Question #1 of 57

Question ID: 1456873

If the GDP deflator is less than 100, then real GDP is:

A) equal to nominal GDP.

B) less than nominal GDP.

C) greater than nominal GDP.

Explanation

The GDP deflator is calculated by dividing the value of nominal GDP by the value of real GDP. In most cases the GDP deflator is greater than 100; a value greater than 100 means prices have increased. A GDP deflator less than 100 shows that prices have decreased and the value of real GDP is greater than the value of nominal GDP.

(Module 10.1, LOS 10.c)

Question #2 of 57

Question ID: 1456900

Which of the following is *most likely* to cause an increase in aggregate demand?

A) An increase in the general price level.

B) High capacity utilization rates.

C) Relative appreciation in the country's currency.

Explanation

As capacity utilization rates increase to high levels (typically 80% to 85%), business investment in plant and equipment increases, shifting the AD curve to the right. A change in the price level represents a movement along the demand curve, not a shift in it. Appreciation of the country's currency increases the cost of exports and reduces the cost of imports, which shifts the aggregate demand curve to the left (net exports decrease).

(Module 10.2, LOS 10.h)

Question #3 of 57

Question ID: 1456902

Which of the following choices *best* describes the effects on consumption, investment, and net exports that would result from an increase in the price level, other factors held constant?

	Consumption	Investment	Net exports
A)	Decrease	Decrease	Decrease
B)	Decrease	Increase	Increase
C)	Increase	Increase	Increase

Explanation

At higher price levels, consumption, investment, and net exports all decrease. A rising price level decreases consumers' real wealth, so they consume less. The higher price level will increase interest rates, which causes business investment to decrease. Rising domestic prices will also reduce foreign purchases of the country's goods, decreasing net exports.

(Module 10.3, LOS 10.i)

Question #4 of 57

Question ID: 1456915

A country's labor force is projected to decrease by 2% while its labor productivity is projected to increase by 3% per year. Based on these projections, the country's sustainable annual economic growth rate:

A) depends on the proportions of labor and capital in production.

B) is negative.

C) is positive.

Explanation

Growth in potential GDP = growth in labor force + growth in labor productivity. In this example, –2% + 3% = 1% growth in potential GDP.

(Module 10.3, LOS 10.m)

Question #5 of 57

Question ID: 1456908

When potential real GDP is less than actual real GDP, the economy is *most likely* experiencing:

A) inflation. ✓

B) recession. ✗

C) underemployment. ✗

Explanation

The economy is in an inflationary phase if actual real GDP is greater than potential real GDP. When actual real GDP equals potential real GDP, the economy is said to be at full employment. The economy is in a recessionary phase if real GDP is less than potential GDP.

(Module 10.3, LOS 10.j)

Question #6 of 57

Question ID: 1456903

Which of the following is *most likely* to occur in the short run aggregate demand decreases due to a reduction in business and consumer optimism?

A) A higher rate of inflation. ✗

B) An increase in real GDP. ✗

C) An increase in the rate of unemployment. ✓

Explanation

If business and consumer optimism wanes, consumers will spend less and defer current consumption and save more of their disposable income. With reduced product demand, businesses will reduce their capital expenditures and investments. These actions will lead businesses to reduce their number of employees, thereby increasing the rate of unemployment. Moreover, current output will decrease and the price level will fall.

(Module 10.3, LOS 10.i)

Question #7 of 57

Question ID: 1456890

Which of the following is *least likely* a reason that the aggregate demand curve slopes downward?

A) The wealth effect causes consumers to spend less when the price level rises.

B) Because entitlements are adjusted for inflation, a rising price level forces government spending to increase.

C) Business investment declines as a rising price level increases interest rates.

Explanation

The aggregate demand curve plots real GDP against the price level. Rising entitlement payments that result from an increasing price level affect nominal GDP, but not real GDP. Both remaining choices describe reasons why the consumption and investment components of real GDP decrease when the price level increases.

(Module 10.2, LOS 10.f)

Question #8 of 57

Question ID: 1456885

If the government is running a budget deficit, which of the following relationships are *least likely* to occur in the economy at the same time?

