

ECONS PASCO {ECON 152}

1. Macroeconomics deals with
 - a. the activities of individual units
 - b. the behaviour of the electronics industry
 - c. economic aggregates**
 - d. the behaviour of firms
2. The study of inflation is part of
 - a. microeconomics
 - b. descriptive economics
 - c. macroeconomics**
 - d. normative economics
3. Aggregate supply is the total amount
 - a. of goods and services produced in an economy**
 - b. produced by the government
 - c. of products produced by a given industry
 - d. of labour supplied by all households
4. The total demand for goods and services in an economy is known as
 - a. gross national product
 - b. national demand
 - c. economy-wide demand
 - d. aggregate demand**
5. Inflation is
 - a. an increase in the overall level of economic activity
 - b. a decrease in the overall price level
 - c. a decrease in the overall level of economic activity
 - d. an increase in the overall price level**
6. A recession is
 - a. a period during which aggregate output declines**
 - b. a period of very rapidly declining prices
 - c. a period of declining prices
 - d. a period of declining unemployment
7. Gross Domestic Product is defined as
 - a. disposable income + taxes + investment spending + exports + imports
 - b. consumer spending + government purchases + financial spending + exports – imports
 - c. consumer spending + government purchases + investment spending + exports – imports**

- d. consumer spending + government transfers + investment spending + exports – imports

Use the following to answer questions 8-9

	Gino's pizza	Bruno's dough	Carlo's tomatoes	Aldo's pepperoni
2004 units of output	4,000	3,000	2,000	5,000
2004 price per unit	\$10	\$9	\$6	\$7
2005 units of output	4,000	1,000	1,000	2,000
2005 price per unit	\$8	\$6	\$1	\$4

8. (Table: Pizza Economy) Considering 2004 as the base year, real GDP in 2005 was
- a. **\$69,000**
 - b. \$72,000
 - c. \$114,000
 - d. \$47,000
9. (Table: Pizza Economy) Considering 2004 as the base year, nominal GDP in 2005 was
- a. \$69,000
 - b. \$72,000
 - c. \$114,000
 - d. **\$47,000**
10. Which of the following is a chief measure of economic growth over time?
- a. **Increase in real capita GDP**
 - b. Increases in the available labour supply
 - c. Inflation
 - d. Decline in real interest rates
11. All of the following are examples of government policies aimed at promoting economic growth **except**
- a. **implementing a monetary policy that increases inflation**
 - b. subsidizing education
 - c. providing political stability and protecting property rights
 - d. building infrastructure and providing public goods
12. Crowding out means
- a. some bond holders will be squeezed out of the market
 - b. there are too many players in the financial markets
 - c. private savings decreases when the government borrows
 - d. **private investment decreases when the government borrows**

13. The multiplier is
- MPS/MPC
 - $1/[MPC]$
 - $1/[1+MPC]$
 - $1/[1-MPC]$**
14. Suppose that the marginal propensity to consume is 0.8, and investment spending increases by \$100 billion. The increase in aggregate demand is
- \$125 billion, composed of \$100 billion in investment spending and \$25 billion in consumption
 - \$500 billion, composed of \$100 billion in investment spending and \$400 billion in consumption**
 - \$100 billion, the amount of investment spending
 - \$80 billion, composed of \$100 billion in investment spending and a decrease in consumption of \$20 billion
15. The phase of the business cycle in which real domestic output decreases is called
- the peak
 - a recovery
 - a recession**
 - the trough
 - the expansion
16. The marginal propensity to consume equals 1 minus the
- marginal propensity to invest
 - marginal propensity to save**
 - marginal propensity to import
 - marginal propensity to pay taxes
17. Which of the following are included in autonomous expenditure?
- Investment
 - Government purchase
 - Autonomous consumption expenditure**
 - All of the above
18. 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
19. All of the following are government expenditure items **except**
- interest on government debt
 - transfer payment**

- c. purchases of corporate bonds
- d. purchase of goods and services

20. During a recession,

- a. labour is not fully utilised
- b. capital is not fully utilised
- c. land is not fully utilised
- d. all of the above**

