downward.
  - long-run Phillips curve upward.

**Answer: A****Topic: Slowing Inflation****Skill: Conceptual\***

- 47) Which of the following shifts the short-run Phillips curve downward?
- An expected rise in the inflation rate.
  - An expected fall in the inflation rate.
  - An unexpected rise in the inflation rate.
  - An unexpected fall in the inflation rate.

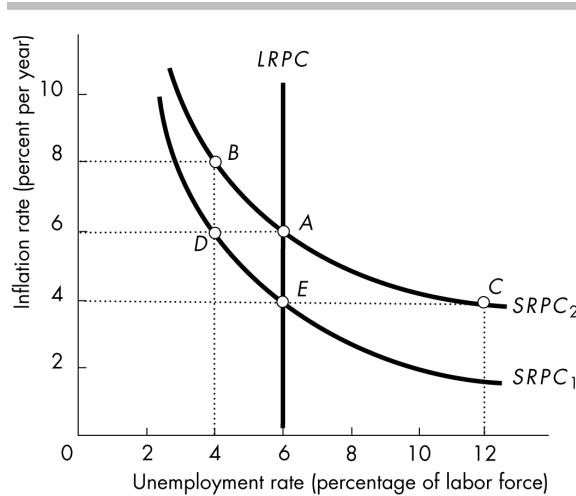
**Answer: B****Topic: Slowing Inflation****Skill: Conceptual\***

- 48) If the Fed credibly announces that it will slow growth in aggregate demand, the short-run Phillips curve \_\_\_\_ and the long-run Phillips curve \_\_\_\_.
- shifts downward; shifts downward
  - shifts downward; does not shift
  - does not shift; shifts downward
  - does not shift; does not shift

**Answer: B****Topic: Slowing Inflation****Skill: Conceptual**

- 49) Under which of the following scenarios will the Fed most likely be able to slow inflation without also pushing the economy into a recession?
- An unanticipated reduction in the growth rate of the quantity of money.
  - An announced reduction in the growth rate of the quantity of money that is not believed by the public.
  - An announced reduction in the growth rate of the quantity of money that is believed by the public.
  - None of the above because all of the policies definitely result in a recession.

**Answer: C**

**Topic: Slowing Inflation****Skill: Analytical**

- 50) In the above figure, suppose that the economy is at point *A* with a fully anticipated inflation rate of 6 percent. If the Fed increases the quantity of money so that aggregate demand increases and if this change is unanticipated by the public, the result will be
- the economy stays at point *A*.
  - the economy moves to point *B*.
  - the economy moves to point *C*.
  - the economy moves to point *D*.

**Answer: B****Topic: Credible Announcement****Skill: Analytical**

- 51) In the above figure, suppose that the economy is at point *E* with a fully anticipated inflation rate of 4 percent. If the Fed increases the money growth rate so that aggregate demand increases and if this policy change is anticipated by the public, the result will be
- the economy moves to point *A*.
  - the economy moves to point *B*.
  - the economy moves to point *C*.
  - the economy moves to point *D*.

**Answer: A****Topic: Slowing Inflation****Skill: Analytical**

- 52) In the above figure, suppose that the economy is at point *A* with a fully anticipated inflation rate of 6 percent. If the Fed wants to reduce the inflation rate but lacks credibility, the result will be
- the economy stays at point *A*.
  - the economy moves to point *B*.
  - the economy moves to point *C*.
  - the economy moves to point *D*.

**Answer: C****Topic: Credible Announcement****Skill: Analytical**

- 53) In the above figure, suppose that the economy is at point *A* with a fully anticipated inflation rate of 6 percent. If the Fed wants to reduce the inflation rate and is fully credible, the result will be
- the economy stays at point *A*.
  - the economy moves to point *C*.
  - the economy moves to point *D*.
  - the economy moves to point *E*.

**Answer: D****Topic: Slowing Inflation in Reality****Skill: Conceptual**

- 54) To achieve a permanent reduction in the inflation rate, in reality it is likely that central bank policymakers must be willing to accept
- a temporary increase in the unemployment rate.
  - a permanent increase in the unemployment rate.
  - the use of a feed-back rule policy.
  - the fact that it must permanently surprise the public.

**Answer: A****■ New Monetarist and New Keynesian Feedback Rules****Topic: The McCallum Rule****Skill: Recognition\***

- 55) The monetary policy rule that adjusts the growth rate of the monetary base to target the inflation rate is the
- McCallum Rule.
  - Barro Rule.
  - Taylor Rule.
  - Keynes Rule.

**Answer: A**

**Topic: The McCallum Rule and the Taylor Rule****Skill: Recognition\***

- 56) The McCallum monetary policy rule puts more emphasis on \_\_\_\_ and the Taylor monetary policy rule puts more emphasis on \_\_\_\_.
- price level stability; price level stability
  - price level stability; real GDP
  - real GDP; price level stability
  - real GDP; real GDP

**Answer: A****Topic: The Taylor Rule****Skill: Recognition**

- 57) The Taylor Rule is an example of
- a feedback-rule policy.
  - discretionary monetary policy.
  - a fixed rule.
  - an activist rule.

**Answer: A****Topic: The Taylor Rule****Skill: Recognition\***

- 58) Of the following, the monetary policy rule that responds most powerfully to the current level of real GDP is the
- McCallum Rule.
  - Barro Rule.
  - Taylor Rule.
  - McCallum/Taylor Rule.

**Answer: C****■ Study Guide Questions****Topic: Study Guide Question, Policy Instruments****Skill: Recognition**

- 59) Which of the following is NOT a macroeconomic instrument?
- open market operations
  - federal funds rate
  - discount rate
  - required reserve ratio

**Answer: B****Topic: Study Guide Question, Intermediate Targets****Skill: Recognition**

- 60) Which of the following is one of the Fed's intermediate targets?
- price level stability
  - open market operations
  - discount rate
  - M2

**Answer: D****Topic: Study Guide Question, Price Stability****Skill: Recognition**

- 61) Price level stability
- has no relationship to growth in potential GDP.
  - is thought by most economists to be reached with a measured inflation rate of between 0 and 3 percent a year.
  - is the most important tool of the Federal Reserve.
  - was attained by the Fed for the period between 1973 and 1984.

**Answer: B****Topic: Study Guide Question, Monetary Policy Since 1971****Skill: Recognition**

- 62) The data show that in the United States, in the year before an election, monetary policy generally is \_\_\_, and in the year after an election, monetary policy generally is \_\_\_\_.
- expansionary; expansionary
  - expansionary; contractionary
  - contractionary; expansionary
  - contractionary; contractionary

**Answer: D****Topic: Study Guide Question, Monetary Policy Since 1971****Skill: Recognition**

- 63) The Federal Reserve came closest to its goals of price level stability and real GDP equal to potential GDP during
- 1973 to 1983.
  - 1984 to 1993.
  - 1994 to 2003.
  - 1973 to 1978.

**Answer: C**

**Topic: Study Guide Question, Fixed-Rule Policies****Skill: Conceptual**

- 64) Which of the following is an example of a fixed-rule policy?
- Wear your boots if it snows.
  - Leave your boots home if it does not snow.
  - Wear your boots every day.
  - Listen to the weather forecast and then decide whether to wear your boots.

**Answer: C****Topic: Study Guide Question, Discretionary Policies****Skill: Conceptual**

- 65) A policy that responds to the state of economy in a possibly unique way and uses all available information is
- an anti-inflation policy.
  - a fixed-rule policy.
  - a feedback-rule policy.
  - a discretionary policy.

**Answer: D****Topic: Study Guide Question, Fixed-Rule Policies****Skill: Conceptual**

- 66) Monetarists generally
- support the use of feedback rules.
  - support the use of fixed rules.
  - support the Taylor rule.
  - are divided as to whether a feedback-rule policy or a fixed-rule policy is superior.

**Answer: B****Topic: Study Guide Question, Feedback-Rule Policies****Skill: Conceptual**

- 67) The rule, “Do not change the quantity of money regardless of the state of the economy,” is an example of a
- Keynesian fixed-rule policy.
  - Keynesian feedback-rule policy.
  - monetarist fixed-rule policy.
  - monetarist feedback-rule policy.

**Answer: C****Topic: Study Guide Question, Stabilizing Aggregate Demand****Skill: Conceptual**

- 68) Businesses become convinced that future profits from investment will be less than initially believed. This conviction leads to a change in aggregate \_\_\_ and a \_\_\_ policy might be able to keep real GDP from falling below potential GDP.
- demand; fixed-rule
  - demand; feedback-rule
  - supply; feedback-rule
  - supply; fixed-rule

**Answer: B****Topic: Study Guide Question, Stabilizing Aggregate Demand****Skill: Conceptual**

- 69) Suppose that initially real GDP equals potential GDP at \$11 trillion and that the initial price level is 120. Then an increase in aggregate demand occurs. The fixed rule being followed is: Do nothing. As a result, real GDP \_\_\_ \$11 trillion and the price level \_\_\_ 120.

- equals; equals
- is greater than; is less than
- is greater than; equals
- is greater than; is greater than

**Answer: D****Topic: Study Guide Question, Stabilizing Aggregate Demand****Skill: Conceptual**

- 70) Suppose that initially real GDP equals potential GDP at \$11 trillion and that the initial price level is 120. Then an increase in aggregate demand occurs. The feedback rule being followed targets real GDP: Decrease the quantity of money whenever there is a increase in real GDP. As a result, real GDP \_\_\_ \$11 trillion and the price level \_\_\_ 120.

- equals; equals
- is less than; is greater than
- is greater than; equals
- is greater than; is greater than

**Answer: A**

**Topic: Study Guide Question, Stabilizing Aggregate Demand**  
**Skill: Conceptual**

71) Suppose that initially real GDP equals potential GDP at \$11 trillion and that the initial price level is 120. Then an increase in aggregate demand occurs. The feedback rule being followed targets the price level: Decrease the quantity of money whenever there is a rise in the price level. As a result, real GDP \_\_\_\_ \$11 trillion and the price level \_\_\_\_ 120.

- A) equals; equals
- B) is less than; is greater than
- C) is greater than; equals
- D) is greater than; is greater than

**Answer: A**

**Topic: Study Guide Question, Stabilizing Productivity Shocks**

**Skill: Conceptual**

72) Suppose that initially real GDP equals potential GDP at \$11 trillion and that the initial price level is 120. Then an increase in potential GDP occurs. The fixed rule being followed is: Do nothing. As a result, real GDP \_\_\_\_ \$11 trillion and the price level \_\_\_\_ 120.

- A) equals; equals
- B) is greater than; is less than
- C) is less than; equals
- D) is greater than; is greater than

**Answer: A**

**Topic: Study Guide Question, Cost-Push Pressure**  
**Skill: Conceptual**

73) Suppose that initially real GDP equals potential GDP at \$11 trillion and that the initial price level is 120. Then an increase in short-run aggregate supply occurs. The feedback rule being followed targets real GDP: Decrease the quantity of money whenever there is an increase in real GDP. As a result, real GDP \_\_\_\_ \$11 trillion and the price level \_\_\_\_ 120.

- A) equals; is greater than\*
- B) is less than; is less than
- C) is less than; equals
- D) is less than; is greater than

**Answer: C**

**Topic: Study Guide Question, Cost-Push Pressure**  
**Skill: Conceptual**

74) Suppose that initially real GDP equals potential GDP at \$11 trillion and that the initial price level is 120. Then an increase in short-run aggregate supply occurs. The feedback rule being followed targets the price level: Increase the quantity of money whenever there is a decrease in the price level. As a result, real GDP \_\_\_\_ \$11 trillion and the price level \_\_\_\_ 120.

- A) equals; equals
- B) is less than; is less than
- C) is greater than; equals
- D) is less than; is equals

**Answer: C**

**Topic: Study Guide Question, Slowing Inflation**

**Skill: Analytical**

75) If the Fed unexpectedly increases the growth rate of the quantity of money, the short-run Phillips curve

- A) shifts leftward.
- B) shifts rightward.
- C) does not shift.
- D) becomes vertical.

**Answer: C**

**Topic: Study Guide Question, Slowing Inflation**

**Skill: Analytical**

76) If the Fed unexpectedly reduces the growth rate of the quantity of money, the long-run Phillips curve

- A) shifts leftward.
- B) shifts rightward.
- C) does not shift.
- D) becomes horizontal.

**Answer: C**

**Topic: Study Guide Question, Inflation Reduction in Practice**

**Skill: Conceptual**

77) The usual result when inflation is reduced is

- A) an immediate strong expansion.
- B) a recession.
- C) more rapid growth in aggregate demand.
- D) not known.

**Answer: B**

**Topic: Study Guide Question, Slowing Inflation****Skill: Conceptual**

- 78) When might inflation be reduced without increasing unemployment?
- When the Fed unexpectedly reduces inflation.
  - When the Fed announces that it will reduce inflation and people do not believe the Fed's announcement.
  - When the Fed announces that it will reduce inflation and people believe the announcement.
  - Never.

**Answer: C****Topic: Study Guide Question, McCallum Rule****Skill: Recognition**

- 79) The McCallum rule
- is in the spirit of a new Keynesian feedback rule.
  - puts more weight on price level stability than on responding to fluctuations in real GDP.
  - is the rule actually followed by the Fed.
  - says that Fed should target the federal funds rate.

**Answer: B****Topic: Study Guide Question, Taylor Rule****Skill: Recognition**

- 80) The Taylor rule
- focuses on only fluctuations in real GDP.
  - ignores price level stability to focus on responding to fluctuations in real GDP.
  - is the rule actually followed by the Fed.
  - is in the spirit of a new Keynesian feedback rule.

**Answer: D****■ MyEconLab Questions****Topic: Policy Goals****Level I: Definitions and Concepts**

- 81) A goal of monetary policy is \_\_\_\_.
- using the discount rate
  - achieving price level stability
  - measuring M1
  - influencing the federal funds rate

**Answer: B****Topic: Monetary Policy****Level I: Definitions and Concepts**

- 82) Monetary policy is the adjustment of the \_\_\_\_ to achieve macroeconomic objectives.
- money market mutual funds
  - quantity of money in circulation and interest rates by the Federal Reserve
  - Treasury bill rate
  - stock market

**Answer: B****Topic: Fixed-Rule Policies****Level I: Definitions and Concepts**

- 83) A fixed-rule policy specifies \_\_\_\_.
- how policy should respond to high unemployment rates
  - which action occurs because of the economic state
  - only the growth rate of money
  - which action is to occur independently of the economic state

**Answer: D****Topic: Feedback-Rule Policies****Level I: Definitions and Concepts**

- 84) A feedback-rule policy \_\_\_\_.
- can be automatic
  - is independent of the economic state
  - is only used when there is a demand shock to the economy
  - increases aggregate demand

**Answer: A****Topic: Discretionary Policies****Level I: Definitions and Concepts**

- 85) Policy that uses all available information, including perceived lessons from past "mistakes" is called \_\_\_\_.
- feedback
  - discretionary
  - expected
  - rational

**Answer: B**

**Topic: Fixed-Rule Policies****Level 2: Using Definitions and Concepts**

- 86) Under a fixed-rule policy, when an economy initially at potential GDP suffers a permanent decrease in demand, real GDP will return to potential \_\_\_\_.
- when the government decreases the tax rate
  - when the central bank increases the rate of money creation
  - as the money wage rate falls
  - due to expansionary monetary policies

**Answer: C****Topic: Stabilizing Aggregate Demand Shocks****Level 2: Using Definitions and Concepts**

- 87) An economy experiences a permanent decrease in aggregate demand. In the long run, with a fixed-rule policy, unemployment \_\_\_\_ with a feedback-rule policy.
- will be less and the price level will be the same as
  - will be the same and the price level will be less than
  - and the price level will be less than
  - and price level will be greater than

**Answer: C****Topic: Cost-Push Pressure****Level 2: Using Definitions and Concepts**

- 88) There is less of a chance of a cost-push inflation with \_\_\_\_.
- an increase in the price of oil
  - a fixed-rule policy
  - an increase in the money wage rate
  - a feedback-rule policy

**Answer: B****Topic: Slowing Inflation****Level 2: Using Definitions and Concepts**

- 89) A surprise inflation reduction results in lower inflation \_\_\_\_.
- due to a shift of the short-run Phillips curve
  - and lower unemployment
  - at the expense of higher unemployment
  - and no change in unemployment

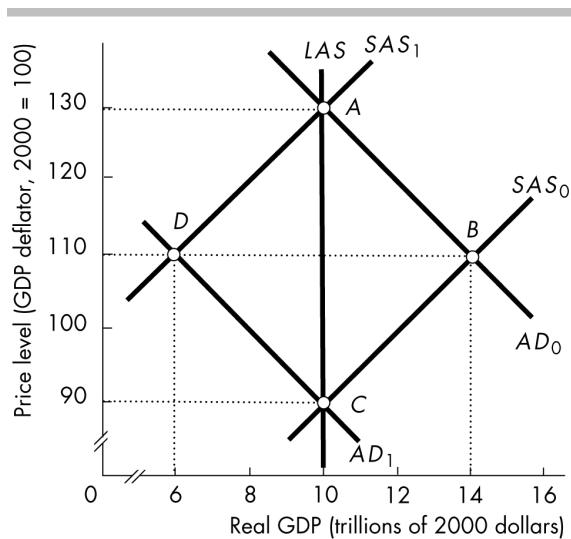
**Answer: C****Topic: Credible Announcement****Level 2: Using Definitions and Concepts**

- 90) A credible announced inflation reduction results in lower inflation \_\_\_\_.
- and no change in unemployment
  - at the expense of higher unemployment
  - and a movement along the short-run Phillips curve
  - and lower unemployment

**Answer: A****Topic: Feedback Rules are Better?****Level 2: Using Definitions and Concepts**

- 91) A problem with using feedback-rule policy is that it \_\_\_\_.
- is too slow
  - works only with supply-side shocks
  - decreases potential GDP
  - operates with time lags that extend beyond the forecast horizon

**Answer: D**

**Topic: Fixed-Rule Policies****Level 3: Calculations and Predictions**

- 92) The economy of Tomorrowland is in long-run equilibrium at point *B* in the above figure, where real GDP is \$10 trillion and the price level is 130. The central bank of Tomorrowland follows the fixed rule, "Hold the quantity of money constant." If there is a temporary decrease in aggregate demand so that aggregate demand curve shifts to  $AD_1$ , the economy will \_\_\_\_.
- initially move to point *D*
  - remain at point *A*
  - initially move to point *C*
  - initially move to point *B*

**Answer: A****Topic: Fixed-Rule Policies****Level 3: Calculations and Predictions**

- 93) The economy of Tomorrowland is in long-run equilibrium at point *A* in the above figure, where real GDP is \$10 trillion and the price level is 130. The central bank of Tomorrowland follows the fixed rule, "Hold the quantity of money constant." If there is a permanent decrease in aggregate demand so that the aggregate demand curve shifts to  $AD_1$ , after all adjustments have been made, the economy will \_\_\_\_.
- move to point *D*
  - remain at point *A*
  - move to point *C*
  - move to point *B*

**Answer: C****Topic: Feedback-Rule Policies****Level 3: Calculations and Predictions**

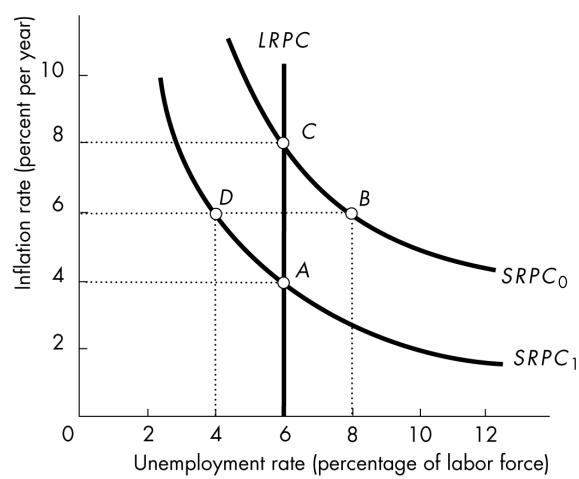
- 94) The economy of Tomorrowland is in long-run equilibrium at point *A* in the above figure, where real GDP is \$10 trillion and the price level is 130. The central bank of Tomorrowland follows the feedback rule: "Increase the quantity of money when aggregate demand decreases, and decrease the quantity of money when aggregate demand increases." Aggregate demand permanently decreases. If there are no lags in the effect of monetary policy, to what point will the economy move?

- move to point *D*
- remain at point *A*
- move to point *C*
- move to point *B*

**Answer: B****Topic: Cost-Push Pressure****Level 3: Calculations and Predictions**

- 95) If the central bank responds to a continuing rise in the price of oil by continually increasing the quantity of money, \_\_\_\_.
- persistent stagflation occurs
  - cost-push inflation occurs
  - unemployment increases
  - the economy remains at a business-cycle peak

**Answer: B**

**Topic: Slowing Inflation****Level 3: Calculations and Predictions**

- 96) An economy is currently at point *C* in the following figure. If the central bank unexpectedly slows inflation, the economy will \_\_\_\_.
- move to point *A* and unemployment will remain at the natural rate
  - move to point *D* and real GDP will increase
  - remain at point *C* because expectations have not changed
  - move to point *B* and real GDP will decrease

**Answer: D****Topic: Credible Announcement****Level 3: Calculations and Predictions**

- 97) An economy is currently at point *C* in the following figure. If the central bank announces that it will lower inflation, and the central bank has a reputation for doing what it says, then the economy will \_\_\_\_.
- move to point *B* and real GDP will decrease
  - move to point *B* and real GDP will remain constant
  - move to point *A* and real GDP will remain constant
  - move to point *A* and real GDP will increase due to lower inflation

**Answer: C**

## ■ Patterns and Trends in International Trade

**Topic: Patterns and Trends in International Trade**

**Skill: Conceptual**

- 1) Which of the following is correct?
  - A) Both imports and exports include goods and services.
  - B) Imports includes both goods and services but exports includes only goods.
  - C) Imports includes only goods but exports includes both goods and services.
  - D) Both exports and imports include goods and neither includes services.

**Answer: A**

**Topic: Patterns and Trends in International Trade**

**Skill: Recognition**

- 2) Goods and services that we buy from people in other countries are called our
  - A) balance of payments.
  - B) exports.
  - C) imports.
  - D) terms of trade.

**Answer: C**

**Topic: Patterns and Trends in International Trade**

**Skill: Recognition**

- 3) The goods and services that a country buys from other countries are called its
  - A) tariffs.
  - B) quotas.
  - C) exports.
  - D) imports.

**Answer: D**

**Topic: Patterns and Trends in International Trade**

**Skill: Recognition**

- 4) The goods and services that a country sells to people in other countries are called its
  - A) tariffs.
  - B) quotas.
  - C) exports.
  - D) imports.