	Exports relative to imports	Savings relative to investment
A)	exports > imports	private savings < private investment
B)	exports < imports	private savings > private investment
C)	exports < imports	private savings < private investment

Explanation

A government budget deficit, a trade surplus, and an excess of private investment over private savings cannot all occur at the same time. If the government runs a budget deficit, the deficit must be financed by a trade deficit (exports < imports), surplus private savings (private savings > private investment), or both.

(Module 10.1, LOS 10.e)

Question #9 of 57

Question ID: 1456886

Total investment is one of the components of a country's GDP. Which of the following is *least likely* to be considered a source of funds for investment?

A) Household expenditures. ✓

B) National savings. ✗

C) Foreign borrowing. ✗

Explanation

Total investment is one of the major components of GDP (the others are consumption, government spending, and net exports). Investment is defined as expenditures allocated to fixed assets and inventory. The sources of funds for investment are national savings, foreign borrowing, and government savings.

(Module 10.1, LOS 10.e)

Question #10 of 57

Question ID: 1456884

If a fiscal budget deficit increases, which of the following factors must also increase if all other factors are held constant?

A) Investment. ✗

B) Trade surplus. ✗

C) Savings. ✓

Explanation

The relationship between the fiscal balance, savings, investment, and the trade balance is $(G - T) = (S - I) - (X - M)$. An increase in a fiscal budget deficit $(G - T)$ must be funded by an increase in savings (S), a decrease in investment (I), or a decrease in net exports $(X - M)$, which would decrease a trade surplus or increase a trade deficit.

(Module 10.1, LOS 10.e)

Question #11 of 57

Question ID: 1456897

Which of the following factors is *most likely* to increase aggregate demand?

A) An expected decrease in future prices. ✗

B) An increase in real wealth. ✓

C) Increasing real interest rates. ✗

Explanation

While an increase in real wealth will shift the AD curve to the right, an increase in the real rate of interest will shift the AD curve to the left as consumers and businesses reduce their borrowing and spending. An expected decrease in prices will shift the AD curve to the left as households and businesses postpone their consumption in anticipation of lower prices in the future.

(Module 10.2, LOS 10.h)

Question #12 of 57

Question ID: 1456880

Which of the following amounts is *least likely* to be subtracted from gross domestic product in order to calculate national income?

A) Capital consumption allowance. ✗

B) Indirect business taxes. ✓

C) Statistical discrepancy. ✗

Explanation

Indirect business taxes are not subtracted because they are included in national income.

(Module 10.1, LOS 10.d)

Question #13 of 57

Question ID: 1456907

Stagflation refers to an environment of:

A) Low unemployment and high inflation. ✗

B) High unemployment and high inflation. ✓

C) High unemployment and low inflation. ✗

Explanation

Stagflation refers to an economic environment where high unemployment and high inflation exist at the same time.

(Module 10.3, LOS 10.j)

Question #14 of 57

Question ID: 1456870

A shirt with a retail price of $50 is produced using cloth with a value of $40. The cloth is produced from cotton with a value of $30. Using the sum-of-value-added method, what is the total value added to gross domestic product by producing the shirt?

A) $50.

B) $20.

C) $70.

Explanation

Producing the shirt adds $50 to GDP under either the sum-of-value-added approach or the value-of-final-output approach.

Stage of production	Value	Value added
Cotton	$30	$30
Cloth	$40	$10
Shirt	$50	$10
Sum of value added		$50

(Module 10.1, LOS 10.b)

Question #15 of 57

Question ID: 1456866

A country's gross domestic product is:

A) equal to the country's aggregate income.

B) greater than the country's aggregate income.

C) less than the country's aggregate income.

Explanation

Aggregate income and aggregate output (gross domestic product) must be equal for an economy as a whole.

(Module 10.1, LOS 10.a)

Question #16 of 57

Question ID: 1456877

Components of national income include:

A) government enterprise profits, unincorporated business net income, and statistical discrepancy.

B) wages and benefits, corporate profits, and indirect business taxes less subsidies.

C) rent, interest income, and capital consumption allowance.