21. The aggregate demand curve is

- a. upward sloping
- b. downward sloping**
- c. a vertical line
- d. a horizontal line
- e. buy and sell government securities

22. M1 refers to

- a. currency
- b. currency plus total reserves
- c. currency plus checkable deposits**
- d. currency, checkable deposits, savings deposits, money market mutual
- e. funds, and small-time deposits

23. Cyclical unemployment

- a. is due mainly to job leavers
- b. may increase or decrease during an expansion
- c. occurs when technology improvements change job requirements
- d. fluctuates over the business cycle**

24. Fiscal policy refers to the

- a. household's attempts to change savings to encourage growth
- b. government's use of spending and taxing policies to influence aggregate demand and aggregate supply**
- c. government's use of policy tools to influence the net export function, thereby influencing GDP
- d. business sector's influence on investment and GDP
- e. government's attempts to maintain a vertical long-run aggregate supply curve

25. According to Keynes, the level of employment is determined by

- a. the level of aggregate demand for goods and services
- b. price and wages
- c. flexible wages and prices**
- d. interest rates

26. Gross domestic product measures

- a. the total spending of everyone in the economy
- b. the total income of everyone in the economy**
- c. the value of all output in the economy
- d. all of the above

Refer to the information provided in the following table to answer the question that follows.

	\$Billions
Durable goods	800
Nonresidential investment	400
Federal purchases of goods	300
Exports	400
State and local purchases of goods	200
Residential investment	50
Services	500
Imports	250
Change in business inventories	-25
Nondurable goods	700

27. The value for gross private domestic investment in billions is

- a. \$300
- b. \$375
- c. \$425
- d. \$450**

Refer to the information provided in the table below to answer questions 28-30.

	\$Billions
Depreciation	40
Receipts of factor incomes from the rest of the world	30
Government purchases	100
Imports	50
Payments of factor income to the rest of the world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

28. The value of GDP in billions is

- a. \$910
- b. \$920
- c. \$950**
- d. \$1,050

29. The value for GNP in billions is
- a. \$900
 - b. \$930**
 - c. \$980
 - d. \$1,010
30. The value for NNP in billions is
- a. \$890**
 - b. \$910
 - c. \$940
 - d. \$970
31. Gross domestic product measured in terms of the prices of a fixed, or base, year is
- a. real GDP**
 - b. base GDP
 - c. current GDP
 - d. nominal GDP
32. Productivity is the ration of
- a. total output to the total population
 - b. total capital to the total number of workers
 - c. total output to the total number of unemployed
 - d. total output to the total number of worker hours**
33. Nominal GDP is gross domestic product measured
- a. as the difference between the current year's GDP and last year's GDP
 - b. in the prices of a base year
 - c. at a constant output level but at the base-year prices
 - d. in current cedis**
34. The MPS is
- a. income divided by saving
 - b. the change in saving divided by the change in income**
 - c. $1 + \text{MPC}$
 - d. Total saving divided by total income
35. If the MPS is 0.60, MPC
- a. is 0.40**
 - b. is 1.60
 - c. is 0.30
 - d. cannot be determined by the given information
36. Which of the following is **not** considered investment?
- a. The purchase of government bonds**
 - b. The increase in planned inventories

- c. The acquisition of capital goods
- d. The construction of a new factory

37. In macroeconomics, equilibrium is defined as that point at which

- a. planned aggregate expenditure equals aggregate output**
- b. aggregate output equals consumption minus investment
- c. planned aggregate expenditure equals consumption
- d. saving equals consumption

38. Assume there is no government or foreign sector. If the multiplier is 4, a \$20 billion increase in investment will cause aggregate output to increase by

- a. \$40 billion
- b. \$20 billion
- c. \$80 billion**
- d. \$5 billion

39. The aggregate consumption function is $C = 800 + 0.8Y^d$. If income is \$2,000 and net taxes are \$500, consumption equals

- a. 2,000**
- b. 1,500
- c. 2,050
- d. 2,150

40. Inflation tends to _____ during the expansion phase of the business cycle and _____ during the recession phase of the business cycle.