**Answer: C**

**Topic: Patterns and Trends in International Trade**

**Skill: Conceptual**

- 5) Suppose the United States buys shirts from China and China buys insurance from a U.S. firm. From the U.S. perspective, the shirts are an \_\_\_\_ and the insurance is an \_\_\_\_.
  - A) exported good; imported service
  - B) imported good; exported service
  - C) imported service; exported good
  - D) exported good; imported good

**Answer: B**

**Topic: Patterns and Trends in International Trade**

**Skill: Conceptual**

- 6) Suppose a U.S. firm banks with a German bank while a U.S. farmer sells wheat to Russia. From the U.S. perspective, the banking is an \_\_\_\_ and the wheat is considered an \_\_\_\_.
  - A) exported good; imported service
  - B) imported good; exported service
  - C) imported service; exported good
  - D) exported good; imported good

**Answer: C**

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\* This is Chapter 33 in *Economics*.

**Topic: Patterns and Trends in International Trade****Skill: Conceptual**

- 7) A U.S. student attends university in Oxford while a firm in Malaysia buys heavy equipment from a firm in the United States. From the U.S. perspective, the university education is an \_\_\_\_ and the equipment is an \_\_\_\_.
- exported service; imported good
  - imported good; exported service
  - exported good; imported good
  - imported service; exported good

**Answer: D****Topic: Patterns and Trends in International Trade****Skill: Conceptual**

- 8) An American student buys a plane ticket on Air Canada to travel to Vancouver for a vacation. She stays in a hotel and buys a tee-shirt as a souvenir to bring back to the United States. Her expenditure on the hotel bills is a U.S. \_\_\_\_ and the souvenir is a U.S. \_\_\_\_.
- import of a service; export of a good
  - export of a service; import of a good
  - import of a service; import of a good
  - export of a service; export of a good

**Answer: C****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 9) Which of the following accounts for the greatest percentage of imports into the United States?
- Agricultural products
  - Manufactured goods
  - Raw materials
  - Services

**Answer: B****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 10) The majority of U.S. imports are
- manufactured goods.
  - industrial materials (raw materials and semi-manufactured items).
  - agricultural products.
  - services.

**Answer: A****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 11) Which of the following accounts for the greatest percentage of exports from the United States?
- Agricultural products
  - Manufactured goods
  - Raw materials
  - Services

**Answer: B****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 12) For the United States, the largest individual export items are \_\_\_\_ and the largest individual import items are \_\_\_\_.
- agricultural products; agricultural products
  - agricultural products; raw materials
  - manufactured goods; manufactured goods
  - manufactured goods; agricultural products

**Answer: C****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 13) Manufactured goods account for about \_\_\_\_ of U.S. exports and \_\_\_\_ of U.S. imports.
- 50 percent; 60 percent.
  - 10 percent; 90 percent.
  - 90 percent; 10 percent.
  - 20 percent; 40 percent.

**Answer: A****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 14) U.S. exports and imports are chiefly
- agricultural products.
  - raw materials.
  - manufactured goods.
  - services.

**Answer: C****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 15) Most exports from the United States are
- raw materials and food, and most imports are manufactured goods.
  - raw materials and food, and so are most of our imports.
  - manufactured goods, and most imports are raw materials and food.
  - manufactured goods, and so are most imports.

**Answer: D**

**Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 16) The largest component of U.S. imports is
- industrial materials.
  - agricultural products.
  - manufactured goods.
  - services.

**Answer: C****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 17) The single largest trading partner with the United States is
- Canada.
  - Japan.
  - China.
  - France.

**Answer: A****Topic: Patterns and Trends in International Trade****Skill: Conceptual**

- 18) Which statement correctly describes U.S. trade trends?
- U.S. net exports used to be negative, but are now positive.
  - The United States trades more with Canada than with any other single nation.
  - Mexico is the United States' largest trading partner.
  - Exports, as a percentage of total output, have decreased.

**Answer: B****Topic: Trade in Services****Skill: Conceptual**

- 19) When an American student goes to study at a foreign university, that student is
- importing services to the U.S.
  - importing goods to the U.S.
  - exporting goods from the U.S.
  - exporting services from the U.S.

**Answer: A****Topic: Trade in Services****Skill: Recognition**

- 20) If a French citizen enrolls and pays tuition at Harvard, this would
- be considered an increase in U.S. exports.
  - be considered an increase in U.S. imports.
  - not be part of U.S. real GDP.
  - not be recorded in the U.S. balance of payments.

**Answer: A****Topic: Trade in Services****Skill: Conceptual**

- 21) A foreign student from Hong Kong studying in an American university who has no income from U.S. sources gets a hair cut from a local salon. This haircut will
- increase the volume of exports from Hong Kong to the U.S.
  - decrease the volume of imports from Hong Kong to the U.S.
  - increase the volume of exports from the U.S. to Hong Kong.
  - decrease the volume of imports from the U.S. to Hong Kong.

**Answer: C****Topic: Trade in Services****Skill: Conceptual**

- 22) An example of a service imported by the United States is
- an American buying a souvenir shirt while attending the French Open tennis tournament.
  - an American traveling on Air France to the French Open tennis tournament in Paris.
  - U.S. wheat traded for Chinese TV sets.
  - a domestic newspaper.

**Answer: B****Topic: Trade in Services****Skill: Conceptual**

- 23) Steffi, a permanent resident of Germany, is earning a masters degree at the University of Rochester in New York. Her tuition paid to the University of Rochester is a U.S. \_\_\_\_\_ and a German \_\_\_\_\_.  
  - export; export
  - import; export
  - export; import
  - import; import

**Answer: C**

**Topic: Trends in the Volume of Trade****Skill: Conceptual**

- 24) Since the 1960s the ratio of U.S. imports to total output has
- fallen and so has the ratio of exports to total output.
  - fallen but the ratio of exports to total output has risen.
  - risen and so has the ratio of exports to total output.
  - risen but the ratio of exports to total output has fallen.

**Answer: C****Topic: Net Exports****Skill: Recognition**

- 25) Net exports is
- the volume of trade minus the value of trade.
  - the volume of exports minus the volume of imports.
  - the value of exports minus the value of imports.
  - total U.S. trade minus the total trade of the rest of the world.

**Answer: C****Topic: Net Exports****Skill: Recognition**

- 26) When U.S. net exports are negative, U.S. exports are \_\_\_\_ than U.S. imports and the United States is \_\_\_\_ foreigners.
- greater; lending to
  - smaller; borrowing from
  - greater; borrowing from
  - smaller; lending to

**Answer: B****■ The Gains from International Trade****Topic: Comparative Advantage and Trade****Skill: Conceptual**

- 27) The fundamental force that generates international trade is
- absolute advantage.
  - comparative advantage.
  - law of diminishing returns.
  - law of increasing costs.

**Answer: B****Topic: Opportunity Cost****Skill: Conceptual**

- 28) Opportunity cost is measured by
- the maximum amount of output that a country can produce.
  - the minimum amount of output that a country can produce.
  - the magnitude of the slope of the production possibilities frontier.
  - comparing the quantity of output produced across two different countries.

**Answer: C****Topic: Opportunity Cost****Skill: Conceptual**

- 29) Opportunity cost can be measured by the
- price of the product in one nation relative to the price of the product in another nation.
  - average cost of production.
  - total cost of production.
  - magnitude of the slope of the production possibilities frontier.

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 30) Compare the slopes of
- demand curves to determine countries' absolute advantages.
  - demand curves to determine countries' comparative advantages.
  - production possibilities frontiers to determine countries' absolute advantages.
  - production possibilities frontiers to determine countries' comparative advantages.

**Answer: D****Topic: Opportunity Cost****Skill: Conceptual**

- 31) A diagram of a production possibilities frontier (*PPF*) has boats on the horizontal axis and houses on the vertical axis. The opportunity cost of one more boat is the
- slope of a ray from the origin to the *PPF*.
  - the point on the *PPF* where the country chooses to produce boats and houses.
  - the magnitude of the slope of the *PPF* at the chosen production point.
  - inverse of the slope of the *PPF* at the chosen production point.

**Answer: C**

**Topic: Opportunity Cost****Skill: Conceptual**

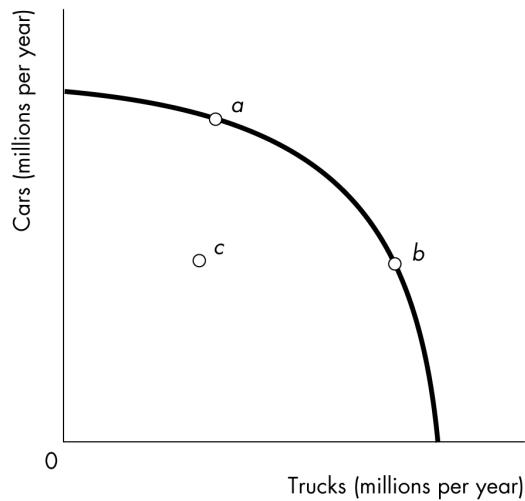
- 32) The slope of a nation's *PPF*
- is negative.
  - measures opportunity cost.
  - Both answers A and B are correct.
  - Neither answer A nor B is correct.

**Answer: C****Topic: Opportunity Cost****Skill: Conceptual**

- 33) The production possibilities frontier for a country slopes \_\_\_\_, which reflects \_\_\_\_.
- upward; gains from trade
  - upward; opportunity cost
  - downward; gains from trade
  - downward; opportunity cost

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 34) Machland has a bowed-out production possibilities frontier with machines on the vertical axis and services on the horizontal axis. As Machland moves up along its *PPF*, the opportunity cost of
- machines and services both increase.
  - machines and services both decrease.
  - machines increases and the opportunity cost of services decreases.
  - machines decreases and the opportunity cost of services increases.

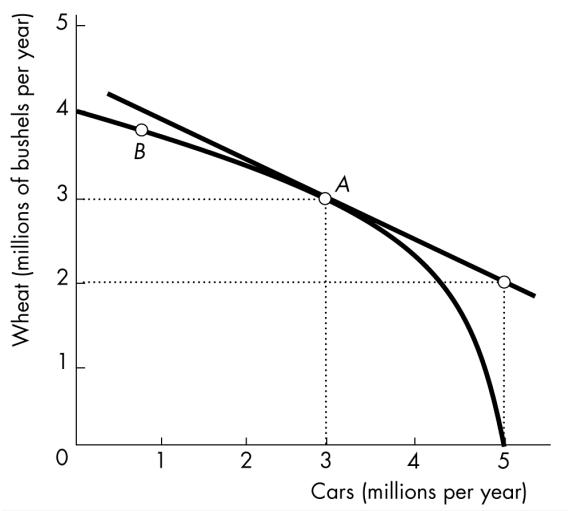
**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 35) In the above figure, the opportunity cost of a car \_\_\_\_ as you move from \_\_\_\_.
- decreases; point *b* to point *a*
  - increases; point *b* to point *a*
  - decreases; point *c* to point *b*
  - increases; point *a* to point *c*

**Answer: B****Topic: Opportunity Cost****Skill: Analytical**

- 36) In the above figure, the opportunity cost of a truck \_\_\_\_ increases as you move from \_\_\_\_.
- truck; point *a* to point *b*
  - car; point *a* to point *b*
  - truck; point *b* to point *a*
  - car; point *b* to point *c*

**Answer: A**

**Topic: Opportunity Cost****Skill: Conceptual**

- 37) In the above figure, moving along the production possibilities frontier from point *A* to point *B*
- the opportunity cost of producing cars increases.
  - the opportunity cost of producing cars decreases.
  - the opportunity cost of producing cars remains the same.
  - it is impossible to say what happens to the opportunity cost of producing cars.

**Answer: B****Topic: Opportunity Cost****Skill: Conceptual**

- 38) In the above figure, at point *A*, the slope of the production possibilities frontier is \_\_\_\_ bushel of wheat per car.
- $1/2$
  - $-1/2$
  - $3/4$
  - $-1$

**Answer: B****Topic: Opportunity Cost****Skill: Analytical**

- 39) In the above figure, at point *A* the opportunity cost of producing a car is
- $1/2$  of a bushel of wheat.
  - $3/4$  of a bushel of wheat.
  - 2 bushels of wheat.
  - $4/3$  bushels of wheat.

**Answer: A**

Country	Output		
	Wheat (bushels)	Cloth (tons)	
Peru	50	or	100
Brazil	150	or	275

**Topic: Opportunity Cost****Skill: Analytical**

- 40) As shown in the table above, by moving along the *PPF* in Peru 50 more bushels of wheat can be produced and 100 fewer tons of cloth can be produced. So the opportunity cost of producing a bushel of wheat in Peru is

- zero.
- $1/2$  ton of cloth.
- 2 tons of cloth.
- 100 tons of cloth.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 41) As shown in the table above, by moving along the *PPF* in Brazil 150 more bushels of wheat can be produced and 275 fewer tons of cloth can be produced. So the opportunity cost of producing a bushel of wheat in Brazil is

- zero.
- $0.55$  tons of cloth.
- $1.83$  tons of cloth.
- 275 tons of cloth.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 42) As shown in the table above, by moving along the *PPF* in Peru 100 more tons of cloth can be produced and 50 fewer bushels of wheat can be produced. So the opportunity cost of producing a ton of cloth in Peru is

- zero.
- $1/2$  bushel of wheat.
- 2 bushels of wheat.
- 50 bushels of wheat.

**Answer: B**

**Topic: Opportunity Cost****Skill: Analytical**

- 43) As shown in the table above, by moving along its *PPF* in Brazil 275 more tons of cloth can be produced and 150 fewer bushels of wheat can be produced. So the opportunity cost of producing a ton of cloth in Brazil is
- zero.
  - 0.55 bushels of wheat.
  - 1.83 bushels of wheat.
  - 150 bushels of wheat

**Answer: B**

Country	Output	
	Wheat (bushels)	Cloth (tons)
Home	1,000	or 5,000
Foreign	200	or 2,000

**Topic: Opportunity Cost****Skill: Analytical**

- 44) As shown in the table above, by moving along the *PPF* in the home country 1,000 more bushels of wheat can be produced and 5,000 fewer tons of cloth can be produced. So the opportunity cost of producing a bushel of wheat in the home country is
- zero.
  - 0.50 ton of cloth.
  - 5 tons of cloth.
  - 25 tons of cloth.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 45) As shown in the table above, by moving along the *PPF* in the foreign country 200 more bushels of wheat can be produced and 2,000 fewer tons of cloth can be produced. So the opportunity cost of producing a bushel of wheat in the foreign country is
- zero.
  - 0.4 tons of cloth.
  - 4.0 tons of cloth.
  - 10.0 tons of cloth.

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 46) As shown in the table above, by moving along the *PPF* in the home country 5,000 more tons of cloth can be produced and 1,000 fewer bushels of wheat can be produced. So the opportunity cost of producing a ton of cloth in the home country is
- zero.
  - 0.1 bushel of wheat.
  - 0.2 bushel of wheat.
  - 0.4 bushel of wheat

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 47) As shown in the table above, by moving along the *PPF* in the foreign country 2,000 more tons of cloth can be produced and 200 fewer bushels of wheat can be produced. So the opportunity cost of producing a ton of cloth in the foreign country is
- zero.
  - 1.0 bushel of wheat.
  - 0.1 bushel of wheat.
  - 10 bushels of wheat

**Answer: C****Topic: Comparative Advantage****Skill: Analytical**

- 48) As shown in the table above, by moving along the *PPF* in the home (foreign) country 1,000 (200) more bushels of wheat can be produced and 5,000 (2,000) fewer tons of cloth can be produced. The comparative advantage in the production of wheat resides in
- the home country.
  - the foreign country.
  - both countries.
  - neither country.

**Answer: A**

**Topic: Opportunity Cost and Comparative Advantage**

**Skill: Analytical**

- 49) As shown in the table above, by moving along the *PPF* in the home (foreign) country 5,000 (2,000) more tons of cloth can be produced and 1,000 (200) fewer bushels of wheat can be produced. The comparative advantage in the production of cloth resides in

- A) the home country but not the foreign country.
- B) the foreign country but not the home country.
- C) both countries.
- D) neither country.

**Answer: B**

**Topic: Opportunity Cost and Comparative Advantage**

**Skill: Analytical**

- 50) As shown in the table above, by moving along the *PPF* in the home (foreign) country 1,000 (200) more bushels of wheat can be produced and 5,000 (2,000) fewer tons of cloth can be produced. If trade is permitted between the home country and the foreign country,

- A) the home country will export wheat.
- B) the foreign country will export wheat.
- C) both countries will export wheat.
- D) neither country will export wheat.

**Answer: A**

**Topic: Comparative Advantage**

**Skill: Recognition**

- 51) A country has a comparative advantage in producing a good if in comparison to any other country, it can produce that good
- A) with less labor.
  - B) with a smaller weighted average of inputs.
  - C) at a lower opportunity cost.
  - D) at lower average cost.

**Answer: C**

**Topic: Comparative Advantage**

**Skill: Recognition**

- 52) A country has a comparative advantage in producing a good if it can produce that good at a
- A) lower average total cost than any other country.
  - B) lower average variable cost than any other country.
  - C) lower opportunity cost than any other country.
  - D) higher opportunity cost than any other country.

**Answer: C**

**Topic: Comparative Advantage**

**Skill: Recognition**

- 53) Comparative advantage is defined as
- A) the ability to undercut your competitors through the practice of dumping.
  - B) being able to produce at a lower opportunity cost than your competitors.
  - C) Both answers A and B are correct.
  - D) Neither answer A nor B is correct.

**Answer: B**

**Topic: Comparative Advantage**

**Skill: Conceptual**

- 54) A country has a comparative advantage in the production of a good if
- A) it can produce more of the good than another country.
  - B) it can produce more of the good most efficiently.
  - C) it can produce the good at the lowest opportunity cost.
  - D) it can tradeoff producing the good for another.

**Answer: C**

**Topic: Comparative Advantage**

**Skill: Recognition**

- 55) In order to achieve gains from trade, a country should produce and trade a good if
- A) it can produce more of the good than its trading partner.
  - B) it has lower wages than its trading partner.
  - C) it can produce at a lower opportunity cost than its trading partner.
  - D) it has economies of scale.

**Answer: C**

**Topic: Opportunity Cost****Skill: Analytical**

- 56) Country A and country B both consume and produce only food and clothing. Both countries use only labor to produce these two products. A worker in country A can produce 6 units of clothing or 10 units of food each day while a worker in country B can produce 4 units of clothing or 8 units of food. Which of the following statements is true?
- The opportunity cost of clothing production in country A is greater than that of country B.
  - The opportunity cost of food production in country A is greater than that of country B.
  - The opportunity cost of food production in country A is the same as that of country B.
  - The opportunity cost of clothing production in country B is less than that of country A.

**Answer: B****Topic: Comparative Advantage****Skill: Analytical**

- 57) Country A and country B both consume and produce only food and clothing. Both countries use only labor to produce these two products. A worker in country A can produce 6 units of clothing or 10 units of food each day while a worker in country B can produce 4 units of clothing or 8 units of food. Which of the following statements is correct?
- Country A has comparative advantage over country B in food production.
  - Country A has comparative advantage over country B in clothing production.
  - Country A has comparative advantage over country B in both food and clothing production.
  - Country B has comparative advantage over country A in clothing production.

**Answer: B****Topic: Opportunity Cost and Comparative Advantage****Skill: Analytical**

- 58) Country A and country B both consume and produce only food and clothing. Both countries use only labor to produce these two products. A worker in country A can produce 6 units of clothing or 10 units of food each day while a worker in country B can produce 4 units of clothing or 8 units of food. Which of the following is correct if there is free trade between these two countries?
- Country A will produce food.
  - Country B will produce food.
  - Country B will produce clothing.
  - Both answers A and C are correct.

**Answer: B****Topic: Opportunity Cost and Comparative Advantage****Skill: Conceptual**

- 59) Suppose that in Country A the opportunity cost of producing a car is 200 bushels of grain and in Country B the opportunity cost of producing a car is 300 bushels of grain. Which of the following statements is true?
- Country A should produce and export cars.
  - Country B should produce and export cars.
  - It is impossible to say which country should produce cars without knowing the opportunity cost of producing grain.
  - It is impossible to say which country should produce cars without knowing the monetary cost of producing the car.

**Answer: A****Topic: Comparative Advantage****Skill: Analytical**

- 60) For country Gamma the opportunity cost for producing 1 computer is 10 tons of steel. For country Beta the opportunity cost for producing 1 computer is 6 tons of steel. Which country has the comparative advantage in the production of steel?
- Gamma
  - Beta
  - Both have the comparative advantage in the production of steel.
  - Neither country has the comparative advantage in the production of steel.

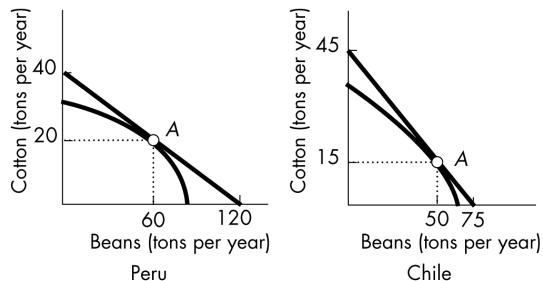
**Answer: A**

**Topic: Comparative Advantage****Skill: Analytical**

- 61) For country B, the opportunity cost incurred when 3 tractors are produced is 21 watches. For country Y, the opportunity cost incurred when 5 tractors are produced is 100 watches. Which country has the comparative advantage in the production of tractors?
- Country B
  - Country Y
  - Both have the comparative advantage in the production of tractors.
  - Neither country has the comparative advantage in the production of tractors.

**Answer: A****Topic: Comparative Advantage****Skill: Conceptual**

- 62) If Country A can produce an extra plane by giving up two boats, and Country B can produce an extra plane by giving up three boats,
- Country A has a comparative advantage over Country B in the production of planes.
  - Country B has a comparative advantage over Country A in the production of planes.
  - the two countries have no incentive to trade with one another.
  - Country A would like to trade with B, but B cannot gain by trading with A.

**Answer: A****Topic: Opportunity Cost****Skill: Analytical**

- 63) In the figure above, both Peru and Chile are on their production possibilities frontiers at point A on each frontier. Calculate Chile's opportunity cost of producing another ton of beans.

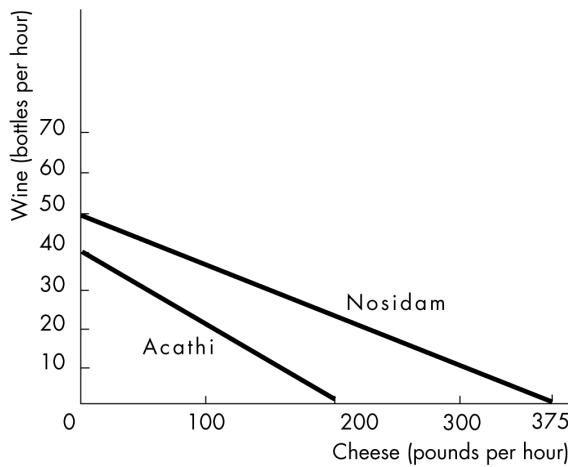
- $\frac{3}{10}$  ton of cotton per ton of beans
- $\frac{3}{5}$  ton of cotton per ton of beans
- $\frac{6}{5}$  ton of cotton per ton of beans
- $\frac{9}{10}$  ton of cotton per ton of beans

**Answer: B****Topic: Opportunity Cost and Comparative Advantage****Skill: Analytical**

- 64) In the figure above, both Peru and Chile are on their production possibilities frontiers at point A on each frontier. Using the above figure, determine which country should produce more beans for export.

