

Student name: _____

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

Which of the following is NOT a central issue in macroeconomics?

How should the central bank of a country fight inflation?

What is responsible for high and persistent unemployment?

How do tax changes influence consumers' choices of what to buy?

What factors determine economic growth?

What can or should the government do to stabilize the economy?

Macroeconomics does NOT focus on

policies that affect consumption and saving.

policies that affect the performance of health care providers.

the determination of changes in wages and prices.

the determination of interest rates.

none of these, all of them are macroeconomic issues.

Which of the following is NOT dealt with in microeconomics?

the effect of agricultural subsidies on the price of milk

differences between the market for skilled labor versus the market for unskilled labor

issues related to the structure and performance of the health care sector

policies that affect the level of aggregate consumption

issues related to the deregulation of the telecommunications industry

Which of the economists below most likely advocated activist government policies?

Milton Friedman

John Maynard Keynes

Robert Lucas

Thomas Sargent

Adam Smith

In studying growth theory, we

assume that labor, capital, and raw materials are all used efficiently

assume that increased use of inputs cannot lead to a higher living standard

assume that technological advances cannot affect living standards

try to explain the reasons for recessions and booms

All of these

Which of the following factors does NOT contribute to economic growth?

the availability of resources such as labor and capital

increases in the size of the population

the availability of new and better technology

increased knowledge gained through education or work experience

All of these can increase economic growth

Which of the following is a FALSE statement?

the very long run focuses on the growth of productive capacity

in the very long run, the productive capacity is assumed to be given

in the very short run, shifts in aggregate demand determine how much output is produced

fluctuations in the rates of inflation and unemployment are important long-run issues

at the full-employment level of output, capital is not used 100 percent

Government intervention into economic activity will NOT lead to a change in the price level

in the very short-run model

in the medium-run model

in the very long-run model

in the classical model

assuming a macro-model that focuses on the growth of productive capacity

In the very short run, the level of

output is determined by both aggregate demand and aggregate supply

output is determined by aggregate demand alone

prices will change if aggregate supply shifts

prices is determined by aggregate demand alone

both output is determined by both aggregate demand and aggregate supply and prices will change if aggregate supply shifts

In the simple macro model of this chapter, the long-run AS-curve is

horizontal

vertical

upward-sloping

assumed to be completely price elastic

either vertical or upward-sloping, depending on how fast prices adjust

In the very long-run AD-AS model, if the AD-curve shifts to the left, then

prices and output will both decrease

prices and output will both increase

prices will decrease but output will remain the same

output will decrease but prices will remain the same

output will increase but prices will decrease

If an increase in aggregate demand causes prices to increase slightly but output to increase significantly, then

the AS-curve must be very flat

the AD-curve must be very steep

the AD- and AS-curves must both be very steep

we must be looking at the very long-run AD-AS model

we must be looking at the very short-run AD-AS model

In the very long-run AD-AS model,

only fiscal policy can affect both output and prices

only monetary policy can affect both output and prices

monetary policy can affect output but not prices

active stabilization policy is ineffective in changing output

the unemployment rate is always assumed to be zero

If a shift in the AD-curve has no impact on the price level, then

the unemployment rate must be extremely low

the AD-curve must be vertical

the AS-curve must be horizontal

the AS-curve must be vertical

both the unemployment rate must be extremely low and the AS-curve must be vertical

In the medium run, if GDP goes down but the price level goes up,

the AD-curve must have shifted to the right

the AD-curve must have shifted to the left

the AS-curve must have shifted to the right

the AS-curve must have shifted to the left

the AD-curve and the AS-curve must have both shifted to the right

Which of the following is FALSE in the medium run?

a change in monetary policy can shift the AD-curve

a change in fiscal policy can shift the AD-curve

a change in fiscal policy can change output and prices

a change in monetary policy can change prices but not output

a change in labor productivity can shift the AS-curve

A change in which of the following will shift the AD-curve?

monetary or fiscal policy

the level of consumer confidence

the productive capacity of our economy

All of these

only monetary or fiscal policy and the level of consumer confidence

The position of the AS-curve depends on

fiscal policy

monetary policy

consumer confidence

the productive capacity of the economy

All of these

Assume an economy that is currently at the full-employment level of output. If aggregate demand decreases, what should we expect in the medium run?