Explanation

National income is the sum of employee wages and benefits, corporate and government enterprise profits before tax, interest income, unincorporated business owners' income, rental income, and indirect business taxes less subsidies. Capital consumption allowance is an estimate of depreciation during the measurement period. Statistical discrepancy is an adjustment to GDP when measured using the income approach, which accounts for differences from the data used to calculate GDP using the expenditure approach.

(Module 10.1, LOS 10.d)

Question #17 of 57

Question ID: 1462785

Which of the following events is *most likely* to increase short-run aggregate supply (shift the curve to the right)?

A) High unemployment puts downward pressure on money wages.

B) Inflation that results in an increase in goods prices.

C) An increase in government spending intended to increase real output.

Explanation

Falling money wages would cause businesses to increase (profit-maximizing) output levels at each price level for final goods and services. Changes in the price level of goods and services are represented by a movement along a short-run aggregate supply curve, not a shift in the curve. A rise in resource prices will decrease aggregate supply. An increase in government spending will shift the aggregate demand curve but not the aggregate supply curve. (Module 10.2, LOS 10.h)

Question #18 of 57

Question ID: 1456920

The production function approach to explaining economic growth focuses on:

A) the effects on producers of fiscal and monetary policy.

B) shifts in the aggregate demand and supply curves.

C) productivity, the labor force, and the capital stock.

Explanation

The production function approach relates a country's economic output to its inputs of capital and labor and its levels of productivity.

(Module 10.3, LOS 10.n)

Question #19 of 57

Question ID: 1456921

Growth in total factor productivity is *best* described as driven by growth in:

A) capital.

B) labor.

C) technology.

Explanation

Total factor productivity represents increased productivity that cannot be directly accounted for by increases in capital and labor, and is generally considered to be driven by changes in technology.

(Module 10.3, LOS 10.o)

Question #20 of 57

Question ID: 1456904

A reduction in short-run aggregate supply is *most likely* to be accompanied by an increase in:

A) real GDP.

B) real interest rates.

C) the price level.

Explanation

A decrease (shift to the left) in short-run aggregate supply results in lower output and a higher price level. A decrease in short-run aggregate supply will likely cause nominal and real interest rates to decrease.

(Module 10.3, LOS 10.i)

Question #21 of 57

Question ID: 1456891

An increase in real interest rates can be expected to:

A) decrease investment and decrease consumption. ✓

B) decrease investment and increase net exports. ✗

C) increase government spending and decrease consumption. ✗

Explanation

An increase in real interest rates can be expected to decrease business investment and decrease consumption. The impact on government spending and net exports is not clear-cut.

(Module 10.2, LOS 10.f)

Question #22 of 57

Question ID: 1456888

An increase in a trade surplus is *most likely* to be associated with an increase in:

A) domestic investment. ✗

B) private savings by individuals. ✓

C) government deficits. ✗

Explanation

The relationship between government deficits, savings, and investments is as follows:

exports – imports = private savings + government savings – investment

An increase in trade surplus increases the left-hand side of this equation. It must be associated with some combination of an increase in private savings, an increase in government savings, or a decrease in domestic investment.

(Module 10.1, LOS 10.e)

Question #23 of 57

Question ID: 1456909

An increase in aggregate demand can result in output greater than potential GDP in:

A) neither the short run nor the long run.

B) the short run and the long run.

C) the short run only.

Explanation

From long-run equilibrium, an increase in aggregate demand can result in short-run equilibrium output greater than potential GDP. However, this above-full-employment output cannot be sustained in the long run because upward pressure on input costs (e.g., wages) will decrease short-run aggregate supply, decreasing output back to the full-employment level in the long run.

(Module 10.3, LOS 10.k)

Question #24 of 57

Question ID: 1456893

The long-run aggregate supply curve is *best* described as:

A) elastic because most input prices are variable in the long run.

B) perfectly elastic because input prices are sticky in the long run.

C) perfectly inelastic because input prices change proportionately with the price level in the long run.

Explanation

The long-run aggregate supply curve is perfectly inelastic because in the long run, wages and other input prices adjust to changes in the overall price level. Long-run aggregate supply equals potential GDP.

(Module 10.2, LOS 10.g)

Question #25 of 57

Question ID: 1456867

Gross domestic product includes the value of all goods:

A) produced and purchased during the measurement period.

B) purchased during the measurement period.