- Peru
- Chile
- There is not enough information to determine who should produce more beans
- Neither country should specialize because there are no gains from trade available in this example

**Answer: A**

**Topic: Opportunity Cost****Skill: Analytical**

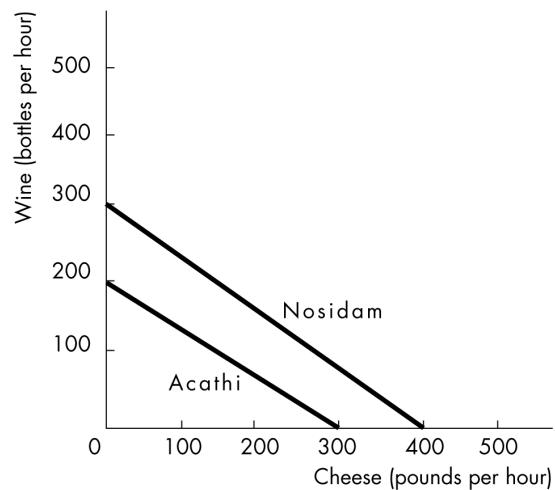
- 65) The above figure shows the *PPFs* for Nosidam and Acathi. The opportunity cost of an additional bottle of wine in Acathi is
- 200 pounds of cheese.
  - 40 bottles of wine.
  - 0.2 pounds of cheese.
  - 5.0 pounds of cheese.

**Answer: D****Topic: Opportunity Cost****Skill: Analytical**

- 66) The above figure shows the *PPFs* for Nosidam and Acathi. The opportunity cost of an additional bottle of wine in Nosidam is
- 375 bottles of wine.
  - 50 pounds of cheese.
  - 7.5 pounds of cheese.
  - 0.133 pounds of cheese.

**Answer: C****Topic: Comparative Advantage****Skill: Conceptual**

- 67) The above figure shows the *PPFs* for Nosidam and Acathi. \_\_\_\_ has a comparative advantage in producing wine and \_\_\_\_ has a comparative advantage in producing cheese.
- Acathi; Nosidam
  - Acathi; Acathi
  - Nosidam; Acathi
  - Nosidam; Nosidam

**Answer: A****Topic: Opportunity Cost****Skill: Analytical**

- 68) The above figure shows the *PPFs* for Nosidam and Acathi. The opportunity cost of an additional pound of cheese for Nosidam is
- 300 bottles of wine.
  - 4/3 bottles of wine.
  - 3/4 of a bottle of wine.
  - 3/4 of a pound of cheese.

**Answer: C****Topic: Opportunity Cost****Skill: Analytical**

- 69) The above figure shows the *PPFs* for Nosidam and Acathi. The opportunity cost of an additional pound of cheese in Acathi is
- 200 bottles of wine.
  - 3/2 bottles of wine.
  - 2/3 of a bottle of wine.
  - 2/3 of a pound of cheese.

**Answer: C****Topic: Comparative Advantage****Skill: Conceptual**

- 70) The above figure shows the *PPFs* for Nosidam and Acathi. \_\_\_\_ has a comparative advantage in producing wine and \_\_\_\_ has a comparative advantage in producing cheese.
- Nosidam; Nosidam
  - Nosidam; Acathi
  - Acathi; Acathi
  - Acathi; Nosidam

**Answer: B**

**Topic: Gains From Trade****Skill: Conceptual**

- 71) Texland has a comparative advantage in cloth while Plano has a comparative advantage in airplanes. With free trade, the price of planes will
- fall in both Texland and Plano.
  - rise in both Texland and Plano.
  - fall in Texland and rise in Plano.
  - rise in Texland and fall in Plano.

**Answer: C****Topic: Gains From Trade****Skill: Conceptual**

- 72) Farmland has a comparative advantage in wheat, and Mobilia has a comparative advantage in cars. With free trade, the price of wheat will
- fall in both Farmland and Mobilia.
  - rise in both Farmland and Mobilia.
  - fall in Farmland and rise in Mobilia.
  - rise in Farmland and fall in Mobilia.

**Answer: D****Topic: Gains From Trade****Skill: Conceptual**

- 73) Farmland has a comparative advantage in wheat and Mobilia has a comparative advantage in cars. With free trade, the price of cars will
- fall in both Farmland and Mobilia.
  - rise in both Farmland and Mobilia.
  - fall in Farmland and rise in Mobilia.
  - rise in Farmland and fall in Mobilia.

**Answer: C****Topic: Gains From Trade****Skill: Analytical**

- 74) Cars are exported from Mobilia to Farmland. The equilibrium quantity is 4 million cars per year. The equilibrium price is
- below both Farmland's and Mobilia's no-trade price.
  - above both Farmland's and Mobilia's no-trade price.
  - below Farmland's no-trade price and above Mobilia's no-trade price.
  - above Farmland's no-trade price and below Mobilia's no-trade price.

**Answer: C****Topic: Gains From Trade****Skill: Analytical**

- 75) Suppose Aqualand has a comparative advantage in boat production while Mooland has a comparative advantage in the production of cattle. If these two countries trade,
- Aqualand will move along its *PPF* until its opportunity cost is below the world price.
  - Mooland will receive a higher price for its cattle and will pay a lower price for its boats.
  - Aqualand will move along its *PPF* and consume at this point.
  - Mooland will receive a lower price for its cattle but will be able to sell more cattle at this price.

**Answer: B****Topic: Changes in Production****Skill: Analytical**

- 76) Farmland has a comparative advantage in wheat and Mobilia has a comparative advantage in cars. With free trade, employment in Mobilia will
- decrease in both wheat and car production.
  - increase in both wheat and car production.
  - decrease in wheat production and increase in car production.
  - increase in wheat production and decrease in car production.

**Answer: C****Topic: Consumption Possibilities****Skill: Conceptual**

- 77) When trade between two countries occurs, the result is that
- one country gains because it can consume more than before and the other country loses.
  - both countries gain because both can consume more than before.
  - both countries lose because the increase in demand for each country's output causes prices to rise.
  - both countries gain because they each produce more than before.

**Answer: B**

**Topic: Consumption Possibilities****Skill: Conceptual**

- 78) If an efficient country trades with the rest of the world, it consumes at a point that lies
- inside its production possibilities frontier.
  - outside its production possibilities frontier.
  - on its production possibilities frontier.
  - either inside or outside its production possibilities frontier.

**Answer: B****Topic: Consumption Possibilities****Skill: Recognition**

- 79) The gain from trade enables a country to
- produce outside its production possibilities frontier.
  - consume outside its production possibilities frontier.
  - produce inside its production possibilities frontier.
  - consume inside its production possibilities frontier.

**Answer: B****Topic: Gains From Trade****Skill: Conceptual**

- 80) Nations can increase consumption of all goods if they
- maximize exports and minimize imports.
  - minimize exports and maximize imports.
  - direct their scarce resources to those goods in which they have a comparative advantage and trade with other nations.
  - price their goods below the world price.

**Answer: C****Topic: Consumption Possibilities****Skill: Conceptual**

- 81) If country A has a greater opportunity cost of producing a car than does country B, then trade between the two countries would allow
- only country A to consume more cars than it would otherwise.
  - only country B to consume more cars than it would otherwise.
  - both countries A and B to consume more cars than they would otherwise.
  - None of the above.

**Answer: C****Topic: Consumption Possibilities****Skill: Conceptual**

- 82) Suppose Aqualand has a comparative advantage in the production of boats, while Mooland has a comparative advantage in the production of cattle. As a result of trade,
- one country will enjoy a gain from trade, but not both countries.
  - only the country with the lowest price will enjoy the gains from trade.
  - only the country with the most exports will enjoy the gains from trade.
  - both countries will be able to consume at a point beyond their *PPFs*.

**Answer: D****Topic: Consumption Possibilities****Skill: Conceptual**

- 83) Suppose the United States has a comparative advantage in manufacturing cars and South Korea has a comparative advantage in producing TVs. Then which of the following statements is INCORRECT?

- Both the United States and South Korea will benefit from the trade of cars and TVs.
- Trade would allow South Korea to consume more cars than it would with no trade.
- Trade would allow the United States to consume more VCRs than it would with no trade.
- Trade means that the U.S. consumption of cars must decrease.

**Answer: D****Topic: Consumption Possibilities****Skill: Analytical**

- 84) If a country trades with the rest of the world, its consumption possibility frontier is
- the same as its production possibilities frontier.
  - inside its production possibilities frontier.
  - parallel to its production possibilities frontier.
  - generally outside its production possibilities frontier.

**Answer: D**

**Topic: Consumption Possibilities****Skill: Analytical**

- 85) If a country trades with the rest of the world, its consumption possibilities frontier
- is tangent to and lies inside its production possibilities frontier.
  - is tangent to and lies outside its production possibilities frontier.
  - is parallel to and lies outside its production possibilities frontier.
  - intersects its production possibilities frontier where the production possibilities frontier touches the vertical and horizontal axis.

**Answer: B****Topic: Gains from Trade in Reality****Skill: Conceptual**

- 86) Much of the international trade in similar goods is due to
- similarity of tastes and economies of scale.
  - similarity of tastes and increasing average costs.
  - diversity of tastes and economies of scale.
  - diversity of tastes and increasing average costs.

**Answer: C****Topic: Gains from Trade in Reality; Diversity of Tastes****Skill: Conceptual**

- 87) The United States both exports and imports cars. This occurs because
- of voluntary export restraints.
  - the United States has both an absolute advantage and an absolute disadvantage in the production of cars.
  - a diversity of tastes allows for other countries to demand U.S. cars while U.S. consumers demand foreign cars.
  - U.S. car exports are subsidized by the government.

**Answer: C****Topic: Gains from Trade in Reality; Economies of Scale****Skill: Conceptual**

- 88) Trade in similar but not identical, manufactured goods results in part from
- increasing opportunity costs.
  - economies of scale.
  - diseconomies of scale.
  - tariffs and quotas.

**Answer: B****Topic: Gains from Trade in Reality; Economies of Scale****Skill: Conceptual**

- 89) Countries trade similar products because
- economies of scale allow producers to specialize in a limited range of products and then sell their output to the entire world market.
  - they need to compensate for inferior characteristics of their products.
  - it is possible for two countries to have a comparative advantage in the same products.
  - the advantages to trade only pertain to a limited range of production.

**Answer: A****Topic: Gains from Trade in Reality; Economies of Scale****Skill: Conceptual**

- 90) Economies of scale exist if an increase in production reduces
- average total cost.
  - marginal cost.
  - total cost.
  - the ratio of total cost to average cost.

**Answer: A****Topic: Gains from Trade in Reality; Economies of Scale****Skill: Conceptual**

- 91) Japan's production of cars for export to the United States, Germany, and Canada is an example of a country experiencing gains from trade because of
- economies of scale.
  - increasing marginal cost.
  - voluntary export restraints.
  - diseconomies of scale.

**Answer: A****■ International Trade Restrictions****Topic: Trade Restrictions****Skill: Recognition**

- 92) A tariff is a
- tax on an exported good or service.
  - tax on an imported good or service.
  - subsidy on an exported good.
  - subsidy on an imported good.

**Answer: B**

**Topic: Trade Restrictions****Skill: Recognition**

- 93) A tax that is imposed by the importing country when an imported good crosses its international boundary is called
- an excise tax.
  - a quota.
  - a tariff.
  - a surcharge.

**Answer: C****Topic: Trade Restrictions****Skill: Conceptual**

- 94) A major purpose of tariffs is to
- encourage imports.
  - encourage exports.
  - discourage imports.
  - discourage exports.

**Answer: C****Topic: Trade Restrictions****Skill: Recognition**

- 95) Any action other than a tariff that restricts international trade is called a
- quota.
  - surcharge.
  - subsidy.
  - nontariff barrier.

**Answer: D****Topic: Trade Restrictions****Skill: Recognition**

- 96) A nontariff barrier is
- any action other than a tariff that limits the importation of goods and services.
  - any action other than a tariff that limits the production of goods and services.
  - an amount of money paid for the privilege of selling a good exported from the country.
  - a license fee that must be paid to get an export license in the United States.

**Answer: A****Topic: Trade Restrictions****Skill: Recognition**

- 97) Tools used to protect domestic industries from foreign competition include which of the following?
- tariffs.
  - membership in the WTO.
  - participation in GATT.
- I.
  - I and II.
  - II and III.
  - I, II, and III.

**Answer: A****Topic: History of Tariffs****Skill: Recognition**

- 98) During the Great Depression in the 1930s, the average tariff level in the United States peaked at about
- zero.
  - 6 percent.
  - 20 percent.
  - 100 percent.

**Answer: C****Topic: History of Tariffs****Skill: Recognition**

- 99) Today the United States imposes an average tariff rate of about
- 4 percent on imports.
  - 4 percent on exports.
  - 40 percent on imports.
  - 40 percent on exports.

**Answer: A****Topic: History of Tariffs****Skill: Recognition**

- 100) The U.S. average tariff rate today is about \_\_\_\_ percent.
- 52
  - 20
  - 10
  - 4

**Answer: D**

**Topic: History of Tariffs****Skill: Recognition**

- 101) Average tariff levels in the United States in the last decade are
- about equal to the average since 1930.
  - above the average since 1930.
  - positive, but below the average since 1930.
  - zero, as there are no longer any tariffs in the United States.

**Answer: C****Topic: History of Tariffs****Skill: Recognition**

- 102) Since the early 1930s, the average tariff rate in the United States has
- declined.
  - increased steadily.
  - been relatively constant.
  - fluctuated with no regular pattern.

**Answer: A****Topic: Smoot-Hawley Act****Skill: Recognition\***

- 103) The Smoot-Hawley Act was enacted in
- 1980.
  - 2000.
  - 1930.
  - 1950.

**Answer: C****Topic: GATT****Skill: Recognition**

- 104) An important international trade agreement signed after World War II is called the
- International Trade Agreement.
  - Newkirk Woods Agreement.
  - Free World Trade Agreement.
  - General Agreement on Tariffs and Trade.

**Answer: D****Topic: GATT****Skill: Recognition**

- 105) Since the establishment of General Agreement on Tariffs and Trade (GATT) in 1947, U.S. tariffs have
- declined.
  - risen.
  - varied widely.
  - shown little change.

**Answer: A****Topic: GATT****Skill: Recognition**

- 106) One goal of the General Agreement on Tariffs and Trade is to
- maximize tariff revenue.
  - maximize producers' surplus.
  - liberalize international trading activity.
  - encourage bilateral trade agreements.

**Answer: C****Topic: GATT****Skill: Recognition**

- 107) One goal of the General Agreement on Tariffs and Trade is to
- maximize the revenue earned by governments through trade quotas.
  - maximize the profits of producers by imposing tariffs on manufactured goods.
  - provide an organization to help lower tariffs.
  - encourage higher tariffs between pairs of countries.

**Answer: C****Topic: WTO****Skill: Recognition\***

- 108) The WTO is the
- World Trade Organization.
  - World Tariffs Organization.
  - World Taxation Orders.
  - World Trade Orders.

**Answer: A****Topic: WTO****Skill: Recognition\***

- 109) The most ambitious and comprehensive trade round was the \_\_\_, which lead to the creation of the \_\_\_.
- Kennedy Round; GATT
  - Uruguay Round; GATT
  - Tokyo Round; WTO
  - Uruguay Round; WTO

**Answer: D****Topic: NAFTA****Skill: Conceptual**

- 110) The United States has a free trade agreement
- with both Canada and Mexico.
  - with neither Canada nor Mexico.
  - with Canada but not with Mexico.
  - with Mexico but not with Canada.

**Answer: A**

**Topic: NAFTA****Skill: Recognition**

- 111) The agreement that virtually eliminates international trade barriers between the United States, Canada, and Mexico is
- the Uruguay Round.
  - the WTO.
  - the GATT.
  - NAFTA.

**Answer: D****Topic: NAFTA****Skill: Recognition**

- 112) Under which agreement will barriers to international trade between the United States, Canada, and Mexico be virtually eliminated after a 15-year phasing-in period which began in 1994?
- General Agreement on Tariffs and Trade (GATT)
  - North American Free Trade Agreement (NAFTA)
  - Smoot-Hawley Act
  - Kennedy Round

**Answer: B****Topic: NAFTA****Skill: Recognition**

- 113) The North American Free Trade Agreement reduces trade barriers
- among the states of the United States.
  - between the United States and Mexico but not between the United States and Canada.
  - among the provinces of Canada.
  - among the United States, Canada, and Mexico.

**Answer: D****Topic: NAFTA****Skill: Recognition**

- 114) Under NAFTA, the United States
- and Canada agreed to remove all trade barriers between themselves, but not with Mexico.
  - Canada, and Mexico will impose tariffs on all countries in the European Union.
  - Canada and Mexico will eliminate trade barriers among themselves.
  - and Mexico agreed not to increase tariff levels above those existing in 1994.

**Answer: C****Topic: Effects of a Tariff****Skill: Recognition**

- 115) Because it lowers tariffs, the North American Free Trade Agreement
- harms consumers in both Mexico and the United States.
  - helps consumers in both Mexico and the United States.
  - harms consumers in Mexico and helps those in the United States.
  - helps consumers in Mexico and harms those in the United States.

**Answer: B****Topic: Effects of a Tariff****Skill: Conceptual**

- 116) If the United States imposes a tariff on imported cars, the
- U.S. import demand curve shifts rightward.
  - U.S. import demand curve shifts leftward.
  - foreign export supply curve shifts rightward.
  - foreign export supply curve shifts leftward.

**Answer: D****Topic: Effects of a Tariff****Skill: Conceptual**

- 117) Suppose the country of Mooland imposes tariffs on imported beef from the country of Aqualand. As a result of the tariffs,
- the quantity of beef exported by Mooland decreases.
  - the quantity of beef exported by Mooland increases.
  - the supply of beef in Mooland decreases.
  - the quantity of beef imported by Mooland increases.

**Answer: C****Topic: Effects of a Tariff****Skill: Conceptual**

- 118) If the United States imposes a tariff on imported steel, the tariff will
- raise the domestic price of imported steel.
  - decrease the domestic production of steel.
  - increase the total domestic consumption of steel.
  - decrease domestic employment in the steel industry.

**Answer: A**

**Topic: Effects of a Tariff****Skill: Conceptual**

119) U.S. trade barriers on textiles

- A) reduce U.S. clothing prices and decrease U.S. textile jobs.
- B) reduce U.S. clothing prices and increase U.S. textile jobs.
- C) raise U.S. clothing prices and decrease U.S. textile jobs.
- D) raise U.S. clothing prices and increase U.S. textile jobs.

**Answer: D****Topic: Effects of a Tariff****Skill: Conceptual**

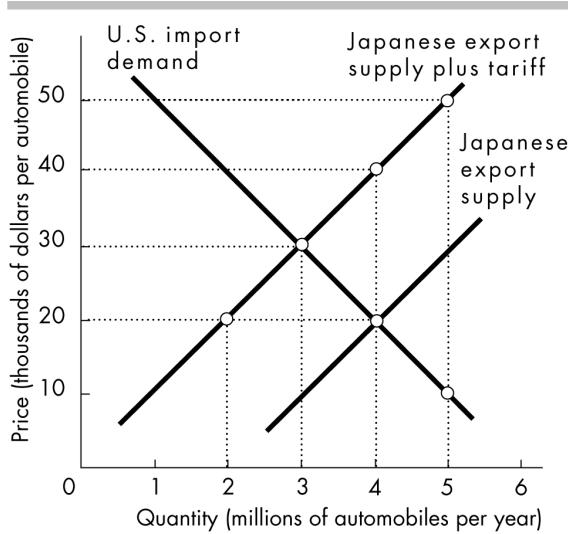
120) Tariffs

- A) earn revenue for consumers.
- B) earn revenue for the government.
- C) encourage consumers to buy more imports.
- D) encourage producers to produce less.

**Answer: B****Topic: Effects of a Tariff****Skill: Conceptual**

121) The effects of tariffs include all of the following EXCEPT

- A) tariffs increase the balance of trade in favor of the importing country.
- B) tariffs generate revenues for the government.
- C) tariffs can help specific groups in import-competing industries.
- D) tariffs reduce the volume of trade between countries.

**Answer: A****Topic: Effects of a Tariff****Skill: Analytical**

122) In the figure above, with free trade between the United States and Japan in automobiles, each year

- A) the United States will export 3 million autos to Japan.
- B) Japan will export 2 million autos to the United States.
- C) the United States will export 4 million autos to Japan.
- D) Japan will export 4 million autos to the United States.

**Answer: D****Topic: Effects of a Tariff****Skill: Analytical**

123) In the figure above, with free trade in automobiles, the U.S. price of an imported Japanese car will be

- A) \$20,000.
- B) \$30,000.
- C) \$40,000.
- D) \$50,000.

**Answer: A**

**Topic: Effects of a Tariff****Skill: Analytical**

- 124) In the figure above, if the United States imposes a tariff on imported Japanese cars of \$20,000 per car, then the price of such cars to U.S. consumers will be
- \$20,000.
  - \$30,000.
  - \$40,000.
  - \$50,000.

**Answer: B****Topic: Effects of a Tariff****Skill: Analytical**

- 125) In the figure above, if the United States imposes a tariff on imported Japanese cars equal to \$20,000 per automobile, then U.S. imports of Japanese cars will
- remain the same.
  - decrease by 1 million automobiles.
  - decrease by 2 million automobiles.
  - decrease by 3 million automobiles.

**Answer: B****Topic: Effects of a Tariff; Trade Remains Balanced****Skill: Analytical**

- 126) Suppose the world has only two countries, the United States and Japan, and each has only two products, cars and grain. The United States imports cars from Japan and exports grain to Japan. If the United States imposes a tariff on cars imported from Japan, American
- consumers will lose and Japanese producers will gain.
  - tariff revenue will equal the loss of American consumer surplus.
  - exports of grain will decrease.
  - car manufacturers will gain revenue equal to the revenue lost by Japanese car manufacturers.

**Answer: C****Topic: Effects of a Tariff; Trade Remains Balanced****Skill: Conceptual**

- 127) An increase in a country's tariffs will
- not change its imports or exports.
  - decrease both its imports and exports.
  - decrease its imports and increase its exports.
  - decrease its exports but not its imports.