- a. decrease; increase
- b. increase; decrease**
- c. increase; increase further
- d. decrease; decrease further

41. During the expansion phase of the business cycle, which of the following eventually increases?

- a. Employment
- b. Production
- c. Income
- d. All of the above**

42. Money functions as

- a. store of value
- b. unit of account
- c. medium of exchange
- d. all of the above**

43. The largest component of the M1 money supply is

- a. gold certificates

- b. checkable deposits
 - c. currency**
 - d. time deposits
44. Coins held in commercial banks are
- a. included in M1, but not M2
 - b. included in both M1 and M2**
 - c. included in M2, but not M1
 - d. not part of the nation's money supply
45. The total demand for money will shift to the left as a result of
- a. a decline in nominal GDP
 - b. an increase in the price level**
 - c. a change in the interest rate
 - d. an increase in nominal GDP
46. If the quantity of money demanded exceeds the quantity supplied,
- a. the supply of money curve will shift to the left
 - b. the demand for money curve will shift to the right
 - c. the interest rate will rise**
 - d. the interest rate will fall
47. Which of the following statement is correct?
- a. Interest rates and bond prices vary directly
 - b. Interest rates and bond prices vary indirectly**
 - c. Interest rates and bond prices are unrelated
 - d. Interest rates and bond prices vary directly during inflation and inversely during recession
48. Other things equal, if there is an increase in nominal GDP,
- a. the demand for money will decrease
 - b. the interest rate will rise
 - c. bond prices will rise**
 - d. consumption spending will fall
49. The main tools of monetary policy are
- a. tax rate changes, the discount rate, and open-market operations
 - b. tax rate changes, changes in government expenditures, and open-market operations
 - c. the discount rate, the reserve ratio, and open-market operations**
 - d. changes in government expenditures, the reserve ration, and the discount rate
50. The purchase of government securities from the public by the Central Bank will cause
- a. commercial bank reserves to decrease
 - b. the money supply to increase**
 - c. demand deposits to decrease

d. the interest rate to increase

51. Which of the following explains why the aggregate demand schedule is downward sloping?

- a. The real-balance effect
- b. The interest rate effect
- c. The foreign purchases effect
- d. All of the above**

52. The economy's long-run aggregate supply curve

- a. slopes downward and to the right
- b. is vertical**
- c. is horizontal
- d. slopes upward and to the right

53. An appropriate fiscal policy for a severe recession would be

- a. a decrease in government spending
- b. a decrease in tax rates**
- c. appreciation of the cedi
- d. an increase in interest rates

54. If the MPS (marginal propensity to save) in an economy is 0.1 (1/10), government could shift the aggregate demand curve rightward by \$40 billion by

- a. increasing government spending by \$4 billion**
- b. increasing government spending by \$40 billion
- c. decreasing taxes by \$4 billion
- d. increasing taxes by \$4 billion

55. Periods in which output and employment are falling are known as

- a. recessions**
- b. booms
- c. expansions
- d. deflations

56. A business cycle is

- a. a very deep and prolonged economic downturn
- b. a period in which output and employment are rising
- c. a period in which output and employment are falling
- d. a short-run alternation between economic upturns and downturns**

57. A recession leads to all of the following except

- a. higher unemployment
- b. reduced output
- c. reduced income and living standards
- d. higher employment**