C) produced during the measurement period.

Explanation

Gross domestic product (GDP) is the sum of the market values of all goods and services produced during a measurement period. Goods purchased during the measurement period that were produced earlier are not included in GDP. Goods produced during the measurement period but not purchased, such as goods produced for inventory, are included in GDP.

(Module 10.1, LOS 10.a)

Question #26 of 57

Question ID: 1456906

Assume an economy is in long-run and short-run equilibrium. If money wages increase, other things equal, the *most likely* result is a:

A) short-run recessionary gap.

B) short-run inflationary gap.

C) long-run inflationary gap.

Explanation

An increase in the wage rate decreases short-run aggregate supply, leading to a short-run recessionary gap.

(Module 10.3, LOS 10.j)

Question #27 of 57

Question ID: 1456899

Which of the following events is *least likely* to cause a decrease in short-run aggregate supply?

A) Inflation increases from 4% to 7%.

B) Oil exporting countries reduce their production levels.

C) A labor stoppage causes the price of steel to rise.

Explanation

Changes in the price level represent movement along the short-run aggregate supply curve. The other items listed are events that are likely to shift the short-run aggregate supply curve to the left (decrease SRAS).

(Module 10.2, LOS 10.h)

Question #28 of 57

Question ID: 1456912

From an initial long-run equilibrium, if aggregate demand increases while short-run aggregate supply decreases, the price level:

A) will increase.

B) may increase or decrease.

C) will decrease.

Explanation

Both an increase in aggregate demand and a decrease in short-run aggregate supply increase the price level.

(Module 10.3, LOS 10.l)

Question #29 of 57

Question ID: 1456883

The relationship between savings (S), investment (I), government spending (G), government tax revenue (T), exports (X), and imports (M) is:

A) (G – T) = (S – I) + (X – M).

B) (S – I) = (G – T) + (X – M).

C) (X – M) = (S – I) + (G – T).

Explanation

The fundamental relationship of saving to investment, the fiscal balance, and the trade balance is S = I + (G – T) + (X – M), or (S – I) = (G – T) + (X – M). This relationship can be solved for the fiscal balance, (G – T) = (S – I) – (X – M), or for the trade balance, (X – M) = (S – I) – (G – T).

(Module 10.1, LOS 10.e)

Question #30 of 57

Question ID: 1456910

If the economy is in short-run disequilibrium below full employment, the *most likely* explanation is that:

A) aggregate demand has decreased.

B) long-run aggregate supply has decreased.

C) money wage rates have decreased.

Explanation

A decrease in aggregate demand can reduce output below its full-employment level. A decline in long-run aggregate supply would mean the full-employment output level itself has decreased. Wage rates are assumed to be fixed in the short run, but the long-run effect of decreases in wage rates would be to increase (shift) short-run aggregate supply, leading to an increase in output.

(Module 10.3, LOS 10.k)

Question #31 of 57

Question ID: 1456874

Nominal GDP for the year 20X7 is $784 billion and real GDP is $617 billion. If the base period for the GDP deflator is 20X1, the annual rate of increase in the GDP deflator since the base year is *closest to*:

A) 3.5%.

B) 4.0%.

C) 4.5%.

Explanation

GDP deflator = $784 billion / $617 billion × 100 = 127.07. Annual rate of increase = $(127.07 / 100)^{1/6} - 1 = 0.0407 = 4.07\%$.

(Module 10.1, LOS 10.c)

Question #32 of 57

Question ID: 1456914

If both aggregate demand and short-run aggregate supply decrease, the price level:

A) may increase or decrease.

B) will decrease.

C) will increase.

Explanation

The effect on the price level of decreases in both AD and SRAS depends on the relative size of the decreases in AD and SRAS. An increase in AD increases the price level, but an increase in SRAS tends to decrease the price level, so their combined effect could be an increase or a decrease in the price level.

(Module 10.3, LOS 10.l)

Question #33 of 57

Question ID: 1456922

Over the last five years, in the country of Midlothian, both the labor supply and the real stock of physical capital have increased by 20% and real GDP increased 22%. The reason that real GDP growth was greater than input growth over the period is *most likely* that:

A) money wages decreased.

B) total factor productivity increased.