**Answer: B****Topic: Effects of a Tariff; Trade Remains Balanced****Skill: Conceptual**

- 128) A decrease in a country's tariffs will
- not change its imports or exports.
  - increase both its imports and exports.
  - increase its imports but not its exports.
  - increase its exports but not its imports.

**Answer: B****Topic: Nontariff Barriers****Skill: Recognition\***

- 129) Quotas and voluntary export restraints are examples of
- quotas.
  - tariffs.
  - taxes.
  - nontariff barriers.

**Answer: D****Topic: Nontariff Barriers****Skill: Conceptual**

- 130) Examples of nontariff barriers include all of the following EXCEPT
- voluntary quotas on imported Japanese automobiles.
  - a marketing agreement that places a quota on shirts imported from Hong Kong.
  - a voluntary restraint agreement that limits imports of steel into the United States.
  - a 50 cents per pack tax on imported cigarettes.

**Answer: D****Topic: Quota****Skill: Recognition**

- 131) A quota is
- a tariff that is a fixed percentage of the price of a good.
  - a tariff that is a fixed dollar amount per unit of a good.
  - an agreed upon price for a good to be imported at a specified future date.
  - a quantitative restriction on the import of a particular good.

**Answer: D**

**Topic: Quota****Skill: Recognition**

132) Quotas

- A) are the same as tariffs.
- B) set the number of units of a good that can be imported.
- C) are not used by the United States.
- D) set the minimum percentage of the value of a product that must consist of imported components.

**Answer: B****Topic: Quota****Skill: Conceptual**

133) A quota directly restricts

- A) exports to protect consumers.
- B) exports to protect producers.
- C) imports to protect consumers.
- D) imports to protect producers.

**Answer: D****Topic: Quota****Skill: Conceptual\***

134) Quotas \_\_\_\_ the price of an imported good and \_\_\_\_ the quantity consumed in the nation imposing the quota.

- A) raise; increase
- B) raise; decrease
- C) lower; increase
- D) lower; decrease

**Answer: B****Topic: Quota****Skill: Conceptual**

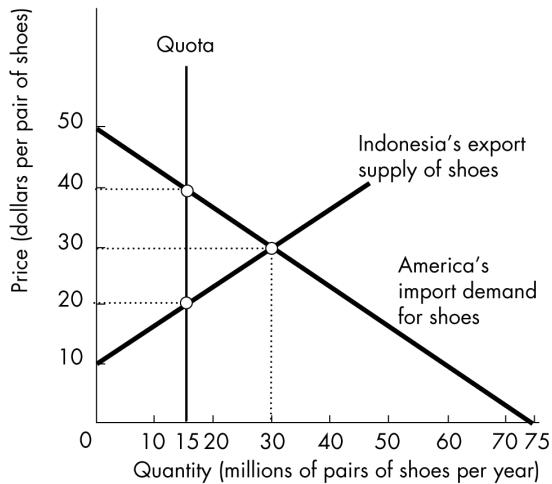
135) A key difference between tariffs and quotas is that

- A) the consumer gets hurt with quotas but not with tariffs.
- B) the consumer gets hurt with tariffs but not with quotas.
- C) the government receives revenue with tariffs, but the industry receives the added revenue with quotas.
- D) the government receives revenue with quotas, but the industry receives the added revenue with tariffs.

**Answer: C****Topic: Quota****Skill: Conceptual\***

136) A difference between a quota and a tariff is that with a quota the

- A) person who has the right to import the good captures an extra gain.
- B) exporting government collects an extra gain in the form of revenue.
- C) importing government collects an extra gain in the form of revenue.
- D) domestic consumers are not harmed.

**Answer: A****Topic: Quota****Skill: Conceptual**

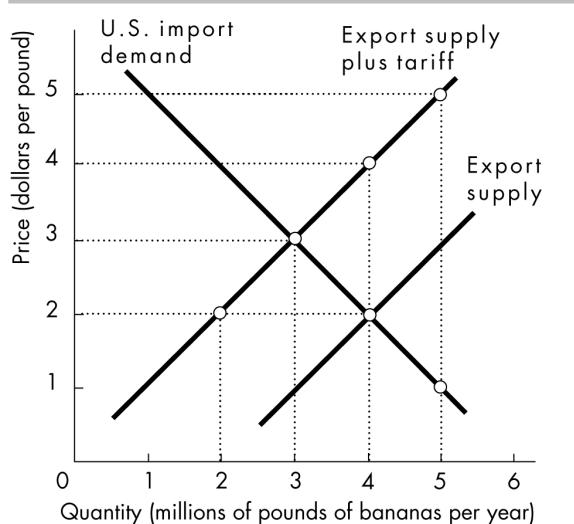
137) As a result of the American quota on Indonesian produced shoes, depicted in the above figure,

- A) Indonesian exporters of shoes to America gain a profit of \$300 million.
- B) Indonesian exporters of shoes to America gain a profit of \$600 million.
- C) whoever holds the right to import Indonesian made shoes into America gains a profit of \$600 million.
- D) whoever holds the right to import Indonesian made shoes into America gains a profit of \$300 million.

**Answer: D**

**Topic: Quota****Skill: Conceptual**

- 138) Which of the following is NOT a result of the American quota on Indonesian produced shoes, depicted in the above figure?
- An increase in the price of shoes in America.
  - An improvement in America's balance of trade, that is, the U.S. trade deficit decreases in magnitude.
  - Inefficient use of resources.
  - A financial gain to the party who has the right to import Indonesian made shoes into America.

**Answer: B****Topic: Effects of a Tariff****Skill: Analysis**

- 139) In the above figure, if a tariff of \$2 per pound of bananas is imposed, the quantity of bananas imported will be
- 1 million pounds.
  - 2 million pounds.
  - 3 million pounds.
  - 4 million pounds.

**Answer: C****Topic: Effects of a Tariff****Skill: Analysis**

- 140) In the above figure, if a tariff of \$2 per pound of bananas is imposed, the equilibrium price of imported bananas will be
- \$2.00 per pound.
  - \$3.00 per pound.
  - \$4.00 per pound.
  - \$5.00 per pound.

**Answer: B****Topic: Quota****Skill: Analysis**

- 141) In the above figure, what is the size of the quota required to cause the quantity of bananas imported to be the same as the quantity imported with a \$2 tariff in place?
- 1 million pounds.
  - 2 million pounds.
  - 3 million pounds.
  - 4 million pounds.

**Answer: C****Topic: Quota****Skill: Analysis**

- 142) In the above figure, what is the size of the quota required to cause the price of imported bananas to be the same as the price of imported bananas with a \$2 tariff in place?
- 1 million pounds.
  - 2 million pounds.
  - 3 million pounds.
  - 4 million pounds.

**Answer: C****Topic: Voluntary Export Restraints****Skill: Recognition\***

- 143) An agreement between two governments in which the government of the exporting country agrees to restrain the volume of its own exports is called a
- tariff.
  - voluntary export restraint.
  - quota.
  - tax.

**Answer: B**

**Topic: Voluntary Export Restraints****Skill: Recognition**

- 144) An agreement between two governments in which the government of the exporting country agrees to restrain the volume of its own exports is called
- a voluntary import restraint.
  - a voluntary export restraint.
  - dumping.
  - a quota.

**Answer: B****Topic: Voluntary Export Restraints****Skill: Conceptual**

- 145) The difference between the domestic price and the export price of a good when a voluntary export restraint is used is captured by the
- domestic importer.
  - domestic government.
  - foreign exporter.
  - foreign government.

**Answer: C****Topic: Voluntary Export Restraint****Skill: Conceptual**

- 146) Which trade restriction increases foreign exporter's profits?
- Tariff
  - Quota
  - Voluntary export restraint
  - Dumping

**Answer: C****■ The Case Against Protection****Topic: The Case Against Protection****Skill: Conceptual**

- 147) Economists usually agree with which of the following arguments that favor protectionism?
- The national security defense.
  - The job protection defense.
  - The dumping defense.
  - None of the above. Economists generally agree that arguments in favor of protection are flawed.

**Answer: D****Topic: The Case Against Protection****Skill: Conceptual**

- 148) All of the following are arguments for protection from international free trade EXCEPT
- protection strengthens the efficiency gains from a comparative advantage.
  - protection penalizes lax environmental standards.
  - protection preserves domestic culture.
  - protection promotes diversity and stability.

**Answer: A****Topic: The Case Against Protection; National Security****Skill: Conceptual**

- 149) The national security argument for trade protection
- claims that a country needs to protect its defense industries only during wartime.
  - claims that a country needs to protect its defense industries whether the country is at war or not.
  - could be improved upon by offering subsidies to defense industry firms.
  - Both answers B and C are true.

**Answer: D****Topic: The Case Against Protection; National Security****Skill: Recognition**

- 150) The most efficient way to maintain the output of an industry necessary for national defense is through a
- quota.
  - tariff
  - voluntary export restraint.
  - subsidy.

**Answer: D****Topic: The Case Against Protection; National Security****Skill: Recognition**

- 151) The way to maintain the output of an industry necessary for national defense without causing prices paid by consumers to rise is through a
- subsidy.
  - voluntary export restraint.
  - tariff.
  - quota.

**Answer: A**

**Topic: The Case Against Protection; Infant Industry****Skill: Recognition**

- 152) The idea of dynamic comparative advantage is the basis for which of the following arguments for protection from foreign competition?
- The national security argument
  - The infant-industry argument
  - The dumping argument.
  - The protection of national culture argument

**Answer: B****Topic: The Case Against Protection; Infant-Industry****Skill: Recognition**

- 153) The most efficient way to encourage the growth of an infant-industry is through a
- voluntary export restraint.
  - tariff.
  - subsidy.
  - quota.

**Answer: C****Topic: The Case Against Protection; Infant Industry****Skill: Conceptual**

- 154) When using the infant industry argument to demand protection, domestic producers claim that
- foreign producers are pricing their exports below the exporter's average total cost.
  - the average total cost of production for domestic producers will increase over time.
  - the average total cost of production for domestic producers will decrease over time.
  - for safety purpose, goods sold to infants should be produced domestically.

**Answer: C****Topic: The Case Against Protection; Dumping****Skill: Recognition**

- 155) \_\_\_\_\_ occurs when a foreign firm sells its exports at a lower price than it costs to produce the good.
- Dumping
  - Comparative advantage
  - Learning-by-doing
  - A tariff

**Answer: A****Topic: The Case Against Protection; Dumping****Skill: Recognition\***

- 156) When a foreign firm sells its exports at a lower price than its cost of production, the firm is
- imposing an economies of scale cost.
  - dumping.
  - avoiding a tariff.
  - competing in an infant industry.

**Answer: B****Topic: The Case Against Protection; Dumping****Skill: Conceptual**

- 157) Suppose that the country of Golfland is dumping golf clubs in the U.S. If the reason for this dumping is to \_\_\_\_, free trade advocates suggest the U.S. government \_\_\_\_.
- develop a global monopoly; negotiate international regulations to restrict the monopoly
  - develop a global monopoly; impose tariffs
  - protect an infant industry; impose tariffs
  - save jobs; impose quotas

**Answer: A****Topic: The Case Against Protection; Saves Jobs****Skill: Conceptual**

- 158) Some observers opposing free trade argue that when we buy shoes from Brazil or shirts from Taiwan, U.S. workers lose their jobs. The fact of the matter is that
- no U.S. worker has actually lost a job because of free trade.
  - most jobs lost because of free trade pay less than the poverty level.
  - free trade creates export jobs, many of which pay more than the jobs lost.
  - the jobs lost are concentrated in restricted geographic areas.

**Answer: C**

**Topic: The Case Against Protection; Saves Jobs****Skill: Conceptual**

- 159) Using calculations on the cost to Americans per job saved in protected industries, it can be concluded that
- import quotas are an efficient way to redistribute income.
  - each job saved is worth more than the cost imposed on consumers per job saved.
  - each job saved is worth less than the cost imposed on consumers per job saved.
  - tariffs are an efficient way to redistribute income to disadvantaged groups.

**Answer: C****Topic: The Case Against Protection; Cheap Foreign Labor****Skill: Recognition**

- 160) It is possible for the U.S. to compete against cheap foreign labor because expensive domestic workers
- pay U.S. taxes.
  - receive subsidies.
  - are more productive.
  - belong to unions.

**Answer: C****Topic: The Case Against Protection; Cheap Foreign Labor****Skill: Conceptual**

- 161) In poorer countries, free trade usually
- decreases demand for labor in those countries and reduces the wages paid.
  - decreases demand for labor in those countries and raises the wages paid.
  - increases demand for labor in those countries and reduces the wages paid.
  - increases demand for labor in those countries and raises the wages paid.

**Answer: D****Topic: The Case Against Protection, Exploits Poor Countries****Skill: Recognition**

- 162) Which of the following reasons does NOT explain why workers in poor countries have low labor productivity and hence low wages?
- low capital per worker
  - less advanced technology
  - lower quality education and infrastructure
  - trade with rich countries

**Answer: D****Topic: The Case Against Protection; Diversity****Skill: Recognition**

- 163) The economy of Saudi Arabia is concentrated in oil. The best way for Saudi Arabia to reduce risk through diversification is to
- protect other industries with tariffs.
  - protect other industries with quotas.
  - subsidize other industries.
  - invest in other industries in other countries.

**Answer: D**

## ■ Why is International Trade Restricted?

**Topic: Why Is International Trade Restricted?****Skill: Recognition**

- 164) Which of the following is an explanation for the existence of trade restrictions?
- Tariffs generate revenue for the government.
  - Rent seeking.
  - Inefficient quotas.
  - Both answers A and B are key explanations.

**Answer: D****Topic: Why Is International Trade Restricted?****Skill: Recognition**

- 165) International trade is restricted because
- there is an uneven distribution of benefits and costs of free trade.
  - free trade creates an inefficient use of resources.
  - free trade leads to higher costs.
  - free trade stifles diversity and stability.

**Answer: A**

**Topic: Tariff Revenue****Skill: Conceptual**

- 166) In industrial countries, there is more reliance on \_\_\_\_\_, as opposed to \_\_\_\_\_ for government revenue.
- tariffs; tax collection
  - quotas; tariffs
  - tax collection; tariffs
  - tariffs; quotas

**Answer: C****Topic: Tariff Revenue****Skill: Conceptual**

- 167) In developing countries, there is more reliance on \_\_\_\_\_ as opposed to \_\_\_\_\_ for government revenue.
- tariffs; tax collection.
  - quotas; tariffs.
  - tax collection; tariffs.
  - tariffs; quotas.

**Answer: A****Topic: Rent Seeking****Skill: Recognition**

- 168) When a group lobbies for the prevention of free trade, the most likely reason is
- rent seeking.
  - tariff revenue.
  - national defense.
  - preservation of the environment.

**Answer: A****Topic: Rent Seeking****Skill: Recognition**

- 169) When considering rent seeking, which of the following is TRUE?
- The anti-free trade group generally will lobby more than the pro-free trade group.
  - The pro-free trade group generally will lobby more than the anti-free trade group.
  - Usually only the anti-free trade group is concerned about what is best for society at large.
  - Only the pro-free trade group is concerned about the government's revenue from tariffs.

**Answer: A****Topic: Rent Seeking****Skill: Conceptual**

- 170) A tariff will benefit
- domestic producers by maintaining a higher than free-trade price.
  - foreign producers by allowing them to sell at a higher price in markets with tariffs.
  - consumers who are able to better afford domestically produced goods.
  - All of the above answers are correct.

**Answer: A****Topic: Rent Seeking****Skill: Conceptual**

- 171) A tariff hurts
- the government by decreasing its revenue.
  - domestic producers who can't compete with cheaper imports.
  - consumers who will pay more for both domestic and imported goods.
  - All of the above answers are correct.

**Answer: C****Topic: Rent Seeking****Skill: Conceptual**

- 172) One reason that international trade is restricted is that
- the individual gain to parties who benefit from the protection will be much larger than the individual loss to parties who lose.
  - the government completely pays the losers from international trade for their losses.
  - protectionism benefits consumers.
  - the government cannot measure the cost of protectionism.

**Answer: A****Topic: Rent Seeking****Skill: Conceptual**

- 173) Sugar producers' argument that protecting sugar is vital to national security is best described as an example of
- an externality.
  - rent seeking.
  - a security subsidy.
  - national risk aversion.

**Answer: B**

**Topic: Rent Seeking****Skill: Conceptual**

- 174) Usually the removal of trade barriers affecting a particular good benefits \_\_\_\_ people domestically, each of whom gains a \_\_\_\_.

- A) a few; little
- B) a few; lot
- C) many; little
- D) many; lot

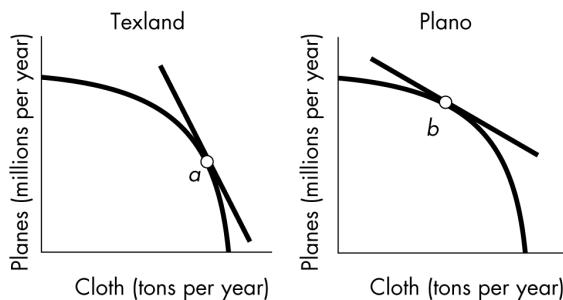
**Answer: C****Topic: Rent Seeking****Skill: Conceptual**

- 175) Usually the imposition of trade barriers affecting a particular good benefits \_\_\_\_ people domestically, each of whom gains a \_\_\_\_.

- A) a few; little
- B) a few; lot
- C) many; little
- D) many; lot

**Answer: B****■ Study Guide Questions****Topic: Study Guide Question, Patterns and Trends in International Trade****Skill: Recognition**

- 176) Which of the following is an American service import?
- A) A U.S. citizen buys a haircut while traveling in Switzerland.
  - B) A Canadian buys dinner while traveling in Canada.
  - C) A U.S. citizen buys a computer made in Switzerland.
  - D) A Mexican citizen spends the night in a motel while visiting the United States.

**Answer: A****Topic: Study Guide Question, Opportunity Cost****Skill: Analytical**

- 177) In the figure above, the slope of the production possibilities frontier at point *a* in Texland is 150 planes per ton of cloth; the slope of the production possibilities frontier at point *b* in Plano is 30 planes per ton of cloth. Without trade between the nations, what is the opportunity cost of a ton of cloth Texland?

- A) The cost is 150 planes.
- B) The cost is 1/150 plane.
- C) The cost is 30 planes.
- D) The cost is 1/30 plane.

**Answer: A****Topic: Study Guide Question, Opportunity Cost****Skill: Analytical**

- 178) In the above figure, the slope of the production possibilities frontier at point *a* in Texland is 150 planes per ton of cloth; the slope of the production possibilities frontier at point *b* in Plano is 30 planes per ton of cloth. Without trade between the nations, what is the opportunity cost of a ton of cloth in Plano?

- A) The cost is 150 planes.
- B) The cost is 1/150 plane.
- C) The cost is 30 planes.
- D) The cost is 1/30 plane.

**Answer: C**

**Topic: Study Guide Question, Comparative Advantage**

**Skill: Analytical**

- 179) In the figure above, Texland has a comparative advantage in \_\_\_\_ and Plano has a comparative advantage in \_\_\_\_.
- cloth; planes
  - planes; cloth
  - cloth and planes; neither good
  - neither good; cloth and planes

**Answer: B**

**Topic: Study Guide Question, Comparative Advantage**

**Skill: Analytical**

- 180) In the figure above, once Texland and Plano begin to trade, Texland exports \_\_\_\_ to Plano and Plano exports \_\_\_\_ to Texland.
- cloth; planes
  - planes; cloth
  - cloth and planes; neither good
  - neither good; cloth and planes

**Answer: B**

**Topic: Study Guide Question, Comparative Advantage**

**Skill: Conceptual**

- 181) Suppose Musicland and Videoland initially each produce two goods, CDs and videos. Videoland has a comparative advantage in the production of videos if in Videoland
- fewer CDs must be given up to produce 1 video than in Musicland.
  - less labor is required to produce 1 video than in Musicland.
  - less capital is required to produce 1 video than in Musicland.
  - less labor and capital are required to produce 1 video than in Musicland.

**Answer: A**

**Topic: Study Guide Question, Gains From Trade in Reality**

**Skill: Conceptual**

- 182) The fact that a nation imports and exports similar products can be accounted for by
- diversified tastes and economies of scale.
  - neither diversified tastes nor economies of scale.
  - diversified tastes but not by economies of scale.
  - economies of scale but not by diversified tastes.

**Answer: A**

**Topic: Study Guide Question, How Tariffs Work**

**Skill: Conceptual**

- 183) When does the domestic government gain the MOST revenue?
- When it imposes a tariff.
  - When it imposes a quota.
  - When it negotiates a voluntary export restraint.
  - The amount of revenue it gains is the same with a tariff and a voluntary export restraint.

**Answer: A**

## ■ MyEconLab Questions

**Topic: International Trade**

**Level I: Definitions and Concepts**

- 184) \_\_\_\_ that we buy from people in other countries and \_\_\_\_ that we sell to people in other countries.
- Imports are the goods and services; exports are the goods and services
  - Exports are the goods; imports are the goods
  - Imports are the goods; exports are the goods
  - Exports are the goods and services; imports are the goods and services

**Answer: A**

**Topic: Net Exports**

**Level I: Definitions and Concepts**

- 185) Net exports is the value of \_\_\_\_ minus the value of \_\_\_\_.
- exports; imports
  - net imports; net exports
  - imports; exports
  - net exports; net imports

**Answer: A**

**Topic: Net Exports**

**Level I: Definitions and Concepts**

- 186) Last year, U.S. net exports were \_\_\_\_ and \_\_\_\_ exceeded \_\_\_\_.
- negative; net imports; net exports
  - positive; exports; imports
  - positive; net exports; net imports
  - negative; imports; exports

**Answer: D**

**Topic: Comparative Advantage****Level I: Definitions and Concepts**

187) When a country produces a good at a lower opportunity cost than any other country, it has \_\_\_\_\_.  
 \_\_\_\_\_.