58. Fiscal policy attempts to stabilise the economy by changes in
- a. the interest rate
 - b. the money supply
 - c. banking regulations
 - d. taxes and spending**
59. Which of the following would likely cause the short-run aggregate supply curve to shift to the left?
- a. a decrease in consumer spending
 - b. a decrease in the price of imported oil
 - c. an increase in the price of imported oil
 - d. an increase in consumer spending
60. The total demand for goods and services in an economy is known as
- a. economy-wide demand
 - b. gross national product
 - c. national demand
 - d. aggregate demand**
61. With a marginal propensity to consume of 0.8, the simple multiplier is
- a. 0.25
 - b. 2.00
 - c. 4.00
 - d. none of the above**
62. Expansionary policies are policies
- a. that aim to reduce the level of GDP
 - b. taken to move the economy away from potential output
 - c. that aim to increase the level of GDP**
 - d. aimed at dampening booms
63. Policies taken to move the economy closer to potential output are called
- a. stabilisation policies
 - b. policies with inside lags
 - c. expansionary policies only**
 - d. contractionary policies only
64. In order to increase the aggregate demand curve, a government must _____ spending and _____ taxation.
- a. decrease, decrease
 - b. decrease, increase
 - c. increase, decrease**
 - d. increase, increase

65. A government budget deficit is when the government spends _____ than it collects in taxes.
- a. all of its money
 - b. more**
 - c. the same amount
 - d. less
66. If the consumption function is $C = 25 + 0.9Y$, then the level of autonomous consumption is
- a. 25.9
 - b. 25**
 - c. 0.1
 - d. 0.9
67. The sum of marginal propensity to consume (MPC) and the marginal propensity to save (MPS) is
- a. less than one
 - b. negative
 - c. greater than one
 - d. equal to one**

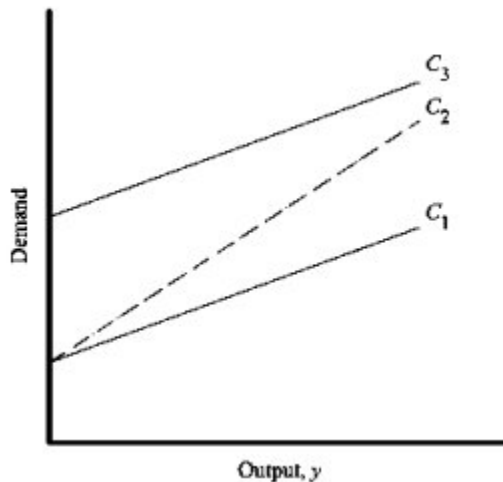


Figure xxx

68. In figure xxx above, an increase in the marginal propensity to consume is represented by a change in the consumption function from
- a. C_1 to C_2
 - b. C_3 to C_1
 - c. C_2 to C_1**
 - d. C_1 to C_3

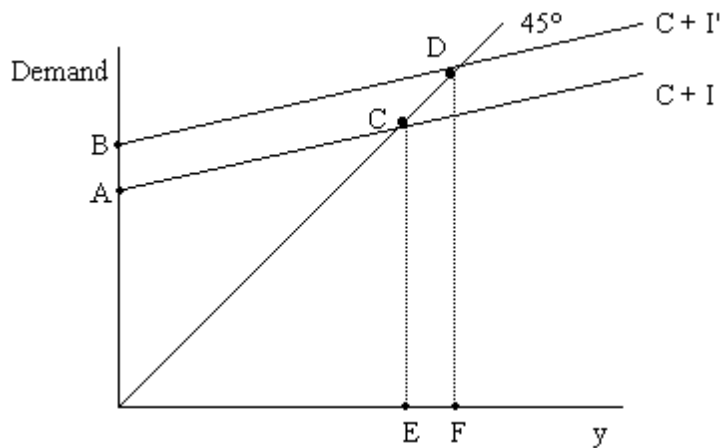


Figure xxx

69. In figure xxx, the change in investment spending is represented as the distance between points
- D and F
 - A and B**
 - C and E
 - E and F
70. The supply of money in the economy is determined primarily by
- the banking system
 - the actions of the central bank**
 - consumers
 - both A and B
71. When money is accepted as payment for a good or service, it is being used as a
- medium of exchange**
 - a mechanism for transforming current purchases into future purchases
 - store of value
 - unit of account
72. If money is used as a mechanism to hold purchasing power for a period of time, it is functioning as a
- unit of account
 - store of value**
 - standard of value
 - medium of exchange
73. The most commonly used tool in monetary policy is
- changes in the discount rate
 - open market operations**
 - changes in required reserve ratios
 - express lending transactions