C) the production function is multiplicative.

Explanation

Any excess of real GDP growth over the rate of growth in labor and capital indicates there has been an increase in total factor productivity.

(Module 10.3, LOS 10.o)

Question #34 of 57

Question ID: 1456911

Can an economy that is at long-run equilibrium adjust to produce real GDP which is greater than full-employment real GDP in the short run?

A) No.

B) Yes, if aggregate demand increases.

C) Yes, if wages increase.

Explanation

An increase in aggregate demand when the economy is operating at long-run equilibrium (at full employment) will increase both the price level and real GDP in the short run.

(Module 10.3, LOS 10.k)

Question #35 of 57

Question ID: 1456896

When national income in an important trading partner's economy increases, aggregate demand in the domestic economy is *most likely* to:

A) increase because foreign consumers will tend to buy more export goods from the domestic country.

B) decrease because interest rates in the domestic economy will tend to increase.

C) decrease because foreign consumers will tend to buy less export goods from the domestic country.

Explanation

When incomes in foreign countries increase, it is unlikely to have a direct effect on interest rates in the domestic economy. However, an increase in foreign incomes is likely to result in greater foreign purchases of goods exported from the domestic country, which increases the domestic country's net exports and aggregate demand.

(Module 10.2, LOS 10.h)

Question #36 of 57

Question ID: 1462783

An economist calculates the following value:

National income + transfer payments to households − indirect business taxes − corporate income taxes − undistributed corporate profits

The *most appropriate* term for the value she has calculated is:

A) GDP.

B) personal income.

C) disposable income.

Explanation

Personal income is calculated by adding transfer payments to national income and subtracting indirect business taxes, corporate income taxes, and undistributed corporate profits. Disposable income is personal income minus personal taxes. GDP is national income plus a capital consumption allowance and an adjustment for statistical discrepancy between the income and expenditure approaches. (Module 10.1, LOS 10.d)

Question #37 of 57

Question ID: 1456898

Which of the following factors is *most likely* to increase long-run aggregate supply?

A) The average rate of labor productivity increases.

B) Aggregate demand decreases.

C) Wage rates increase.

Explanation

Factors that shift the long-run aggregate supply curve (LAS) to the right include improvements in technology and productivity, increases in the supply of resources, and institutional changes that increase the efficiency of resource use. An increase in the productivity of the average worker is likely to shift the LAS curve to the right. Wage rate changes shift the short-run aggregate supply curve (SAS) but not the LAS curve. A decline in consumer demand would represent a move down the LAS curve but not a shift in LAS.

(Module 10.2, LOS 10.h)

Question #38 of 57

Question ID: 1456878

Under the expenditure approach, gross domestic product is the sum of:

A) national income and transfer payments to households, less corporate and indirect business taxes and undistributed corporate profits.

B) consumption spending, gross private domestic investment, government spending, and net exports.

C) wages and benefits, corporate profits, interest income, unincorporated business owners' income, rent, and indirect business taxes less subsidies.

Explanation

Under the expenditure approach, GDP is the sum of consumption, investment, government spending, and net exports. National income is the sum of wages and benefits, corporate profits, interest income, unincorporated business owners' income, rent, and indirect business taxes less subsidies. Personal income is the sum of national income and transfer payments to households, less corporate and indirect business taxes and undistributed corporate profits.

(Module 10.1, LOS 10.d)

Question #39 of 57

Question ID: 1462784

If domestic savings are insufficient to finance domestic private investment and exports are greater than imports, it is *most likely* that the fiscal budget has:

A) a surplus that is greater than the trade surplus. ✓

B) a deficit that is less than the trade surplus. ✗

C) a deficit that is greater than the trade surplus. ✗

Explanation

The fundamental relationship among saving, investment, the fiscal balance and the trade balance is expressed as (S − I) = (G − T) + (X − M). If domestic savings (S) are not sufficient to finance private investment (I), then (S − I) is negative and the sum (G − T) + (X − M) must also be negative. With exports greater than imports, (X − M) is positive so (G − T) must be negative and larger than (X − M). If (G − T) is negative, taxes (T) are greater than government spending (G) and the government has a fiscal surplus. (Module 10.1, LOS 10.e)

Question #40 of 57

Question ID: 1456876

The GDP deflator is the percentage difference between nominal GDP:

A) in the current period and real GDP in the base period. ✗

B) and real GDP in the current period. ✓

C) and real GDP in the base period. ✗

Explanation

The GDP deflator is the percentage difference between the current period's nominal GDP and real GDP, reflecting inflation since the base period.