- A) an absolute advantage
- B) a trading advantage
- C) a comparative advantage
- D) a free-trade advantage

**Answer: C**

**Topic: Consumption Possibilities****Level I: Definitions and Concepts**

188) The country of Theta has a comparative advantage in the production of grapes, but not in the production of jeans. If Theta increases its production of grapes, decreases its production of jeans, and trades internationally, then Theta will \_\_\_\_\_.  
 A) have to consume more grapes  
 B) be able to consume at a point outside of its production possibilities frontier  
 C) be able to consume at a point on its production possibilities frontier  
 D) lose because wages in other countries are lower

**Answer: B**

**Topic: Trade Restrictions****Level I: Definitions and Concepts**

189) Governments protect domestic industries from foreign competition by \_\_\_\_\_.  
 A) encouraging agreements like NAFTA  
 B) using tariffs and nontariff barriers  
 C) discouraging union membership  
 D) keeping the minimum wage rate low

**Answer: B**

**Topic: Trade Restrictions****Level I: Definitions and Concepts**

190) A tariff is a tax that is imposed by the \_\_\_\_ country when an \_\_\_\_ good crosses its international boundary.  
 A) exporting; imported  
 B) importing; exported  
 C) exporting; exported  
 D) importing; imported

**Answer: D**

**Topic: The History of Tariffs****Level I: Definitions and Concepts**

191) The establishment of GATT has resulted in \_\_\_\_\_.  
 A) a reduction in nontariff barriers since World War II  
 B) a reduction in tariffs but only since 1970  
 C) a reduction in tariffs since World War II  
 D) an increase in tariffs since the 1950s

**Answer: C**

**Topic: Quota****Level I: Definitions and Concepts**

192) \_\_\_\_ specifies the maximum amount of a good that may be imported in a given period of time.  
 A) An import restriction  
 B) A legislative restriction  
 C) A trade restriction  
 D) A quota

**Answer: D**

**Topic: Voluntary Export Restraints****Level I: Definitions and Concepts**

193) An agreement between two governments in which the government of the exporting country agrees to restrain the volume of its own exports is called a \_\_\_\_\_.  
 A) voluntary export restriction  
 B) voluntary quota  
 C) voluntary export restraint  
 D) voluntary trade restriction

**Answer: C**

**Topic: Patterns and Trends in International Trade****Level 2: Using Definitions and Concepts**

195) Since 1960, the volume of U.S. international trade as a percentage of total output has \_\_\_\_\_.  
 A) steadily decreased  
 B) remained constant  
 C) fallen by half  
 D) more than doubled

**Answer: D**

**Topic: Patterns and Trends in International Trade****Level 2: Using Definitions and Concepts**

195) The Uruguay Round of the GATT created the \_\_\_\_\_.  
 A) Smoot-Hawley tariff  
 B) World Trade Organization  
 C) highest tariffs since World War II  
 D) North American Free Trade Agreement

**Answer: B**

**Topic: Comparative Advantage****Level 2: Using Definitions and Concepts**

- 196) The country of Alpha can produce 2 packets of cookies at a cost of 1 box of chocolates. Beta can produce 2 boxes of chocolates at a cost of 2 packets of cookies.
- Both Alpha and Beta have a comparative advantage in producing cookies.
  - Beta has a comparative advantage in both chocolates and cookies.
  - Alpha has a comparative advantage in producing cookies.
  - Alpha has a comparative advantage in producing chocolates.

**Answer: C****Topic: Comparative Advantage and Trade****Level 2: Using Definitions and Concepts**

- 197) The country of Alpha can produce 2 packets of cookies at a cost of 4 boxes of chocolates. Beta can produce 2 boxes of chocolates at a cost of 2 packets of cookies.
- Neither country will benefit from trade.
  - Both countries will benefit from trade.
  - Only Beta will benefit from trade.
  - Only Alpha will benefit from trade.

**Answer: B****Topic: Trade Restrictions****Level 2: Using Definitions and Concepts**

- 198) Two examples of nontariff barriers are \_\_\_\_\_.
- voluntary export restraints and import taxes
  - import taxes and export taxes
  - quotas and import taxes
  - quotas and voluntary export restraints

**Answer: D****Topic: The Case Against Protection; Infant-Industry****Level 2: Using Definitions and Concepts**

- 199) The proposition that protection is necessary to allow an infant industry to grow into a mature industry so that it can compete in world markets is the \_\_\_\_\_.
- infant-maturity argument
  - infant-industry argument
  - new industry proposition
  - growth proposition

**Answer: B****Topic: The Case Against Protection; Dumping****Level 2: Using Definitions and Concepts**

- 200) Dumping occurs when a foreign firm \_\_\_\_\_.
- pollutes international waters
  - disposes of waste material internationally
  - sells inferior output to foreigners
  - sells its exports at a lower price than its cost of production

**Answer: D****Topic: Effects of a Tariff****Level 2: Using Definitions and Concepts**

- 201) A tariff \_\_\_\_ the quantity of the good imported and \_\_\_\_ the domestic price of the imported good.
- decreases; decreases
  - decreases; increases
  - increases; lowers
  - does not change; increases

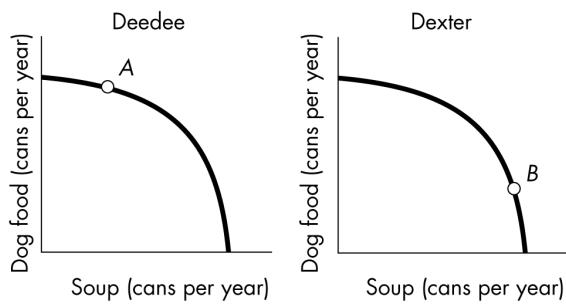
**Answer: B****Topic: The Case Against Protection****Level 2: Using Definitions and Concepts**

- 202) The argument that protection \_\_\_\_\_.
- penalizes poor environmental standards is true
  - allows us to compete with cheap foreign wages is true
  - is necessary for infant industries is true
  - saves jobs is flawed

**Answer: D****Topic: Patterns and Trends in International Trade****Level 2: Using Definitions and Concepts**

- 203) Under NAFTA, barriers to international trade between the United States, Canada, and Mexico \_\_\_\_\_.
- will be eliminated as soon as Canada stops trading with Cuba
  - depend on the exchange rates between the U.S. dollar, the Canadian dollar, and the Mexican peso
  - were eliminated on January 1, 1994
  - will be virtually eliminated by 2009

**Answer: D**

**Topic: Opportunity Cost****Level 3: Calculations and Predictions**

204) The figures above show the production possibilities frontiers of Deedee and Dexter. Without trade, Deedee produces at point *A* and the slope of its production possibility frontier at that point is 3 cans of dog food per 1 can of soup. Dexter produces at point *B* and the slope of its production possibility frontier at that point is 10 cans of dog food per 1 can of soup. At the current production points, the opportunity cost of a can of dog food in Deedee is \_\_\_\_ and the opportunity cost of a can of soup in Dexter is \_\_\_\_.

- A)  $\frac{1}{3}$  can of soup;  $\frac{1}{10}$  can of dog food
- B) 3 cans of soup;  $\frac{1}{10}$  can of dog food
- C)  $\frac{1}{3}$  can of soup; 10 cans of dog food
- D) 3 cans of soup; 10 cans of dog food

**Answer: C**

**Topic: Comparative Advantage****Level 3: Calculations and Predictions**

205) The figures above show the production possibilities frontiers of Deedee and Dexter. Without trade, Deedee produces at point *A* and Dexter produces at point *B*. Deedee has a comparative advantage in \_\_\_\_ and Dexter has a comparative advantage in \_\_\_\_.

- A) soup; soup
- B) dog food; soup
- C) dog food; dog food
- D) soup; dog food

**Answer: D**

**Topic: Comparative Advantage and Trade****Level 3: Calculations and Predictions**

206) The figures above show the production possibilities frontiers of Deedee and Dexter. Without trade, Deedee produces at point *A* and Dexter produces at point *B*. When Deedee and Dexter trade with each other, Deedee imports \_\_\_\_ and Dexter imports \_\_\_\_.

- A) soup; soup
- B) dog food; soup
- C) soup; dog food
- D) dog food; dog food

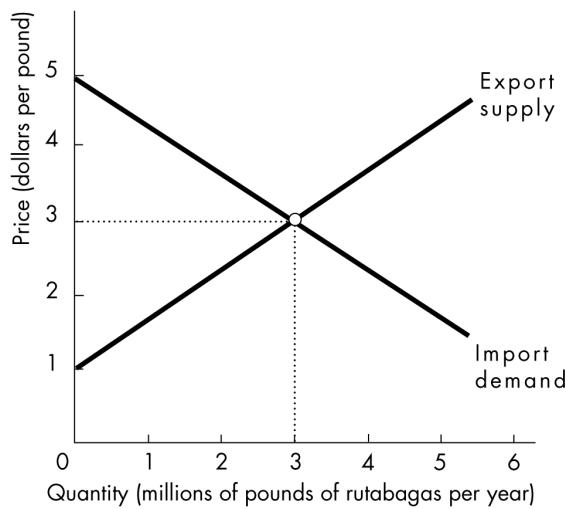
**Answer: B**

**Topic: Comparative Advantage and Trade****Level 3: Calculations and Predictions**

207) The countries of Shark and Whale both produce fish food and dog biscuits. Shark has a comparative advantage in the production of fish food. Whale will import \_\_\_\_ and consumption in Whale \_\_\_\_.

- A) fish food; is outside its production possibilities frontier
- B) dog biscuits; outside its production possibilities frontier
- C) dog biscuits; is on its production possibilities frontier
- D) fish food; is on its production possibilities frontier

**Answer: A**

**Topic: International Trade****Level 3: Calculations and Predictions**

- 208) The figure above shows the international market for rutabagas in a far-off galaxy. There are only two countries in the galaxy. If the two countries do not trade with each other, the price of a pound of rutabagas is \_\_\_\_ in one country and \_\_\_\_ in the other country.
- A) \$1; \$5  
 B) \$0; infinite  
 C) \$3; \$3  
 D) None of the above answers is correct because it is impossible to determine the prices.

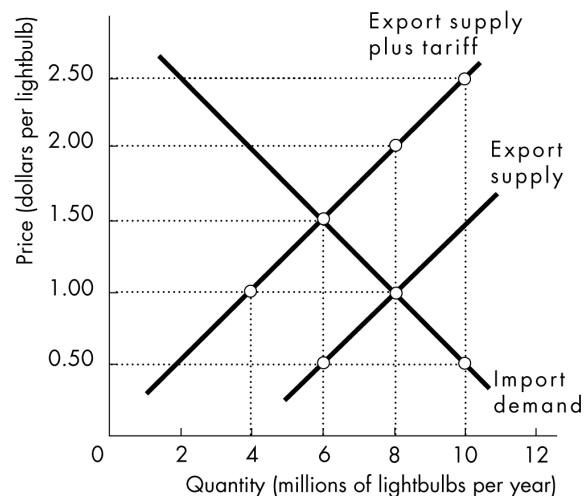
**Answer: A****Topic: International Trade****Level 3: Calculations and Predictions**

- 209) The figure above shows the international market for rutabagas in a far-off galaxy. There are only two countries in the galaxy. With free international trade, the price of a pound of rutabagas \_\_\_\_\_.  
 A) is \$5  
 B) cannot be determined because it depends on each country's demand for and supply of rutabagas  
 C) is \$1  
 D) is \$3

**Answer: D****Topic: International Trade****Level 3: Calculations and Predictions**

- 210) The figure above shows the international market for rutabagas in a far-off galaxy. There are only two countries in the galaxy. With free trade, \_\_\_\_\_.

- A) exports are sometimes greater than imports and sometimes less than imports  
 B) trade is balanced  
 C) imports are greater than exports  
 D) exports are greater than imports

**Answer: B****Topic: Effects of a Tariff****Level 3: Calculations and Predictions**

- 211) The figure above shows the international market for light bulbs on a two country planet. Before a tariff of \$1.00 is levied on light bulbs, 8 million light bulbs are traded each year. After the tariff is introduced, the exporting firm receives \_\_\_\_ per light bulb and the consumers in the importing country pay \_\_\_\_ per light bulb.

- A) \$1.00; \$1.00  
 B) \$0.50; \$1.50  
 C) \$1.50; \$0.50  
 D) \$1.00; \$2.00

**Answer: B**

**Topic: Effects of a Tariff****Level 3: Calculations and Predictions**

- 212) The figure above shows the international market for light bulbs on a two country planet. Before a tariff of \$1.00 is levied on light bulbs, 8 million light bulbs are traded each year. The tariff revenue received by the importing country's government is \_\_\_\_.
- \$8 million
  - \$6 million
  - \$12 million
  - \$3 million

**Answer: B****Topic: Quota and Voluntary Export Restraints****Level 3: Calculations and Predictions**

- 213) When a quota is imposed, the gap between the export-supply price and domestic price is captured by the \_\_\_\_, and when a VER is imposed, the gap between the export price and domestic price is captured by the \_\_\_\_.
- exporter; importer
  - importer; government of the importing country
  - exporter; government of the importing country
  - importer; exporter

**Answer: D**

Frito		Lay	
Pretzels (bags)	Potato chips (bags)	Pretzels (bags)	Potato chips (bags)
0	500	0	375
200	400	50	300
400	300	100	225
600	200	150	150
800	100	200	75
1,000	0	250	0

**Topic: Opportunity Cost****Level 4: Advanced Calculations and Predictions**

- 214) The countries of Frito and Lay both produce only pretzels and potato chips. Their *PPFs* are given in the table above. The opportunity cost of 1 bag of pretzels in Frito is \_\_\_\_ and the opportunity cost of 1 bag of pretzels in Lay is \_\_\_\_.
- 0.5 bags of chips; 1.5 bags of chips
  - 2 bags of chips;  $\frac{2}{3}$  of a bag of chips
  - 200 bags of chips; 75 bags of chips
  - 1 bag of chips; 0.75 bags of chips

**Answer: A****Topic: Comparative Advantage****Level 4: Advanced Calculations and Predictions**

- 215) The countries of Frito and Lay both produce only pretzels and potato chips. The table above gives their production possibilities. \_\_\_\_ has a comparative advantage in the production of potato chips and \_\_\_\_ has a comparative advantage in the production of pretzels.
- Lay; Frito
  - Lay; Lay
  - Frito; Lay
  - Frito; Frito

**Answer: A****Topic: Comparative Advantage and Trade****Level 4: Advanced Calculations and Predictions**

- 216) The countries of Frito and Lay produce only pretzels and potato chips. The table above sets out their production possibilities. If Frito and Lay engage in trade, Lay will export \_\_\_\_, and Frito will export \_\_\_\_.
- potato chips; potato chips
  - pretzels; pretzels
  - potato chips; pretzels
  - pretzels; potato chips

**Answer: C****Topic: Comparative Advantage and Trade****Level 4: Advanced Calculations and Predictions**

- 217) The countries of Frito and Lay produce only pretzels and potato chips. The table above sets out their production possibilities. Technology in Lay advances and, at each level of potato chip production, its resources now can produce 4 times as many pretzels as before. If Frito and Lay now engage in trade, Lay will export \_\_\_\_, and Frito will export \_\_\_\_.
- pretzels; pretzels
  - potato chips; potato chips
  - pretzels; potato chips
  - potato chips; pretzels

**Answer: C**

Price (dollars per hat)	Quantity demanded (hats)	Quantity supplied by domestic producers (hats)	Quantity supplied by exports (hats)
10	55	10	15
15	50	15	20
20	45	20	25
25	40	25	30
30	35	30	35
35	30	35	40
40	25	40	45

**Topic: International Trade****Level 4: Advanced Calculations and Predictions**

218) The table shows the demand and supply schedules for hats in Freezing Lake. The table above also shows the export supply schedule of Frozen Mountain, a country that under free trade will export hats to Freezing Lake. In Freezing Lake before trade takes place, the price is \_\_\_\_ and quantity of hats bought is \_\_\_\_\_. In Freezing Lake after free trade takes place, the price is \_\_\_\_ and quantity of hats bought is \_\_\_\_\_.

- A) \$30; 35 hats; \$40; 45 hats
- B) \$32.50; 32.5 hats; \$30; 35 hats
- C) \$30; 35 hats; \$20; 45 hats
- D) \$32.50; 32.5 hats; \$20; 45 hats

**Answer: D****Topic: Effects of a Tariff****Level 4: Advanced Calculations and Predictions**

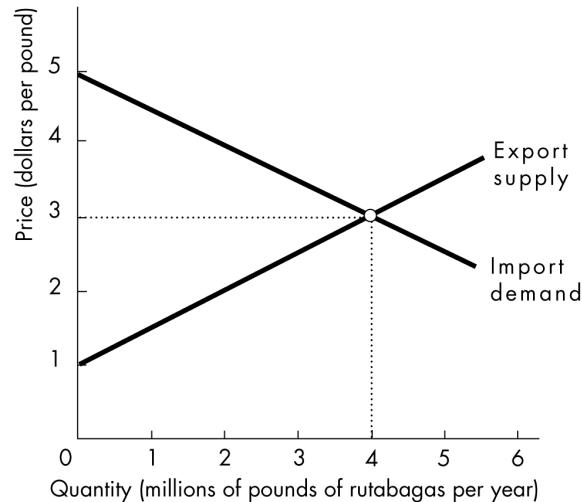
219) The table above shows the demand and supply schedules for hats in Freezing Lake. The table also shows the export supply schedule of Frozen Mountain, a country that under free trade will export hats to Freezing Lake. The hat industry in Freezing Lake lobbies the government to impose a \$15 per hat tariff on imported hats. After the tariff is imposed, what is the equilibrium price and quantity of hats bought in Freezing Lake?

- A) \$32.50; 32.5 hats
- B) \$37.50; 27.5 hats
- C) \$25; 40 hats
- D) \$35; 30 hats

**Answer: C****Topic: Effects of a Tariff****Level 4: Advanced Calculations and Predictions**

220) The table shows the demand and supply schedules for hats in Freezing Lake. The table above also shows the export supply schedule of Frozen Mountain, a country that under free trade will export hats to Freezing Lake. The hat industry in Freezing Lake lobbies the government to impose a \$15 per hat tariff on imported hats. How much tariff revenue does the government collect?

- A) \$400
- B) \$225
- C) \$150
- D) \$250

**Answer: B****Topic: Quota****Level 4: Advanced Calculations and Predictions**

221) The figure above shows the planetary market for gloves on a planet which has only two countries. The importing country imposes a quota of 2 million pounds of rutabagas per year. The price of a pound of rutabagas in the importing country is \_\_\_\_\_.

- A) \$2
- B) \$3
- C) \$4
- D) \$5

**Answer: C**

**Topic: Quota****Level 4: Advanced Calculations and Predictions**

- 222) The figure above shows the planetary market for gloves on a planet which has only two countries. The importing country imposes a quota of 2 million pounds of rutabagas per year. Who gains from the quota and what is the gain?
- A) the government of the importing country; \$4 million
  - B) the government of the importing country; \$2 million
  - C) the importer; \$4 million
  - D) the importer; \$2 million

**Answer:** C

**Topic: Voluntary Export Restraints****Level 4: Advanced Calculations and Predictions**

- 223) The figure above shows the planetary market for gloves on a planet which has only two countries. The exporting country imposes a VER of 300 pairs of gloves per year. Who gains from the VER and what is that gain?
- A) the importer
  - B) the exporter
  - C) the government of the exporting country
  - D) the government of the importing country

**Answer:** B

## ■ Financing International Trade

**Topic: Financing International Trade**

**Skill: Recognition**

- 1) The currency used to buy imported goods is
  - A) special drawing rights.
  - B) the buyer's home currency.
  - C) the currency of a third country.
  - D) the seller's home currency.

**Answer: D**

**Topic: Financing International Trade**

**Skill: Conceptual\***

- 2) If portable disk players made in China are imported into the United States, the Chinese manufacturer is paid with
  - A) dollars.
  - B) yuan, the Chinese currency.
  - C) international monetary credits.
  - D) euros, or any other third currency.

**Answer: B**

**Topic: Financing International Trade**

**Skill: Conceptual\***

- 3) If the United States sells beef to Japan, the U.S. beef producer is paid with
  - A) dollars.
  - B) yen, the Japanese currency.
  - C) international monetary credits.
  - D) euros, or any other third currency.

**Answer: A**

**Topic: Financing International Trade**

**Skill: Conceptual**

- 4) When Safeway supermarkets in the United States buys strawberries from Mexico,
  - A) it must use dollars to pay Mexican farmers.
  - B) it must use pesos to pay Mexican farmers.
  - C) it may use any currency it chooses.
  - D) the transaction shows up in the U.S. capital account.

**Answer: B**

**Topic: Balance of Payments Accounts**

**Skill: Recognition\***

- 5) A country records its international finance accounts in its
  - A) trade payments accounts.
  - B) import/export log accounts.
  - C) balance of payments accounts.
  - D) net exports payments account.

**Answer: C**

**Topic: Balance of Payments Accounts**

**Skill: Recognition**

- 6) A country's balance of payments accounts record
  - A) the country's net indebtedness to foreigners.
  - B) its international trading, borrowing, and lending.
  - C) the flow of human and nonhuman resources between it and its trading partners.
  - D) only its official transactions with other governments.

**Answer: B**

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\* This is Chapter 34 in *Economics*.

**Topic: Balance of Payments Accounts****Skill: Recognition**

- 7) A country's balance of payments accounts include all of the following EXCEPT
- military account.
  - current account.
  - capital account.
  - official settlements account.

**Answer: A****Topic: Balance of Payments Accounts****Skill: Recognition\***

- 8) The balance of payments accounts include the
- non-performing account.
  - export bank account.
  - exim bank account.
  - current account.

**Answer: D****Topic: Balance of Payments Accounts****Skill: Recognition**

- 9) In part, a country's current account measures
- its current debt as opposed to its long-term debt.
  - borrowing and lending activity between the country's residents and foreigners.
  - net increases and decreases in a country's holdings of foreign currency.
  - receipts from the sale of goods and services to foreigners and payments for goods and services bought from foreigners.

**Answer: D****Topic: Balance of Payments Accounts****Skill: Recognition\***

- 10) The balance of payments account used to record payments for imported goods and services is the
- current account.
  - exim account.
  - import account.
  - capital account.

**Answer: A****Topic: Balance of Payments Accounts****Skill: Recognition**

- 11) The largest part of the U.S. current account consists of
- Fed transfers of U.S. dollars to other central banks.
  - net transfer payments between the United States and Mexico.
  - receipts from exports and payments for imports.
  - net borrowing between the United States and other countries.

**Answer: C****Topic: Balance of Payments Accounts****Skill: Recognition**

- 12) In 2003, the U.S. current account had a
- deficit of \$559 billion.
  - surplus of \$559 billion.
  - balance with a discrepancy of \$40 billion.
  - deficit of \$90 billion.

**Answer: A****Topic: Balance of Payments Accounts****Skill: Recognition\***

- 13) The balance of payments account that records foreign investment in the United States is the
- current account.
  - exim account
  - non-performing account.
  - capital account.

**Answer: D****Topic: Balance of Payments Accounts****Skill: Recognition**

- 14) The U.S. capital account measures
- receipts from goods and services sold and transfers to and from foreigners.
  - foreign investment in the United States minus U.S. investment abroad.
  - net increases and decreases in the U.S. holdings of foreign currency.
  - net transfer payments between U.S. residents and foreigners.

**Answer: B**

**Topic: Balance of Payments Accounts****Skill: Conceptual**

- 15) If foreign investment in the United States exceeds U.S. investment abroad, there is a \_\_\_\_; and when U.S. investment abroad exceeds foreign investment in the United States, there is a(n) \_\_\_\_.
- current account surplus; current account deficit
  - current account surplus; official accounts surplus
  - capital account surplus; capital account deficit
  - capital account deficit; capital account surplus

**Answer: C****Topic: Balance of Payments Accounts****Skill: Recognition**

- 16) In 2003, the U.S. capital account had a
- deficit of \$559 billion.
  - surplus of \$559 billion.
  - surplus of \$115 billion.
  - deficit of \$115 billion.