a decrease in potential GDP and the price level

an increase in unemployment and the price level

a decrease in unemployment and the price level

an increase in unemployment and a decrease in the price level

a decrease in potential GDP and an increase in unemployment

Potential GDP is the value of GDP that can be calculated if we assume that

there are no measurement errors

the unemployment rate is zero

the inflation rate is zero

GDP has been adjusted for inflation

the capital stock is working at full capacity and we have full employment

The full-employment level of output is defined as

actual output plus the output gap

potential output plus the output gap

potential output minus the output gap

the level of output at a zero unemployment rate

both actual output plus the output gap and the level of output at a zero unemployment rate

Real GDP can grow over time because of

an increase in the amount of labor used in the production process

an increase in the capital stock

efficiency improvements

All of these

only A and B

The trend path of GDP can change because of efficiency improvements, which can result from

decreases in the unemployment rate

increases in the rate of capacity utilization

changes in knowledge

decreases in waste

All of these

The output gap shows the deviation of actual output from potential output and it

may be either positive or negative

will always be positive

increases as the unemployment rate decreases

becomes negative if the labor force grows faster than actual output

increases if inflation increases

Which of the following can be responsible for a change in the output gap?

an increase in potential GDP

a decrease in actual GDP

a decrease in aggregate demand

All of these

only an increase in potential GDP and a decrease in actual GDP

If real GDP increases from \$14.8 trillion one year to \$14.9 trillion in the next year, which will be true?

the GDP gap has probably become smaller

economic growth is below the long-term trend rate

economic growth is above the long-term trend rate

economic growth is about the same as the long-term trend rate

both A and C

Which of the following countries had the highest average annual per-capita real income growth rate from 1965 to 2014?

The Republic of Korea

China

Japan

The United Kingdom

The United States

Which of the following countries had the lowest average annual per-capita income growth rate from 1965 to 2014?

Brazil

Zimbabwe

Japan

Spain

The United States

Japan's average growth rate of real GDP per capita from 1965 to 2014 was
more than twice as high as that of the U.S.

about the same as that of the U.S.

less than half as high as that of the U.S.

higher than that of the U.S. but lower than that of the Republic of Korea

lower than that of the U.S. but higher than that of the Republic of Korea

The average growth rate of real GDP per capita in the U.S. from 1965 to 2014 was about

1.5 percent

1.9 percent

2.7 percent

3.1 percent

3.3 percent

Labor is fully employed when

everyone is working eight hours per day five days per week each year

everyone who wants to work can find a job within a reasonable amount of time

the unemployment rate is zero

the unemployment rate is below 3 percent

none of these

The Phillips curve is often used to show the relationship between

GDP and unemployment in a given year

the rates of inflation and unemployment over time

employment and GDP

changes in GDP and the rate of inflation

unemployment and GDP growth

When the economy goes into a recession, we can generally expect that

inflation will decrease while output will increase

inflation will increase while unemployment will decrease

inflation and output will increase

inflation will decrease while unemployment will increase

none of these

As the economy enters a boom we can generally expect that

inflation will decrease with little change in the unemployment rate

unemployment will increase and inflation will decrease

nominal GDP will increase but only because of an increase in the price level

inflation will increase and the unemployment rate will decrease

output will increase with little change in unemployment or inflation

Prices usually adjust fairly slowly; the speed of price adjustment can be summarized by
the Phillips curve

the AD-curve

the long-run AS-curve

the output gap

the trend path of GDP

The CPI is defined as

the cost-price index, measuring cost increases to producers

the cross-price index, measuring the increase in relative prices of two different inputs used in the production process

a price index that measures the average price increase of all final goods and services produced

a price index that measures the cost of a given market basket of intermediate goods and raw materials

a price index that measures the cost of a market basket of goods representing the purchases of a typical urban consumer

If we look at the inflation rate (as measured by the CPI) in the U.S. from 1960 to 2016, we see that inflation was at its highest in the year

1960

1970

1980

1990

2000

Since 1960 the U.S. inflation rate measured by the CPI has
increased at a steady rate
remained remarkably constant
fluctuated widely and has even occasionally been negative
fluctuated widely and usually been positive although it has occasionally been negative
always increased as the unemployment rate has declined

If we look at inflation as measured by the CPI in the U.S. over the last four decades, we realize that the rate of inflation
varied much more in the 1960s than in the 1970s or 1980s
was much lower in the 1970s than in any other decade
varied greatly over time but has continued to decrease on average since 1969
reached an all-time low in 1981
none of these

When an economist indicates that the economy is no longer in a slump, he or she means to say that
nominal GDP is now above its trend path
the economy is currently growing at a rate above three percent
the economy has passed the worst of a recession and is now in the recovery phase
the economic cycle has reached its peak
none of these

Answer Key

Test name: ch1 Macroeconomics, 13e

C

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