(Module 10.1, LOS 10.c)

Question #41 of 57

Question ID: 1456875

If nominal GDP is $562 billion and the GDP deflator is 119, real GDP is *closest to*:

A) $472 billion.

B) $47 billion.

C) $5 billion.

Explanation

Real GDP = $562 billion / 1.19 = $472.27 billion.

(Module 10.1, LOS 10.c)

Question #42 of 57

Question ID: 1456872

Compared to GDP calculated using the sum-of-value-added method, GDP using the value-of-final-output method will be:

A) biased downward.

B) biased upward.

C) equal to it.

Explanation

GDP calculated under the two methods is the same.

(Module 10.1, LOS 10.b)

Question #43 of 57

Question ID: 1456892

The long-run aggregate supply curve is:

A) elastic because input prices are sticky.

B) inelastic because all input prices can vary.

C) perfectly elastic because input prices are fixed.

Explanation

The long-run aggregate supply curve is perfectly inelastic because in the long run all input prices change in proportion to the price level. Therefore the price level has no effect on long-run aggregate supply, which represents the level of potential GDP.

(Module 10.2, LOS 10.g)

Question #44 of 57

Question ID: 1462786

In the short run, will an increase in the money supply increase the price level and real output?

A) Both will increase in the short run.

B) Only one will increase in the short run.

C) Neither will increase in the short run.

Explanation

In the short run, an increase in the money supply will increase aggregate demand. The new short-run equilibrium will be at a higher price level and a greater level of real output (GDP). (Module 10.3, LOS 10.i)

Question #45 of 57

Question ID: 1456917

Sources of long-run economic growth *most likely* include increases in:

A) human capital, money supply, and natural resources.

B) government spending, labor supply, and physical capital.

C) labor supply, physical capital, and technology.

Explanation

Sources of sustainable long-run economic growth (increases in long-run aggregate supply) include increases in the labor force, human capital (the education and skill level of the labor force), the stock of physical capital, the supply of natural resources, and the level of technology. Increases in the money supply or government spending increase aggregate demand but do not increase long-run aggregate supply.

(Module 10.3, LOS 10.m)

Question #46 of 57

Question ID: 1456918

In the production function approach to analyzing economic growth, total factor productivity accounts for:

A) capital deepening and any increase in the amount of capital available.

B) output growth not attributable to growth in labor and capital.

C) technological advances and growth of the labor force.

Explanation

The production function as defined as Y = A × ƒ(L, K) where Y is the aggregate output; L = quantity of labor; K = amount of capital available; and A = total factor productivity. Total factor productivity represents output growth not directly attributable to changes in the quantities of either labor or capital, and is thought to primarily reflect technological advances.

(Module 10.3, LOS 10.n)

Question #47 of 57

Question ID: 1456882

If private saving equals private business investment, a trade surplus implies that there is:

A) a fiscal surplus.

B) no fiscal surplus or deficit.

C) a fiscal deficit.

Explanation

The fundamental relationship among saving, investment, the fiscal balance, and the trade balance is stated as: (G – T) = (S – I) – (X – M). If S = I, this equation becomes (G – T) = – (X – M), or (T – G) = (X – M). In this case, if the trade balance is in surplus (exports are greater than imports), the fiscal balance must also be in surplus (taxes are greater than government spending).

(Module 10.1, LOS 10.e)

Question #48 of 57

Question ID: 1456868

Which of the following *least* accurately describes a component of gross domestic product?

A) Consumption.

B) Investment.

C) Net imports.

Explanation

The components of GDP are consumption, investment, government spending, and net exports, which is exports minus imports.

(Module 10.1, LOS 10.a)

Question #49 of 57

Question ID: 1456919

When the sources of economic growth are stated as a production function, which factor is treated as a multiplier?

A) Size of the labor force.