**Answer: B****Topic: Balance of Payments Accounts****Skill: Recognition**

- 17) The official settlements account of a country measures
- the receipts from goods and services bought and sold, and transfers to and from foreigners.
  - borrowing and lending between the country's residents and foreigners.
  - the net increase or decrease in the country's official reserves.
  - net transfer payments between the country's citizens and foreigners.

**Answer: C****Topic: Balance of Payments Accounts****Skill: Recognition\***

- 18) The account used to record changes in the official reserve is the
- official settlements account.
  - official reserves account.
  - capital account.
  - current account.

**Answer: A****Topic: Balance of Payments Accounts****Skill: Recognition**

- 19) The official settlements account for the United States measures the
- value of U.S. merchandise purchased by foreigners.
  - net value of foreign goods purchased by U.S. residents.
  - net value of U.S. exports of services.
  - net increase or decrease in the government's holdings of foreign currency.

**Answer: D****Topic: Balance of Payments Accounts****Skill: Recognition**

- 20) The change in U.S. official reserves is equal to
- borrowing from abroad plus the current account deficit.
  - the current account balance plus the capital account balance.
  - the current account balance minus the capital account balance.
  - foreign investment in the United States minus U.S. investment abroad.

**Answer: B****Topic: Balance of Payments Accounts****Skill: Recognition\***

- 21) Which of the following statements about the balance of payments accounts is correct?
- The current account must be greater than the capital account.
  - The sum of all three accounts is always zero.
  - The official settlements account is typically larger than both the capital and current accounts.
  - Typically the capital account is near zero because it equals the difference between the current account and the official settlements account.

**Answer: B**

**Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 22) Over the last two decades, according to the United States balance of payments,
- the current account and the capital account balances tend to move in the same direction.
  - the current account and the capital account balances tend to move in opposite directions.
  - there is no clear relationship between the current account balance and the capital account balance.
  - the official settlements balance fluctuates greatly from year to year.

**Answer: B****Topic: Patterns and Trends in International Trade****Skill: Recognition**

- 23) During most of the 1980s and 1990s, the U.S. has had
- a positive current account and a positive capital account.
  - a positive current account and a negative capital account.
  - a negative current account and a positive capital account.
  - a negative current account and a negative capital account.

**Answer: C****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition\***

- 24) If a nation during its entire history has borrowed more from the rest of the world than it has lent to the rest of the world, the country is a
- net borrower.
  - debtor nation.
  - net lender.
  - creditor nation.

**Answer: A****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition\***

- 25) If a country is currently lending more to the rest of the world than it is borrowing from the rest of the world, the country is a
- net borrower.
  - debtor nation.
  - net lender.
  - creditor nation.

**Answer: C****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition**

- 26) A net borrower is a country that \_\_\_\_\_, while a net lender is a country that \_\_\_\_\_.
- borrow more than it lends; owes more to foreigners than foreigners owe to it
  - decreases its stock of outstanding foreign debt; lends more than it borrows
  - borrow more than it lends; lends more than it borrows
  - lends more than it borrows; borrows more than it lends

**Answer: C****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition\***

- 27) If a country during its entire history has invested more in the rest of the world than the rest of the world has invested in it, the country is a
- net borrower.
  - debtor nation.
  - net lender.
  - creditor nation.

**Answer: D****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition\***

- 28) If a country is currently borrowing more from the rest of the world than it is lending to the rest of the world, the country is a
- net borrower.
  - debtor nation.
  - net lender.
  - creditor nation.

**Answer: A**

**Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition**

- 29) A creditor nation is a country that \_\_\_\_\_ and a debtor nation is a country that \_\_\_\_\_.  
 A) currently borrows more than it lends; currently lends more than it borrows  
 B) currently lends more than it borrows; currently borrows more than it lends  
 C) through its history has lent more than it has borrowed; through its history has borrowed more than it has lent  
 D) through its history has borrowed more than it has lent; through its history has lent more than it has borrowed

**Answer: C****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition**

- 30) A creditor nation means a nation whose  
 A) exports exceed its imports.  
 B) current account is larger than its capital account.  
 C) lending to the rest of the world exceeds its borrowing from the rest of the world.  
 D) total investments in the rest of the world exceeds the rest of the world's investments in that country.

**Answer: D****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition**

- 31) A debtor nation means a nation whose  
 A) imports exceeds its exports.  
 B) current account is less than its capital account.  
 C) total investments in the rest of the world are less than the rest of the world's investments in that country.  
 D) lending to the rest of the world exceeds its borrowing from the rest of the world.

**Answer: C****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Recognition**

- 32) Today, the United States is a  
 I. net borrower  
 II. net lender  
 III. debtor nation  
 IV. creditor nation  
 A) I and IV.  
 B) II and IV.  
 C) I and III.  
 D) II and III.

**Answer: C****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Conceptual**

- 33) If a country has a capital account surplus, that country's stock of international indebtedness is  
 A) increasing.  
 B) decreasing.  
 C) constant.  
 D) zero.

**Answer: A****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Conceptual**

- 34) If a country has a capital account deficit, that country's stock of international indebtedness is  
 A) increasing.  
 B) decreasing.  
 C) constant.  
 D) zero.

**Answer: B****Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Conceptual**

- 35) Since 1983, the United States has been a net \_\_\_\_\_ and since 1989 has been a \_\_\_\_\_ nation.  
 A) borrower; creditor  
 B) lender; creditor  
 C) borrower; debtor  
 D) lender; debtor

**Answer: C**

**Topic: Borrowers and Lenders, Debtors and Creditors****Skill: Conceptual**

36) Currently, the United States is a net \_\_\_\_ and a \_\_\_\_ nation.

- A) borrower; creditor
- B) lender; creditor
- C) borrower; debtor
- D) lender; debtor

**Answer: C****Topic: Current Account Balance****Skill: Recognition**

37) The main source of fluctuations in the current account balance is

- A) net interest income.
- B) net transfers.
- C) net exports.
- D) net taxes.

**Answer: C****Topic: Net Exports, The Government Budget, Saving, and Investment****Skill: Recognition**

38) The private sector surplus or deficit equals

- A) saving minus investment.
- B) net taxes minus government purchases.
- C) investment minus saving.
- D) government purchases minus net taxes.

**Answer: A****Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Recognition**

39) Net exports equals

- A) exports of goods and services minus imports of goods and services.
- B) imports of goods and services minus exports of goods and services.
- C) government saving plus private saving.
- D) Both answers A and C are correct.

**Answer: D****Topic: Net Exports, The Government Budget, Saving, and Investment****Skill: Conceptual**

40) A net exports deficit or surplus equals

- A) taxes minus savings plus public and private investment.
- B) the government sector surplus or deficit plus the private sector surplus or deficit.
- C) net lending by both the private and public sector plus savings minus investment.
- D) net worth plus the government sector surplus or deficit minus the private sector surplus or deficit.

**Answer: B****Topic: Net Exports, The Government Budget, Saving, and Investment****Skill: Conceptual**

41) Which of the following is correct?

- A) Net exports equals the government sector surplus or deficit plus the private sector surplus or deficit.
- B) The public sector surplus or deficit equals net exports plus the private sector surplus or deficit.
- C) The private sector surplus or deficit equals net exports plus the public sector surplus or deficit.
- D) Net exports equals the current account plus the capital account plus the official settlements account.

**Answer: A****Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Conceptual**

42) Which of the following statements is true?

- A) If (private) saving is greater than (private) investment then the private sector has a surplus.
- B) If (private) investment is greater than (private) saving then the private sector has a deficit.
- C) If (private) investment is greater than (private) saving then either the government or net export sector must have a surplus.
- D) All of the above answers are correct.

**Answer: D**

**Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Recognition**

- 43)  $X$  is exports,  $M$  is imports,  $T$  is net taxes,  $G$  is government purchases,  $C$  is consumption expenditure,  $S$  is saving, and  $I$  is investment. Which of the following equations represents the private sector surplus or deficit?
- $X - M$
  - $T - G$
  - $S - I$
  - $C + S + T$

**Answer: C****Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Conceptual**

- 44) Suppose  $X - M$  = net exports;  $T - G$  = government sector surplus or deficit; and  $S - I$  = private sector surplus or deficit. Which of the following relationships is correct?
- $X - M = T - G + S - I$
  - $T - G = X - M + S - I$
  - $S - I = X - M + T - G$
  - None of the above answers are correct.

**Answer: A****Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Conceptual**

- 45) Which of the following statements about net exports, the government sector, and the private sector is INCORRECT?
- Net exports equals exports minus imports.
  - The government sector balance equals net taxes minus government purchase of goods and services.
  - Private sector balance equal private investment minus private saving.
  - The sum of government sector and private sector balances equals net exports.

**Answer: C****Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Analytical**

- 46) If net exports is 100 and the private sector balance is 150, then the government sector balance is
- 50.
  - 50.
  - 250.
  - 0.

**Answer: A****Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Analytical**

- 47) Suppose U.S. net exports are -\$400 billion and the U.S. government sector surplus is \$200 billion. Then in the private sector, saving minus investment equals
- \$600 billion.
  - \$200 billion.
  - +\$600 billion.
  - +\$200 billion.

**Answer: A****Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Analytical**

- 48) Hong Kong has imports of \$1,130 billion and exports of \$1,255 billion. Hong Kong definitely has \_\_\_\_ in 2000.
- negative net exports of \$125 billion
  - positive net exports of \$125 billion
  - a government budget surplus
  - Both answers B and C are correct.

**Answer: B**

Component	Amount (billions of dollars)
Investment, $I$	700
Net taxes, $T$	1,300
Government purchases, $G$	1,200
Exports, $X$	1,500
Imports, $M$	1,700

**Topic: Net Exports, The Government Budget, Saving, and Investment**

**Skill: Analytical**

- 49) In the above table, the government sector surplus or deficit (its budget balance) is a
- surplus of \$200 billion.
  - deficit of \$200 billion.
  - surplus of \$100 billion.
  - deficit of \$100 billion.

**Answer: C**

**Topic: Net Exports, The Government Budget, Saving, and Investment**

**Skill: Analytical**

- 50) In the above table, the net exports is a
- surplus of \$200 billion.
  - deficit of \$200 billion.
  - surplus of \$100 billion.
  - deficit of \$100 billion.

**Answer: B**

**Topic: Net Exports, The Government Budget, Saving, and Investment**

**Skill: Analytical**

- 51) In the above table, the government sector surplus or deficit is a \_\_\_\_ and net exports is a \_\_\_\_.
- surplus of \$100 billion; deficit of \$200 billion
  - deficit of \$100 billion; surplus of \$200 billion
  - surplus of \$100 billion; surplus of \$200 billion
  - deficit of \$100 billion; deficit of \$200 billion

**Answer: A**

**Topic: Net Exports, The Government Budget, Saving, and Investment**

**Skill: Analytical**

- 52) In the above table, the private sector has a
- surplus of \$300 billion.
  - deficit of \$300 billion.
  - deficit of \$200 billion.
  - deficit of \$400 billion.

**Answer: B**

**Topic: Net Exports, The Government Budget, Saving, and Investment**

**Skill: Analytical**

- 53) In the above table, saving must be
- \$300 billion.
  - \$300 billion.
  - \$400 billion.
  - \$400 billion.

**Answer: C**

Item	Billions of dollars
Exports	234
Imports	277
Government purchases	887
Net taxes	855
Investment	760
Saving	749

**Topic: Net Exports, the Government Budget, Saving, and Investment**

**Skill: Analytical**

- 54) The above table gives data for the nation of Sue-land. What is the value of net exports?

- \$43 billion
- \$234 billion
- \$43 billion
- \$511 billion

**Answer: C**

**Topic: Net Exports, the Government Budget, Saving, and Investment**

**Skill: Analytical**

- 55) The above table gives data for the nation of Sue-land. What is the government sector surplus or deficit?
- \$1,772 billion
  - \$32 billion
  - \$43 billion
  - \$32 billion

**Answer: D**

**Topic: Net Exports, the Government Budget, Saving, and Investment**

**Skill: Analytical**

- 56) The above table gives data for the nation of Sue-land. What is the private sector surplus or deficit?
- \$11 billion
  - \$11 billion
  - \$43 billion
  - \$43 billion

**Answer: B**

Item	Dollars
Exports	500
Imports	400
Government sector surplus	250
Private sector deficit	-150

**Topic: Net Exports, the Government Budget, Saving, and Investment****Skill: Analytical**

- 57) The above table describes accounts for the country of Pacifica. Using this information, net exports for Pacifica equals
- \$100.
  - \$900.
  - \$100.
  - \$650.

**Answer: A****■ The Exchange Rate****Topic: The Exchange Rate****Skill: Conceptual**

- 58) In the foreign exchange market, the \_\_\_\_ of one country is traded for the \_\_\_\_ of another country.
- currency; goods
  - goods; goods
  - currency; currency
  - currency; financial instruments

**Answer: C****Topic: The Exchange Rate****Skill: Conceptual**

- 59) Which of the following apply to exchange rates?
- The exchange rate is a price.
  - The exchange rate for a currency depends on which foreign exchange market you use.
  - The foreign exchange rate is different from other prices because it is NOT determined by supply and demand.
- I and II.
  - I.
  - II and III.
  - I, II, and III.

**Answer: B****Topic: The Exchange Rate****Skill: Recognition**

- 60) The foreign exchange rate is the price at which the \_\_\_\_ of one country exchanges for the \_\_\_\_ of another country.
- currency; goods
  - goods; goods
  - currency; currency
  - currency; financial instruments

**Answer: C****Topic: The Exchange Rate, Currency Depreciation****Skill: Conceptual**

- 61) By definition, currency depreciation occurs when the value of
- all currencies fall relative to gold.
  - one currency falls relative to another currency.
  - one currency rises relative to another currency.
  - gold falls relative to the value of currencies.

**Answer: B****Topic: The Exchange Rate, Currency Depreciation****Skill: Conceptual**

- 62) Which of the following examples definitely illustrates a depreciation of the U.S. dollar?
- The dollar exchanges for 120 francs and then exchanges for 100 francs.
  - The dollar exchanges for 100 francs and then exchanges for 120 yen.
  - The dollar exchanges for 1 pound and then exchanges for 1.2 pounds.
  - The dollar exchanges for 250 yen and then exchanges for 275 francs.

**Answer: A****Topic: The Exchange Rate, Currency Depreciation****Skill: Conceptual**

- 63) Which of the following examples definitely illustrates a depreciation of the U.S. dollar?
- The dollar exchanges for 120 yen and then exchanges for 100 yen.
  - The dollar exchanges for 200 yen and then exchanges for 250 yen.
  - The dollar exchanges for 2,000 pesos and then exchanges for 3,400 pesos.
  - The dollar exchanges for 250 yen and then exchanges for 200 francs.

**Answer: A**

**Topic: The Exchange Rate, Currency Depreciation****Skill: Conceptual**

- 64) When the U.S. dollar depreciates against the yen, the yen becomes \_\_\_\_ expensive and the exchange rate \_\_\_\_.

- A) more; rises
- B) less; rises
- C) more; falls
- D) less; falls

**Answer: C****Topic: The Exchange Rate, Currency Depreciation****Skill: Conceptual**

- 65) When the U.S. dollar depreciates against the yen, the yen \_\_\_\_ and the exchange rate \_\_\_\_.

- A) appreciates; rises
- B) depreciates; rises
- C) appreciates; falls
- D) depreciates; falls

**Answer: C****Topic: The Exchange Rate, Currency Depreciation****Skill: Conceptual**

- 66) Suppose the exchange rate of the U.S. dollar was 1.50 British pounds = \$1.00 (U.S.) on Wednesday, and on Monday the exchange rate was \$.75 (U.S.) = 1.00 British pound. Which of the following best describes what happened between Wednesday and Monday?

- A) The U.S. dollar appreciated against the British pound.
- B) The British pound appreciated against the U.S. dollar.
- C) The U.S. dollar depreciated against the British pound.
- D) Both answers B and C are correct.

**Answer: D****Topic: The Exchange Rate, Currency Appreciation****Skill: Conceptual**

- 67) By definition, currency appreciation occurs when
- A) the value of all currencies fall relative to gold.
  - B) the value of one currency falls relative to another currency.
  - C) the value of one currency rises relative to another currency.
  - D) the value of all currencies rise relative to gold.

**Answer: C****Topic: The Exchange Rate, Currency Appreciation****Skill: Conceptual**

- 68) Which of the following examples definitely illustrates an appreciation of the U.S. dollar?

- A) The dollar exchanges for 120 francs and then exchanges for 100 francs.
- B) The dollar exchanges for 200 yen and then exchanges for 250 francs.
- C) The dollar exchanges for 1 pound and then exchanges for 1.2 pounds.
- D) None of the above.

**Answer: C****Topic: The Exchange Rate, Currency Appreciation****Skill: Conceptual**

- 69) Which of the following examples definitely illustrates an appreciation of the U.S. dollar?

- A) The dollar exchanges for 120 francs and then exchanges for 100 francs.
- B) The dollar exchanges for 200 yen and then exchanges for 250 yen.
- C) The dollar exchanges for 1.2 pounds and then exchanges for 200 yen.
- D) None of the above.

**Answer: B****Topic: The Exchange Rate, Currency Appreciation****Skill: Conceptual**

- 70) Suppose the exchange rate of the U.S. dollar was 1.00 German mark = \$0.50 (U.S.) on Thursday, and on Friday the exchange rate was \$1.00 (U.S.) = 2.10 German marks. Which of the following best describes what happened between Thursday and Friday?

- A) The U.S. dollar appreciated against the German mark.
- B) The German mark appreciated against the dollar.
- C) The U.S. dollar depreciated against the German mark.
- D) Both answers B and C are correct.

**Answer: A**

**Topic: The Law of Demand for Foreign Exchange**  
**Skill: Conceptual**

- 71) The law of demand for dollars means that
- the lower the exchange rate, the greater the quantity of dollars demanded.
  - the higher the exchange rate, the smaller the quantity of dollars demanded.
  - the lower the exchange rate, the smaller the quantity of U.S. exports demanded.
  - Both answers A and B are correct.

**Answer: D**

**Topic: Law for Demand for Foreign Exchange**  
**Skill: Conceptual**

- 72) A rise in the U.S. exchange rate will
- increase the quantity of dollars demanded.
  - decrease the quantity of dollars demanded.
  - increase the demand for dollars.
  - decrease the demand for dollars.

**Answer: B**

**Topic: Law for Demand for Foreign Exchange**  
**Skill: Conceptual**

- 73) A fall in the U.S. exchange rate will
- increase the quantity of dollars demanded.
  - decrease the quantity of dollars demanded.
  - increase the demand for dollars.
  - decrease the demand for dollars.

**Answer: A**

**Topic: The Law of Demand for Foreign Exchange, Exports**

**Skill: Conceptual**

- 74) The demand curve for U.S. dollars slopes downward because,
- as the dollar appreciates, U.S. goods become more expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.
  - as the dollar appreciates, U.S. goods become less expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.
  - as the dollar depreciates, U.S. goods become more expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.
  - as the dollar depreciates, U.S. goods become less expensive to foreign residents, they purchase fewer U.S. goods, and the quantity of dollars demanded decreases.

**Answer: A**

**Topic: The Law of Demand for Foreign Exchange, Exports**

**Skill: Conceptual**

- 75) As the exchange rate \_\_\_\_, the \_\_\_\_ is the value of U.S. \_\_\_\_.
- falls; greater; imports
  - falls; greater; exports
  - rises; greater; exports
  - rises; smaller; imports

**Answer: B**

**Topic: The Law of Demand for Foreign Exchange, Exports**

**Skill: Conceptual**

- 76) The greater the demand for U.S. exports, the
- smaller is the demand for U.S. dollars.
  - larger is the demand for U.S. dollars.
  - larger is the current account deficit.
  - larger is the demand for non-U.S. currencies.

**Answer: B**

**Topic: The Law of Demand for Foreign Exchange, Expected Profit**

**Skill: Conceptual**

- 77) The \_\_\_\_ the current exchange rate, the \_\_\_\_ is the expected profit from holding dollars, all other things remaining the same.
- higher; larger
  - lower; smaller
  - lower; larger
  - The premise of the question is wrong because the exchange rate has nothing to do with expected profit from holding dollars.

**Answer: C**

Investor	Expected future value of a dollar (francs per dollar)
Investor A	120
Investor B	100
Investor C	85

**Topic: The Law of Demand for Foreign Exchange, Expected Profit**

**Skill: Analytical**

- 78) Using the table above, if the current market value of the dollar is 125 francs per dollar,
- investor A expects dollar appreciation, but B and C expect depreciation.
  - investor A expects dollar depreciation, but B and C expect appreciation.
  - all three investors expect the dollar to appreciate.
  - all three investors expect the dollar to depreciate.

**Answer: D**

**Topic: The Law of Demand for Foreign Exchange, Expected Profit**

**Skill: Analytical**

- 79) Using the table above, if the current market value of the dollar is 125 francs,
- investor A holds dollars, but B and C hold francs.
  - investor A holds francs, but B and C hold dollars.
  - all three investors hold francs.
  - all three investors hold dollars.

**Answer: C**

**Topic: The Law of Demand for Foreign Exchange, Expected Profit**

**Skill: Analytical**

- 80) Using the table above, if the current market value of the dollar is 70 francs,
- investor A expects dollar appreciation, but B and C expect depreciation.
  - investor A expects dollar depreciation, but B and C expect appreciation.
  - all three investors expect the dollar to appreciate.
  - all three investors expect the dollar to depreciate.

**Answer: C**

**Topic: The Law of Demand for Foreign Exchange, Expected Profit**

**Skill: Analytical**

- 81) Using the table above, if the current market value of the dollar is 70 francs,
- investor A holds dollars, but B and C hold francs.
  - investor A holds francs, but B and C hold dollars.
  - all three investors hold francs.
  - all three investors hold dollars.

**Answer: D**

**Topic: The Law of Demand for Foreign Exchange, Expected Profit**

**Skill: Analytical**

- 82) Using the table above, if the current market value of the dollar is 90 francs,
- investor A expects dollar appreciation, but B and C expect depreciation.
  - investor C expects dollar depreciation, but A and B expect appreciation.
  - all three investors expect the dollar to appreciate.
  - all three investors expect the dollar to depreciate.

**Answer: B**

**Topic: The Law of Demand for Foreign Exchange, Expected Profit**

**Skill: Analytical**

- 83) Using the table above, if the current market value of the dollar is 110 francs,
- investor A expects dollar appreciation, but B and C expect depreciation.
  - investor C expects dollar depreciation, but A and B expect appreciation.
  - all three investors expect the dollar to appreciate.
  - all three investors expect the dollar to depreciate.