74. An increase in the level of real GDP in the economy leads to
- a. **a rightward shift in the demand for money curve**
 - b. a leftward movement along the demand for money curve
 - c. a leftward shift in the demand for money curve
 - d. a rightward movement along the demand for money curve
75. Based on the model of the money market, when real income decreases, the equilibrium interest rate should
- a. decrease
 - b. stay the same
 - c. increase
 - d. increase to the same extent that the supply of money increases
76. All of the following are government expenditure items except
- a. interest on government debt
 - b. **transfer payment**
 - c. purchase of corporate bonds
 - d. purchase of goods and services
77. If the Central Bank sells a significant amount of government securities in the open market, which of the following will occur?
- a. **The total amount of loans made by commercial banks will decrease**
 - b. The total amount of loans made by commercial banks will increase
 - c. The money supply will increase
 - d. Rates of interest will decrease
78. Which of the following will most likely occur as a result of an increase in labour productivity in an economy?
- a. **An increase in output and a decrease in inflation**
 - b. An increase in interest rates and a decrease in investment
 - c. A decrease in both money demand and money supply
 - d. A decrease in exports and an increase in unemployment
79. On a short-run Phillips curve, high rates of inflation coincide with
- a. high interest rates
 - b. low interest rates
 - c. high unemployment rates
 - d. **low unemployment**
80. An increase in which of the following would cause an increase in aggregate supply?
- a. **Labour productivity**
 - b. The wage rate
 - c. Prices of imports
 - d. Consumer spending

Ttq.

1. Indicate whether each of the following is counted in Ghana's gross domestic product for the year 2010. Explain each of your answers.
 - a. The value of a used textbook sold through an online auction in 2010
 - b. Rent paid in 2010 by residents in an apartment building built in 2000
 - c. Commissions earned in 2010 by a stockbroker
 - d. The value of automobiles produced in 2010 entirely in South Korea by a firm fully owned by Ghanaian citizens
 - e. The sale of bonds in a stock market
2. Labour productivity is output per unit of labour. An increase in labour productivity is a source of economic growth.
 - a. Identify two sources of increase in labour productivity
 - b. Assume that a country's economy is at full employment. Productivity has been rising. Using a correctly labeled graph of aggregate demand and aggregate supply, show the long-run effect of the growth in productivity on each of the following:
 - i. Real output
 - ii. Price level
 - c. Explain any two determinants of aggregate demand.
3. Country Y is experiencing severe and unanticipated inflation.
 - a. Explain the effect of this inflation on each of the following
 - i. A family with savings in a fixed-interest-rate time deposit account
 - ii. A business repaying a long-term, fixed-interest-rate loan
 - b. Identify one fiscal policy action that could be implemented to reduce inflation
 - c. Identify one monetary policy that could be implemented to reduce inflation
4. Assume that an economy is currently in the long-run equilibrium,
 - a. Draw a correctly labeled graph of aggregate demand and aggregate supply and show each of the following
 - i. The long-run aggregate supply curve
 - ii. The current equilibrium output and price levels, labeled as Y_E and PL_E , respectively
 - b. Assume that the government increases spending on national defense without raising taxes,
 - i. On your graph in part (a), show how the government action affects aggregate demand.

- ii. How will this government action affect the unemployment rate in the short run? Explain.
5. How does each of the following changes affect the real gross domestic product and price level of an open economy in the short run? Explain each.
- a. An increase in the price of crude oil, and important natural resource
 - b. A technological change that increases the productivity of labour
 - c. An increase in spending by consumers
 - d. The depreciation of the country's currency in the foreign exchange market
6. The central bank of Ghana sells bonds on the open market.
- a. Assume that commercial banks in Ghana have no excess reserves. What is the effect of the central bank's action on the amount of customer loans that the commercial banks in Ghana can make?
 - b. Using a correctly labeled graph of the money market, show the effect of the central bank's action on the nominal interest rate in Ghana.
 - c. What is the effect of the central bank's action on the price level in Ghana?

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.....Michael Simons!