B) Amount of capital available.

C) Productivity.

Explanation

Economic output can be stated as a production function of the form $Y = A \times f(L, K)$, where Y is economic output, L is the size of the labor force, K is the amount of capital available, and A is total factor productivity.

(Module 10.3, LOS 10.n)

Question #50 of 57

Question ID: 1456871

Which method of calculating gross domestic product requires data from each stage of production of goods?

A) Income method.

B) Value of final output method.

C) Sum of value added method.

Explanation

The sum-of-value-added method of calculating GDP requires data on the value added to goods at each stage of production and distribution. The value-of-final-output method only requires data on the final values of goods and services. The income approach to calculating GDP measures the total income of households and companies, rather than the value of goods and services.

(Module 10.1, LOS 10.b)

Question #51 of 57

Question ID: 1456916

The sustainable growth rate of an economy is *best* viewed as the sum of the growth rates of:

A) private and government spending. ✗

B) the labor force and productivity. ✓

C) consumption and investment. ✗

Explanation

The sustainable rate of economic growth can be estimated as the sum of the growth rate of the labor force and the growth rate of labor productivity.

(Module 10.3, LOS 10.m)

Question #52 of 57

Question ID: 1456894

Because some input prices do not adjust rapidly to changes in the price level, the short-run aggregate supply curve:

A) exhibits a negative relationship between quantity supplied and the price level. ✗

B) is more elastic than the long-run aggregate supply curve. ✓

C) may be interpreted as representing the economy's potential output. ✗

Explanation

The short-run aggregate supply curve slopes upward (i.e., is not perfectly inelastic) because in the short run some input prices do not adjust fully to changes in the price level. Because firms can increase profit in the short run by increasing output in response to higher prices, there is a positive short-run relationship between the price level and quantity supplied.

(Module 10.2, LOS 10.g)

Question #53 of 57

Question ID: 1456889

Which of the following statements concerning aggregate demand is *most* accurate?

A) When price levels fall, real wealth increases, and individuals will spend less.

B) When price levels rise, real wealth increases, and individuals will spend more.

C) When price levels rise, real wealth decreases, and individuals will spend less.

Explanation

When price levels rise, real wealth decreases, and we would expect individuals to spend less. If price levels fall, real wealth increases, and we would expect individuals to spend more.

(Module 10.2, LOS 10.f)

Question #54 of 57

Question ID: 1456895

The sustainable growth rate of real GDP is *most likely* to be increased by:

A) the discovery of untapped oil fields.

B) an increase in the propensity to consume by households.

C) an increase in government spending.

Explanation

Sustainable growth in real GDP is defined as the growth rate in real GDP that is sustainable over the long term. The sustainable growth rate is positively affected by increases in the supply of natural resources, the supply of physical capital, or the supply or productivity of labor. An increase in government spending does not increase an economy's sustainable growth rate.

(Module 10.2, LOS 10.h)

Question #55 of 57

Question ID: 1456913

If both aggregate demand and short-run aggregate supply increase, real GDP:

A) will decrease.

B) may increase or decrease.

C) will increase.

Explanation

Increases in AD and SRAS both cause real GDP to increase. An increase in AD increases the price level, but an increase in SRAS tends to decrease the price level, so their combined effect could be an increase or a decrease in the price level.

(Module 10.3, LOS 10.l)

Question #56 of 57

Question ID: 1462782

A collector of antique automobiles buys one for $180,000 in 20X1 and sells it for $200,000 in 20X3. That buyer then sells the automobile for $215,000 in 20X5. Do these sales increase gross domestic product in 20X3 and 20X5?

A) No.

B) Yes, by $20,000 in 20X3 and $15,000 in 20X5.

C) Yes, by $200,000 in 20X3 and $215,000 in 20X5.

Explanation

These transactions do not increase GDP for either of these years because the antique automobile was not produced during the periods. GDP includes expenditures on goods and services that were produced during a period. (Module 10.1, LOS 10.a)

Question #57 of 57

Question ID: 1456879

The difference between personal income and disposable income is:

A) fixed expenses.

B) savings.

C) taxes.

Explanation

Disposable income equals personal income minus taxes.

(Module 10.1, LOS 10.d)