**Answer: A**

**Topic: Changes in the Demand for Dollars****Skill: Conceptual**

- 84) Important factors that change the demand for dollars and shift the demand curve for dollars include which of the following?
- Interest rates around the world.
  - The current exchange rate.
  - The expected future exchange rate.
- I and II.
  - I and III.
  - II.
  - I, II, and III.

**Answer: B****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Conceptual**

- 85) If the interest rate on Japanese yen assets falls, the
- quantity of dollars demanded will increase.
  - quantity of dollars demanded will decrease.
  - demand for dollars will increase.
  - demand for dollars will decrease.

**Answer: C****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Conceptual**

- 86) If the interest rate on Swiss franc assets increases, the
- quantity of dollars demanded will decrease.
  - demand for dollars will increase.
  - demand for dollars will decrease.
  - quantity of dollars demanded will increase.

**Answer: C****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Conceptual**

- 87) If the interest rate on U.S. dollar assets increases, the
- quantity of dollars demanded will decrease.
  - demand for dollars will increase.
  - demand for dollars will decrease.
  - quantity of dollars demanded will increase.

**Answer: B****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Conceptual**

- 88) If the U.S. interest rate rises, the
- demand curve for dollars shifts rightward.
  - demand curve for dollars shifts leftward.
  - there is a movement downward along the demand curve for dollars.
  - None of the above answers are correct.

**Answer: A****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Conceptual**

- 89) If U.S. interest rates fall, the
- demand curve for dollars shifts rightward.
  - demand curve for dollars shifts leftward.
  - there is a movement upward along the demand curve for dollars.
  - None of the above answers are correct.

**Answer: B****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Conceptual**

- 90) If Japanese interest rates rise, the
- demand curve for dollars shifts rightward.
  - demand curve for dollars shifts leftward.
  - there is a movement upward along the demand curve for dollars.
  - None of the above answers are correct.

**Answer: B****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Conceptual**

- 91) If Japanese interest rates fall, the
- demand curve for dollars shifts rightward.
  - demand curve for dollars shifts leftward.
  - there is a movement downward along the demand curve for dollars.
  - None of the above answers are correct.

**Answer: A**

**Topic: Changes in the Demand for Dollars, Future Exchange Rate**

**Skill: Conceptual**

- 92) U.S. residents come to believe that the dollar will depreciate in the future, that is, the exchange rate in the future will be lower than the current exchange rate. As a result,
- the demand curve for dollars shifts rightward.
  - the demand curve for dollars shifts leftward.
  - there is a movement upward along the demand curve for dollars.
  - None of the above answers are correct.

**Answer: B**

**Topic: Changes in the Demand for Dollars, Future Exchange Rate**

**Skill: Conceptual**

- 93) U.S. residents come to believe that the dollar will appreciate in the future, that is, the exchange rate in the future will be higher than the current exchange rate. As a result,
- the demand curve for dollars shifts rightward.
  - the demand curve for dollars shifts leftward.
  - there is a movement downward along the demand curve for dollars.
  - None of the above answers are correct.

**Answer: A**



**Topic: Changes in the Demand for Dollars, Interest Rates**

**Skill: Analytical**

- 94) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_1$  could occur when
- the expected future exchange rate decreases.
  - the U.S. interest rate rises.
  - people expect that the dollar will depreciate.
  - foreign interest rates increase.

**Answer: B**

**Topic: Changes in the Demand for Dollars, Interest Rates**

**Skill: Analytical**

- 95) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_1$  could occur when
- the expected future exchange rate falls.
  - the U.S. interest rate drops.
  - people expect that the dollar will appreciate.
  - foreign interest rates drop.

**Answer: D**

**Topic: Changes in the Demand for Dollars, Interest Rates**

**Skill: Analytical**

- 96) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_2$  could occur when
- the U.S. interest rate falls.
  - the U.S. interest rate rises.
  - people expect that the dollar will appreciate.
  - foreign interest rates fall.

**Answer: A**

**Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Analytical**

- 97) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_2$  could occur when
- the expected future exchange rate increases.
  - the U.S. interest rate falls.
  - people expect that the dollar will appreciate.
  - foreign interest rates fall.

**Answer: B****Topic: Changes in the Demand for Dollars, Interest Rates****Skill: Analytical**

- 98) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_2$  could occur when
- the expected future exchange rate increases.
  - the U.S. interest rate rises.
  - people expect that the dollar will appreciate.
  - foreign interest rates rise.

**Answer: D****Topic: Changes in the Demand for Dollars, Future Exchange Rate****Skill: Analytical**

- 99) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_1$  could occur when
- foreign interest rates increase.
  - the U.S. interest rate falls.
  - people expect that the dollar will depreciate.
  - the expected future exchange rate increases.

**Answer: D****Topic: Changes in the Demand for Dollars, Future Exchange Rate****Skill: Analytical**

- 100) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_1$  could occur when
- the expected future exchange rate falls.
  - the U.S. interest rate decreases.
  - people expect that the dollar will appreciate.
  - foreign interest rates increase.

**Answer: C****Topic: Changes in the Demand for Dollars, Future Exchange Rate****Skill: Analytical**

- 101) In the figure above, the shift in the demand curve for U.S. dollars from  $D_0$  to  $D_2$  could occur when
- the expected future exchange rate increases.
  - the U.S. interest rate rises.
  - people expect that the dollar will depreciate.
  - foreign interest rates fall.

**Answer: C****Topic: Law of Supply for Foreign Exchange****Skill: Conceptual**

- 102) Other things remaining the same, the \_\_\_\_ the exchange rate for dollars, the greater the \_\_\_\_ in the foreign exchange market.
- higher; quantity of dollars supplied
  - higher; quantity of dollars demanded
  - lower; value of U.S. imports
  - higher; expected profits from holding dollars

**Answer: A****Topic: Law of Supply for Foreign Exchange****Skill: Conceptual**

- 103) As the exchange rate \_\_\_\_, the quantity of dollars \_\_\_\_ on the foreign exchange market \_\_\_\_.
- rises; supplied; increases
  - falls; supplied; increases
  - rises; demanded; increases
  - falls; demanded; decreases

**Answer: A****Topic: Law of Supply for Foreign Exchange****Skill: Conceptual**

- 104) In the foreign exchange market, the supply curve for dollars slopes upwards because
- as the exchange rate rises, imports become more expensive, and more dollars are supplied to pay for the imports.
  - as the exchange rate rises, imports become cheaper, and more dollars are supplied to pay for the increase in the quantity of imports.
  - as the exchange rate rises, more dollars are supplied because the profit from selling dollars falls.
  - supply curves always slope upwards.

**Answer: B**

**Topic: The Law of Supply for Foreign Exchange****Skill: Conceptual**

- 105) In the foreign exchange market, which of the following results in a movement along the supply curve of dollars?
- a change in the expected future exchange rate
  - a change in the U.S. interest rate
  - a change in the current exchange rate
  - None of the above answers are correct.

**Answer: C****Topic: The Law of Supply for Foreign Exchange****Skill: Conceptual**

- 106) Which of the following is a factor that determines the amount of dollars supplied in the foreign exchange market?
- The exchange rate.
  - U.S. interest rate.
  - Interest rates in foreign countries.
  - All of the above affect the number of dollars supplied in the foreign exchange market.

**Answer: D****Topic: Law of Supply for Foreign Exchange, Imports****Skill: Conceptual**

- 107) Other things remaining the same, the
- larger the value of U.S. imports, the smaller is the quantity of foreign currency demanded.
  - larger the value of U.S. imports, the greater is the quantity of U.S. dollars supplied to the foreign exchange market.
  - lower the exchange rate, the cheaper are foreign-produced goods and services.
  - higher the exchange rate, the smaller is the expected profit from selling dollars.

**Answer: B****Topic: Law of Supply for Foreign Exchange, Imports****Skill: Conceptual**

- 108) One of the main reasons the supply curve for dollars slopes \_\_\_\_ includes the \_\_\_\_.
- downward; imports effect
  - downward; expected profit effect
  - upward; exports effect
  - upward; imports effect

**Answer: D****Topic: Law of Supply for Foreign Exchange, Imports****Skill: Conceptual**

- 109) The larger the value of U.S. imports, the greater the quantity of \_\_\_\_ causing the quantity supplied of dollars to \_\_\_\_.
- U.S. dollars demanded; increase
  - U.S. dollars demanded; decrease
  - foreign currency demanded; increase
  - foreign currency demanded; decrease

**Answer: C****Topic: Law of Supply for Foreign Exchange, Imports****Skill: Conceptual**

- 110) The \_\_\_\_ the exchange rate, the \_\_\_\_ are foreign-produced goods and hence the greater the quantity of dollars supplied.
- higher; cheaper
  - lower; cheaper
  - higher; more expensive
  - lower; more expensive

**Answer: A****Topic: Law of Supply for Foreign Exchange, Imports****Skill: Conceptual**

- 111) The \_\_\_\_ the exchange rate, the \_\_\_\_ are foreign-produced goods and hence the smaller the quantity of dollars supplied.
- lower; more expensive
  - lower; cheaper
  - greater; cheaper
  - greater; more expensive

**Answer: A****Topic: Law of Supply for Foreign Exchange, Imports****Skill: Conceptual**

- 112) The quantity of dollars supplied will increase if
- tourism to the United States increases.
  - foreign demand for U.S. exports increases.
  - U.S. imports increase.
  - U.S. interest rates are high.

**Answer: C**

**Topic: Law of Supply for Foreign Exchange, Imports****Skill: Conceptual**

- 113) The quantity of dollars supplied will decrease if  
 A) imports into the United States increase.  
 B) fewer U.S. residents travel abroad.  
 C) the interest rate in the United States falls.  
 D) the expected future exchange rate falls.

**Answer: B****Topic: Law of Supply for Foreign Exchange, Expected Profit****Skill: Conceptual**

- 114) One of the main reasons the supply curve for dollars slopes \_\_\_\_ includes the \_\_\_\_.  
 A) downward; imports effect  
 B) downward; expected profit effect  
 C) upward; exports effect  
 D) upward; expected profits effect

**Answer: D****Topic: Law of Supply for Foreign Exchange, Expected Profit****Skill: Conceptual**

- 115) The \_\_\_\_ the expected profit from holding a foreign currency, the greater is the \_\_\_\_ in the foreign exchange market.  
 A) larger; quantity demanded of dollars  
 B) smaller; quantity demanded of foreign currency  
 C) larger; quantity supplied of dollars  
 D) None of the above are correct because the expected profit has nothing to do with the supply and demand for dollars or foreign currency.

**Answer: C****Topic: Law of Supply for Foreign Exchange, Expected Profit****Skill: Conceptual**

- 116) Which of the following statements is correct?  
 A) The lower the exchange rate, the larger is the expected profit from selling dollars in the foreign exchange market.  
 B) The higher the exchange rate, the larger is the expected profit from selling dollars in the foreign exchange market.  
 C) The higher the exchange rate, the larger is the expected profit from demanding dollars in the foreign exchange market.  
 D) None of the above because the exchange rate has nothing to do with the expected profit from buying or selling dollars in the foreign exchange market.

**Answer: B****Topic: Changes in the Supply of Dollars****Skill: Conceptual**

- 117) A change in which of the following will cause a change in the supply of dollars and shift the supply curve of dollars?  
 I. An increase in the exchange rate.  
 II. A change in interest rates.  
 III. A decrease in the expected future exchange rate.  
 A) I.  
 B) I and II.  
 C) II and III.  
 D) I, II, and III.

**Answer: C****Topic: Changes in the Supply of Dollars, Interest Rates****Skill: Conceptual**

- 118) The larger the U.S. interest rate differential, the  
 A) larger the demand for foreign assets.  
 B) larger the supply of dollars on the foreign exchange market.  
 C) smaller the supply of dollars on the foreign exchange market.  
 D) smaller the supply of yen on the foreign exchange market.

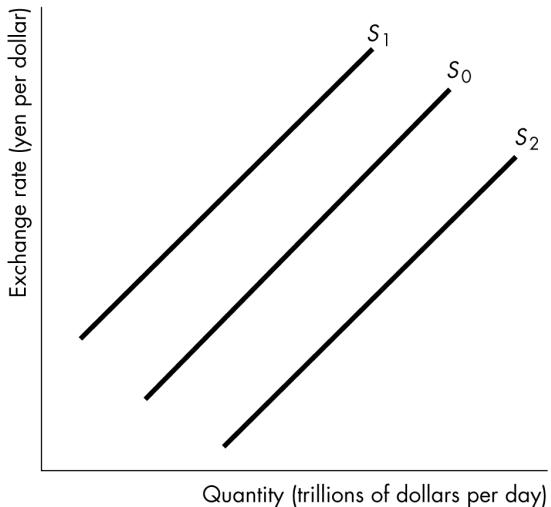
**Answer: C**

**Topic: Changes in the Supply of Dollars, Future Exchange Rate**

**Skill: Conceptual**

- 119) As the expected future exchange rate for dollars increases,
- the expected profit from selling U.S. dollars today falls.
  - the supply of U.S. dollars decreases.
  - the U.S. interest rate will fall.
  - Both answers A and B are correct.

**Answer: D**



**Topic: Changes in the Supply of Dollars, Interest Rates**

**Skill: Analytical**

- 120) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_1$  could occur when
- the U.S. interest rate differential increases.
  - the U.S. interest rate differential decreases.
  - the expected future exchange rate falls.
  - the current exchange rate falls.

**Answer: A**

**Topic: Changes in the Supply of Dollars, Interest Rates**

**Skill: Analytical**

- 121) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_1$  could occur when
- the U.S. interest rate falls.
  - foreign interest rates fall.
  - the expected future exchange rate falls.
  - the current exchange rate falls.

**Answer: B**

**Topic: Changes in the Supply of Dollars, Interest Rates**

**Skill: Analytical**

- 122) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_1$  could occur when
- the U.S. interest rate rises.
  - foreign interest rates rise.
  - the expected future exchange rate falls.
  - the current exchange rate rises.

**Answer: A**

**Topic: Changes in the Supply of Dollars, Interest Rates**

**Skill: Analytical**

- 123) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_2$  could occur when
- the U.S. interest rate falls.
  - the expected future exchange rate rises.
  - the U.S. interest rate differential increases.
  - the current exchange rate falls.

**Answer: A**

**Topic: Changes in the Supply of Dollars, Interest Rates**

**Skill: Analytical**

- 124) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_2$  could occur when
- foreign interest rates rise.
  - the expected future exchange rate rises.
  - the U.S. interest rate rises.
  - the current exchange rate falls.

**Answer: A**

**Topic: Changes in the Supply of Dollars, Future Exchange Rate**

**Skill: Analytical**

- 125) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_1$  could occur when
- the expected future exchange rate rises.
  - the U.S. interest rate differential decreases.
  - the expected future exchange rate falls.
  - the current exchange rate falls.

**Answer: A**

**Topic: Changes in the Supply of Dollars, Future Exchange Rate****Skill: Analytical**

- 126) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_2$  could occur when
- the current exchange rate rises.
  - the current exchange rate falls.
  - the expected future exchange rate rises.
  - the expected future exchange rate falls.

**Answer: D****Topic: Changes in the Supply of Dollars, Future Exchange Rate****Skill: Analytical**

- 127) In the figure above, the shift in the supply curve for U.S. dollars from  $S_0$  to  $S_2$  could occur when
- the expected future exchange rate falls.
  - the U.S. interest rate differential increases.
  - the expected future exchange rate rises.
  - the current exchange rate falls.

**Answer: A****Topic: Changes in the Exchange Rate****Skill: Conceptual**

- 128) An increase in the U.S. demand for imports will \_\_\_\_\_ the supply of dollars and lead the dollar to \_\_\_\_\_.  
 A) increase; appreciate  
 B) decrease; appreciate  
 C) increase; depreciate  
 D) decrease; depreciate

**Answer: C****Topic: Changes in the Exchange Rate****Skill: Conceptual**

- 129) An increase in U.S. exports will \_\_\_\_\_ the demand for dollars and lead the dollar to \_\_\_\_\_.  
 A) increase; appreciate  
 B) increase; depreciate  
 C) decrease; appreciate  
 D) decrease; depreciate

**Answer: A****Topic: Changes in the Exchange Rate****Skill: Conceptual**

- 130) The U.S. dollar will appreciate in value if
- the demand curve for U.S. dollars shifts rightward.
  - the demand curve for U.S. dollars shifts leftward.
  - the supply curve of U.S. dollars shifts rightward.
  - Americans choose to buy more foreign goods.

**Answer: A****Topic: Changes in the Exchange Rate****Skill: Conceptual**

- 131) The U.S. dollar will depreciate in value if
- the demand curve for U.S. dollars shifts rightward.
  - the demand curve for U.S. dollars shifts leftward.
  - the supply curve of U.S. dollars shifts rightward.
  - Both answers B and C are correct.

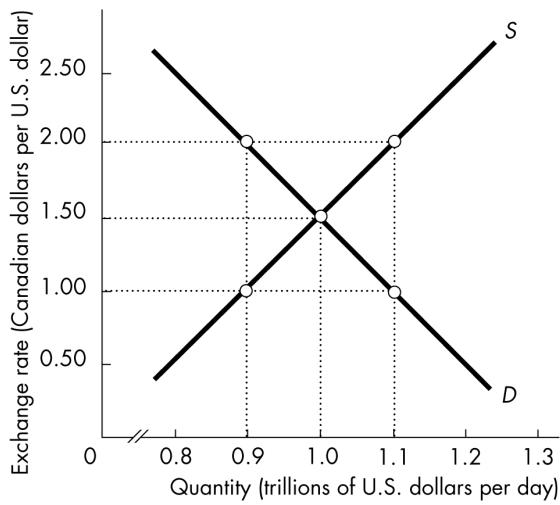
**Answer: D****Topic: Changes in the Exchange Rate****Skill: Conceptual**

- 132) An increase in the Japanese interest rate will \_\_\_\_\_ the demand for dollars and lead the dollar to \_\_\_\_\_.  
 A) increase; appreciate  
 B) increase; depreciate  
 C) decrease; appreciate  
 D) decrease; depreciate

**Answer: D****Topic: Changes in the Exchange Rate****Skill: Conceptual**

- 133) An increase in the Japanese interest rate will \_\_\_\_\_ the supply of dollars and lead the dollar to \_\_\_\_\_.  
 A) increase; appreciate  
 B) increase; depreciate  
 C) decrease; appreciate  
 D) decrease; depreciate

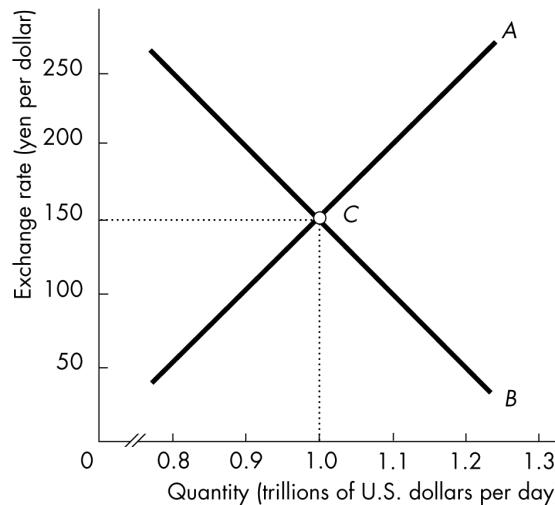
**Answer: B**

**Topic: Equilibrium Exchange Rate****Skill: Analytical**

- 134) In the figure above, the equilibrium exchange rate is: \$1 U.S. equals
- \$2.00 Canadian.
  - \$1.50 Canadian.
  - \$0.50 Canadian.
  - None of the above.

**Answer: B****Topic: Changes in the Exchange Rate****Skill: Analytical**

- 135) In the figure above, an increase in the U.S. interest rate relative to that in Canada shifts the demand curve for U.S. dollars \_\_\_\_ and shifts the supply curve of U.S. dollars \_\_\_\_.
- leftward; leftward
  - leftward; rightward
  - rightward; leftward
  - rightward; rightward

**Answer: C****Topic: Equilibrium Exchange Rate****Skill: Analytical**

- 136) In the figure above, the demand curve for U.S. dollars is represented in the diagram by
- curve A.
  - curve B.
  - point C.
  - None of the above

**Answer: B****Topic: Exchange Rate Expectations****Skill: Recognition**

- 137) The idea that the value of money is equal across countries is known as
- interest rate parity.
  - the expected profit parity effect.
  - purchasing power parity.
  - exchange rate parity.

**Answer: C****Topic: Exchange Rate Expectations****Skill: Conceptual**

- 138) If the prices in the United States rise faster than those in other countries,
- the exchange rate rises.
  - the exchange rate falls.
  - then interest rate parity must not hold.
  - the interest rate in the United States falls.

**Answer: B**

**Topic: Exchange Rate Expectations****Skill: Conceptual**

- 139) If prices in Japan have increased more than in the United States, then
- the demand for dollars increases.
  - the U.S. exchange rate is expected to rise.
  - the supply of dollars increases.
  - Both answers A and B are correct.

**Answer: D****Topic: Exchange Rate Expectations****Skill: Conceptual**

- 140) If prices increase in Mexico, but remain constant in the United States, then
- people expect the current value of the dollar is too high.
  - people expect the value of the dollar will rise in the future.
  - interest rate parity will not occur.
  - the demand for dollars will decrease.

**Answer: B****Topic: Interest Rate Parity****Skill: Recognition**

- 141) Adjusted for risk, interest rate parity
- holds only for larger countries.
  - holds only between the U.S. and Canada.
  - holds only when purchasing parity holds.
  - always holds.

**Answer: D****Topic: Interest Rate Parity****Skill: Conceptual**

- 142) Suppose a British bank offers a 3 percent interest rate while a U.S. bank offers a 7 percent interest rate. People must expect the U.S. dollar will
- depreciate 4 percent.
  - appreciate 4 percent.
  - appreciate 10 percent.
  - depreciate 10 percent.

**Answer: A****Topic: Interest Rate Parity****Skill: Conceptual**

- 143) Suppose a Japanese bank offers a 4 percent interest rate and U.S. banks offer a 2 percent interest rate. People must expect the yen to
- depreciate by 2 percent.
  - appreciate by 2 percent.
  - depreciate by 6 percent.
  - appreciate by 6 percent.

**Answer: A****Topic: The Fed in the Foreign Exchange Market****Skill: Conceptual**

- 144) Suppose the target exchange rate set by the Fed is 100 yen per dollar. If the demand for dollars temporarily increases, to maintain the target exchange rate, the Fed can
- sell dollars.
  - buy dollars.
  - violate interest rate parity.
  - violate purchasing power parity.

**Answer: A****Topic: The Fed in the Foreign Exchange Market****Skill: Conceptual**

- 145) Suppose the target exchange rate set by the Fed is 100 guilders per dollar. If the demand for dollars temporarily decreases, to maintain the target exchange rate, the Fed can
- sell dollars.
  - buy dollars.
  - increase U.S. exports.
  - increase U.S. imports.

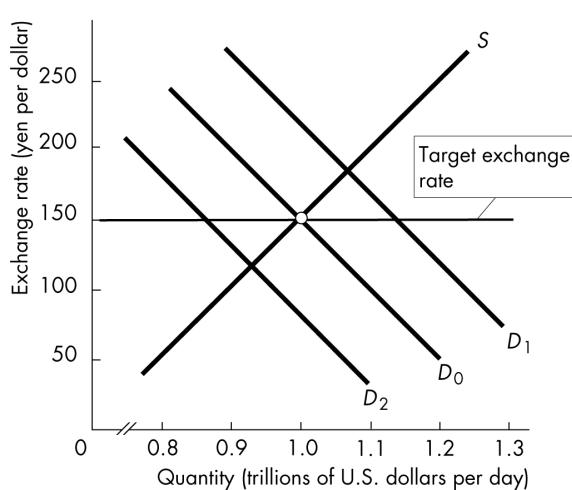
**Answer: B****Topic: The Fed in the Foreign Exchange Market****Skill: Conceptual**

- 146) The target exchange rate set by the Fed is 100 pesos per dollar. If the demand for dollars temporarily increases
- the Fed can meet the target by selling dollars.
  - the Fed can meet the target by buying dollars.
  - the Fed must sell pesos.
  - the Fed cannot maintain the target rate.

**Answer: A****Topic: The Fed in the Foreign Exchange Market****Skill: Conceptual**

- 147) Suppose the target exchange rate set by the Fed is 150 yen per dollar. If the demand for dollars permanently decreases the Fed
- can permanently meet the target by selling dollars.
  - can permanently meet the target by buying dollars.
  - must violate both interest rate parity and purchasing power parity to permanently meet the target.
  - cannot permanently maintain the target rate.

**Answer: D**

**Topic: The Fed in the Foreign Exchange Market****Skill: Analytical**

- 148) In the above figure, suppose the demand for dollars *temporarily* increases so that the demand curve shifts to  $D_1$ . To maintain the target exchange rate, the Fed
- can sell dollars.
  - can buy dollars.
  - must violate interest rate parity but not purchasing power parity.
  - cannot maintain the target exchange rate.

**Answer: A****Topic: The Fed in the Foreign Exchange Market****Skill: Analytical**

- 149) In the figure above, suppose the demand for dollars *temporarily* decreases so that the demand curve shifts to  $D_2$ . To maintain the target exchange rate, the Fed
- can sell dollars.
  - can buy dollars.
  - must violate both interest rate parity *and* purchasing power parity.
  - cannot maintain the target exchange rate.

**Answer: B****Topic: The Fed in the Foreign Exchange Market****Skill: Analytical**

- 150) In the above figure, suppose the demand for dollars *permanently* decreases to  $D_2$ . To maintain the target, the Fed
- can buy dollars.
  - can sell dollars.
  - must decrease the nation's net exports.
  - cannot permanently maintain the exchange rate target of 150 yen per dollar.

**Answer: D****■ Study Guide Questions****Topic: Study Guide Question, Balance of Payments Accounts****Skill: Conceptual**

- 151) Which of the following is one of the balance of payments accounts?
- Government spending account.
  - Capital account.
  - Reserve account.
  - Net borrowing account.

**Answer: B****Topic: Study Guide Question, Balance of Payments Accounts****Skill: Conceptual**

- 152) Suppose the United States initially has a trade deficit. Then U.S. firms increase their imports from Canada, financing that increase by borrowing from Canada. The current account deficit is now \_\_\_\_\_ and the capital account surplus is now \_\_\_\_\_.
- larger; larger
  - larger; smaller
  - smaller; larger
  - smaller; smaller

**Answer: A**

Component	Amount (billions of dollars)
Government purchases, $G$	700
Net taxes, $T$	600
Investment, $I$	350
Saving, $S$	500

**Topic: Study Guide Question, Net Exports, Saving, and Investment**

**Skill: Analytical**

153) In the table above, what is the government's sector balance?

- A) A deficit of \$700 billion.
- B) A surplus of \$600 billion.
- C) A deficit of \$100 billion.
- D) \$0.

**Answer: C**

**Topic: Study Guide Question, Net Exports, Saving, and Investment**

**Skill: Analytical**

154) In the table above, what does the private sector surplus equal?

- A) \$500 billion.
- B) \$350 billion.
- C) \$150 billion.
- D) \$0.

**Answer: C**

**Topic: Study Guide Question, Net Exports, Saving, and Investment**

**Skill: Analytical**

155) In the table above, what do net exports equal?

- A) A deficit of \$700 billion.
- B) A deficit of \$350 billion.
- C) A surplus of \$50 billion.
- D) A surplus of \$1,750 billion.

**Answer: C**

**Topic: Study Guide Question, The Exchange Rate**

**Skill: Conceptual**

156) Suppose the exchange rate between the U.S. dollar and the French franc is 0.25 francs per dollar. If a television sells for 100 francs in France, what is the dollar price of the television set?

- A) \$400.
- B) \$25.
- C) \$50.
- D) \$200.

**Answer: A**

**Topic: Study Guide Question, The Exchange Rate, Currency Depreciation**

**Skill: Conceptual**

157) Suppose that the yen-dollar foreign exchange rate changes from 130 yen per dollar to 140 yen per dollar. Then the yen has

- A) depreciated against the dollar, and the dollar has appreciated against the yen.
- B) depreciated against the dollar, and the dollar has depreciated against the yen.
- C) appreciated against the dollar, and the dollar has appreciated against the yen.
- D) appreciated against the dollar, and the dollar has depreciated against the yen.

**Answer: A**

**Topic: Study Guide Question, The Exchange Rate, Currency Appreciation**

**Skill: Conceptual**

158) Suppose the peso-dollar foreign exchange rate changes from 50 pesos per dollar to 30 pesos per dollar. Then the peso has \_\_\_\_ against the dollar and the dollar has \_\_\_\_ against the peso.

- A) appreciated; depreciated
- B) appreciated; appreciated
- C) depreciated; appreciated
- D) depreciated; depreciated

**Answer: A**

**Topic: Study Guide Question, Fed in the Foreign Exchange Market**

**Skill: Conceptual**

159) If the Fed sells U.S. dollars, the exchange rate

- A) rises.
- B) does not change.
- C) falls.
- D) changes, but the direction depends on whether the Fed affected the demand for dollars or the supply of dollars.

**Answer: C**

## ■ MyEconLab Questions

### Topic: Balance of Payments Accounts

#### Level I: Definitions and Concepts

160) A country's balance of payments accounts records all of the following items except \_\_\_\_.

- A) international lending
- B) international trading
- C) international borrowing
- D) international taxes

**Answer: D**

### Topic: Balance of Payments Accounts

#### Level I: Definitions and Concepts

161) The account that records the receipts from the exports of goods and services sold abroad, the payments for imports of goods and services from abroad, net interest income paid abroad, and net transfers is the \_\_\_\_.

- A) current account
- B) official settlements account
- C) international capital account
- D) capital account

**Answer: A**

### Topic: Balance of Payments Accounts

#### Level I: Definitions and Concepts

162) The capital account measures \_\_\_\_.

- A) foreign investment in the United States minus U.S. investment abroad
- B) capital produced outside of the United States minus capital produced inside the United States
- C) capital used inside the United States but manufactured outside the United States
- D) capital used outside the United States but manufactured inside the United States

**Answer: A**

### Topic: Balance of Payments Accounts

#### Level I: Definitions and Concepts

163) The official settlements account records the change in \_\_\_\_.

- A) international trade
- B) U.S. official reserves
- C) foreign investment and domestic investment
- D) the reserves held by banks and the Fed

**Answer: B**

### Topic: Balance of Payments Accounts

#### Level I: Definitions and Concepts

164) U.S. official reserves are the \_\_\_\_.

- A) reserves of U.S. dollars held by the World Bank
- B) government's holdings of foreign currency
- C) reserves of U.S. dollars held by foreign banks
- D) holdings of foreign currency by the public and the banks

**Answer: B**

### Topic: Net Exports

#### Level I: Definitions and Concepts

165) The value of net exports increases when the value of \_\_\_\_.

- A) exports of goods and services minus imports of goods and services decreases
- B) imports of goods and services increase
- C) imports of goods and services decrease
- D) exports of goods and services decrease

**Answer: C**

### Topic: Borrowers and Lenders, Debtors and Creditors

#### Level I: Definitions and Concepts

166) A country that borrows more from the rest of the world than it lends to it in a year is called a \_\_\_\_, and a country that lends more to the rest of the world than it borrows from it in a year is called a \_\_\_\_.

- A) borrower; lender
- B) importer; exporter
- C) net borrower; net lender
- D) gross borrower; gross lender

**Answer: C**

### Topic: Borrowers and Lenders, Debtors and Creditors

#### Level I: Definitions and Concepts

167) A country that during its entire history has borrowed more from the rest of the world than it has lent to it is a \_\_\_\_, and a country that during its entire history has invested more in the rest of the world than other countries have invested in it is a \_\_\_\_.

- A) debtor nation; investor nation
- B) borrower nation; creditor nation
- C) debtor nation; creditor nation
- D) net borrower nation; net lender nation

**Answer: C**

**Topic: Net Exports, the Government Budget, Saving, and Investment****Level 1: Definitions and Concepts**

- 168) The government sector surplus or deficit is equal to \_\_\_\_.
- net taxes minus government purchases of goods and services
  - tariffs minus imports
  - saving minus investment
  - exports minus imports

**Answer: A****Topic: Net Exports, the Government Budget, Saving, and Investment****Level 1: Definitions and Concepts**

- 169) The private sector surplus or deficit is equal to \_\_\_\_.
- income minus consumption minus net taxes
  - income minus consumption minus investment
  - saving minus investment
  - income minus consumption

**Answer: C****Topic: Is U.S. Borrowing for Consumption or Investment?****Level 2: Using Definitions and Concepts**

- 170) International borrowing in the United States is financing \_\_\_\_.
- net exports
  - government purchases of goods and services
  - private and public investment
  - consumption

**Answer: C****Topic: The Exchange Rate****Level 2: Using Definitions and Concepts**

- 171) The market in which the currency of one country is exchanged for the currency of another country is the \_\_\_\_.
- foreign currency market
  - Chicago Money Exchange
  - foreign exchange market
  - G8

**Answer: C****Topic: The Exchange Rate****Level 2: Using Definitions and Concepts**

- 172) Suppose that \$1 Canadian can buy \$0.65 U.S. and \$1 U.S. can buy \$1.54 Canadian. These are examples of \_\_\_\_.
- foreign exchange rates
  - currency appreciation
  - changes in the prices of net exports
  - purchasing power of parity

**Answer: A****Topic: The Exchange Rate****Level 2: Using Definitions and Concepts**

- 173) Between 1998 and 2000, the U.S. dollar \_\_\_\_ against the Japanese yen, and in 2001 and 2002, the U.S. dollar \_\_\_\_ against the Japanese yen.
- value changed little; value changed a lot
  - depreciated; appreciated
  - appreciated; depreciated
  - trended upward; trended downward

**Answer: B****Topic: Changes in the Demand for Dollars, Interest Rates****Level 2: Using Definitions and Concepts**

- 174) The U.S. interest rate minus the foreign interest rate is called the \_\_\_\_.
- foreign interest rate differential
  - U.S. bond rate differential
  - U.S. interest rate differential
  - U.S. stock yield differential

**Answer: C****Topic: Changes in the Demand for Dollars****Level 2: Using Definitions and Concepts**

- 175) If the exchange rate rises, there is a \_\_\_\_ the demand curve for U.S. dollars, and if the expected future exchange rate rises, there is a \_\_\_\_ the demand curve for U.S. dollars.
- leftward shift of; leftward shift of
  - movement up along; leftward shift of
  - movement down along; rightward shift of
  - movement up along; rightward shift of

**Answer: D**

**Topic: Changes in the Supply of Dollars, Interest Rates**

**Level 2: Using Definitions and Concepts**

176) The supply curve of U.S. dollars shifts leftward. This could have been influenced by \_\_\_\_.

- A) a rise in the U.S. interest rate differential
- B) a fall in the expected future exchange rate
- C) an increase in the U.S. exchange rate
- D) a decrease in the U.S. exchange rate

**Answer: A**

**Topic: Purchasing Power Parity**

**Level 2: Using Definitions and Concepts**

177) Suppose that \$1 U.S. costs \$1.50 Canadian. If in St. Louis a CD costs \$10 U.S. and in Montreal it costs \$15 Canadian, then \_\_\_\_.

- A) purchasing power parity exists
- B) Canadians will buy CDs in St. Louis
- C) Americans will buy CDs in Montreal
- D) Virgin Records will have an incentive to build more stores in North America

**Answer: A**

**Topic: Interest Rate Parity**

**Level 2: Using Definitions and Concepts**

178) If in Chicago the interest rate is 5 percent a year and in Vancouver it is 4 percent a year, \_\_\_\_.

- A) the quantity of Canadian dollars purchased will increase
- B) the Canadian dollar is expected to depreciate
- C) interest rate parity does not exist
- D) the U.S. dollar is expected to depreciate

**Answer: D**

**Topic: The Fed in the Foreign Exchange Market**

**Level 2: Using Definitions and Concepts**

179) If the Fed wants to depreciate the U.S. dollar against the British pound, it will \_\_\_\_.

- A) sell foreign exchange
- B) decrease the money supply
- C) sell British pounds
- D) sell U.S. dollars

**Answer: D**

**Topic: Current Account Balance**

**Level 3: Calculations and Predictions**

180) The country of Pimm exports \$500 billion worth of goods and services and imports \$400 billion worth of goods and services. Net interest income paid abroad is \$50 billion and net transfers are \$0. The current account balance is \_\_\_\_.

- A) \$50 billion
- B) \$25 billion
- C) \$175 billion
- D) \$975 billion

**Answer: A**

**Topic: Balance of Payments Accounts**

**Level 3: Calculations and Predictions**

181) If the current account balance is -\$30 billion, and the capital account balance is \$35 billion, then the official settlements account balance is \_\_\_\_ billion, and the official reserves \_\_\_\_.

- A) \$5 billion; increase
- B) -\$5 billion; increase
- C) \$5 billion; decrease
- D) -\$5 billion; decrease

**Answer: B**

**Topic: Borrowers and Lenders, Debtors and Creditors**

**Level 3: Calculations and Predictions**

182) If, this year, a country has loaned more to the rest of the world than it borrowed from the rest of the world and has loaned more to the rest of the world than it has borrowed from the rest of the world during its entire history, then the country is currently a \_\_\_\_ and also a \_\_\_\_.

- A) net lender; creditor nation
- B) net borrower; creditor nation
- C) net borrower; debtor nation
- D) debtor nation; net lender

**Answer: A**

**Topic: Net Exports, the Government Budget, Saving, and Investment**

**Level 3: Calculations and Predictions**

- 183) A country has a government sector deficit and a private sector surplus. If the government sector deficit increases, and the private sector surplus decreases, \_\_\_\_.
- net exports decrease or remain constant
  - net exports increase
  - net exports increase, decrease, or remain constant
  - net exports decrease

**Answer: D**

Item	Billions of dollars
Imports of goods and services, $M$	275
Net taxes, $T$	300
Government purchases, $G$	250
Saving, $S$	125
Investment, $I$	100

**Topic: Net Exports, the Government Budget, Saving, and Investment**

**Level 3: Calculations and Predictions**

- 184) The table above gives some of the entries in the national income and product accounts. The government sector has a \_\_\_\_, and the private sector has a \_\_\_\_.
- surplus of \$50 billion; surplus of \$25 billion
  - deficit of \$50 billion; surplus of \$25 billion
  - surplus of \$50 billion; deficit of \$25 billion
  - deficit of \$50 billion; deficit of \$25 billion

**Answer: A**

**Topic: Net Exports, the Government Budget, Saving, and Investment**

**Level 3: Calculations and Predictions**

- 185) The table above gives some of the entries in the national income and product accounts. What is the value of exports?
- \$350 billion
  - \$300 billion
  - \$25 billion
  - \$25 billion

**Answer: A**

**Topic: The Exchange Rate, Currency Appreciation**

**Level 3: Calculations and Predictions**

- 186) If the pound-dollar exchange rate changes from £0.60 per dollar to £0.65 per dollar, then the pound has \_\_\_\_ against the dollar and the dollar has \_\_\_\_ against the pound.
- depreciated; depreciated
  - appreciated; depreciated
  - appreciated; appreciated
  - depreciated; appreciated

**Answer: D**

**Topic: Law of Demand for Foreign Exchange**

**Level 3: Calculations and Predictions**

- 187) Suppose that a dollar buys 120 yen. If a VCR sells for 18,600 yen in Japan, the price of the VCR in dollars is \_\_\_\_.
- \$186.00
  - \$223.20
  - \$120.00
  - \$155.00

**Answer: D**

**Topic: Equilibrium Exchange Rate**

**Level 3: Calculations and Predictions**

- 188) If the exchange rate between the dollar and Japanese yen is below the equilibrium exchange rate, there will be a \_\_\_\_ of dollars, and the exchange rate will \_\_\_\_.
- surplus; fall to the equilibrium level
  - shortage; change only when the supply curve shifts leftward
  - shortage; rise to the equilibrium level
  - surplus; rise to the equilibrium level

**Answer: C**

**Topic: Changes in the Exchange Rate**

**Level 3: Calculations and Predictions**

- 189) If the expected future exchange rate falls, the exchange rate \_\_\_\_, and the equilibrium quantity of dollars \_\_\_\_.
- remains constant; barely changes
  - falls; barely changes
  - remains constant; increases
  - falls; increases

**Answer: B**

Item	Millions of crumbs
Imports of goods and services	2,000
Exports of goods and services	3,000
Borrowing from the rest of the world	1,500
Net investment income paid to foreigners	60
Net transfers paid to foreigners	60

**Topic: Current Account Balance****Level 4: Advanced Calculations and Predictions**

190) The table above shows the transactions made during 2003 by the citizens of Biscuit, whose currency is the crumb. During 2003, the official reserves increased by 380 million crumbs. Calculate the current account balance.

- A) -880 million crumbs
- B) -1,000 million crumbs
- C) 1,000 million crumbs
- D) 880 million crumbs

**Answer: D****Topic: Balance of Payments Accounts****Level 4: Advanced Calculations and Predictions**

191) The table above shows the transactions made during 2003 by the citizens of Biscuit, whose currency is the crumb. During 2003, the official reserves increased by 380 million crumbs. How many million crumbs did Biscuit lend to the rest of the world in 2003?

- A) -500
- B) 500
- C) 240
- D) 2,000

**Answer: D****Topic: Net Exports, the Government Budget, Saving, and Investment****Level 4: Advanced Calculations and Predictions**

192) On the island country of Sunshine where the unit of currency is fish, net exports are 50 fish, saving is 250 fish, net taxes are 100 fish, and the government budget deficit is 175 fish. What is the value of investment?

- A) 375 fish
- B) -375 fish
- C) 25 fish
- D) -25 fish

**Answer: C****Topic: Net Exports, the Government Budget, Saving, and Investment****Level 4: Advanced Calculations and Predictions**

193) On the island country of Sunshine where the unit of currency is fish, net exports are 50 fish, saving is 250 fish, net taxes are 100 fish, and the government budget deficit is 175 fish. The private sector has a \_\_\_\_.

- A) deficit of 125 fish
- B) surplus of 125 fish
- C) deficit of 225 fish
- D) surplus of 225 fish

**Answer: D**

Currency	1999 exchange rate (per U.S. dollar)	2000 exchange rate (per U.S. dollar)
Euro	0.9954	1.0747
Japanese yen	102.20	114.90
Canadian dollar	1.44	1.50

**Topic: The Exchange Rate, Currency Appreciation****Level 4: Advanced Calculations and Predictions**

194) The table above shows the exchange rates between various currencies and the U.S. dollar. Between 1999 and 2000, the U.S. dollar \_\_\_\_ against the euro and \_\_\_\_ against the Japanese yen.

- A) depreciated; depreciated
- B) appreciated; appreciated
- C) appreciated; depreciated
- D) depreciated; appreciated

**Answer: B****Topic: The Exchange Rate, Currency Appreciation****Level 4: Advanced Calculations and Predictions**

195) The table above shows the exchange rates between various currencies and the U.S. dollar. Between 1999 and 2000, the Japanese yen \_\_\_\_ against the U.S. dollar and the euro \_\_\_\_ against the U.S. dollar.

- A) appreciated; appreciated
- B) depreciated; appreciated
- C) depreciated; depreciated
- D) appreciated; depreciated

**Answer: C**

**Topic: Changes in the Exchange Rate****Level 4: Advanced Calculations and Predictions**

- 196) Epsilon is a country whose unit of currency is the omega. New information leads people to expect that the omega will appreciate next year. The demand curve for omegas shifts \_\_\_, the supply curve of omegas shifts \_\_\_, and the omega \_\_\_\_.
- rightward; rightward; neither depreciates nor appreciates
  - leftward; leftward; neither depreciates nor appreciates
  - rightward; leftward; appreciates
  - leftward; rightward; depreciates

**Answer: C****Topic: The Fed in the Foreign Exchange Market****Level 4: Advanced Calculations and Predictions**

- 197) Epsilon is a country whose unit of currency is the omega. New information leads people to expect that the omega will appreciate next year. To keep the foreign exchange value of the omega fairly steady, the Bank of Epsilon will \_\_\_ enough omegas on the foreign exchange market so that the \_\_\_ omegas will \_\_\_\_.
- buy; demand for; increase
  - sell; supply of; increase
  - buy; demand for; decrease
  - buy; supply of; decrease

**Answer: B****Topic: Purchasing Power Parity****Level 4: Advanced Calculations and Predictions**

- 198) In France, the price of a computer is 1,227.6 euros. In Japan, the price of the same computer is 137,920 yen. If a U.S. dollar can buy 1.023 euros or 119.93 yen, then purchasing power parity \_\_\_\_\_.  
 A) is equal to interest rate parity and the computer is cheaper in North America  
 B) does not hold and the computer is cheaper in France  
 C) does not hold and the computer is cheaper in Japan  
 D) holds and the computer is the same price everywhere

**Answer: C**

Exchange rate (yen per dollar)	Quantity of dollars demanded (billions)	Quantity of dollars supplied (billions)
180	200	230
160	220	220
140	240	210
120	260	200
100	280	190

**Topic: The Fed in the Foreign Exchange Market****Level 4: Advanced Calculations and Predictions**

- 199) The table above gives the supply and demand schedules of U.S. dollars. Suppose that the Fed spends \$30 billion and buys foreign securities. As a result, the U.S. dollar will \_\_\_\_\_.  
 A) depreciate by 20 yen per dollar  
 B) appreciate by 20 yen per dollar  
 C) depreciate by 140 yen per dollar  
 D) appreciate by 180 yen per dollar

**Answer: A**