

Principles of Macroeconomics Test Bank

Part 1. Basic Issues of Macroeconomics

1. What is Macroeconomics?

What is the difference between microeconomics and macroeconomics?

- a) Microeconomics deals with the economy with a country; macroeconomics deals with the global economy.
- b) Microeconomics deals with small firms; macroeconomics deals with large firms.
- c) Microeconomics deals with individual firms, consumers, etc.; macroeconomics deals with the economy as a whole.
- d) Microeconomics deals with small countries; macroeconomics deals with large countries.

ANSWER: c

The Great Depression occurred

- a) during the 1890s and lasted for 20 years.
- b) during the 1930s and last for 10 years.
- c) during the 1970s and lasted for 5 years
- d) during the 1990s and lasted for 1 year.

ANSWER: b

What is a bank panic?

- a) Bankers become very nervous and refuse to take deposits.
- b) Everyone rushes to the bank to put his or her money in before closing time.
- c) Banks go out of business because they fail to make enough loans.
- d) Banks are unable to repay all depositors who want to withdraw their money.

ANSWER: d

2. Evolution of Capitalism

In early economies, goods were often exchanged through a barter system. What is a barter system?

- a) Prices are agreed after bargaining or negotiation between buyer and seller.
- b) Goods are exchanged through a central clearing house called a “barter.”
- c) Goods are exchanged for goods without the use of money.
- d) Goods are exchanged at fixed prices set by the government.

ANSWER: c

The most important work of classical economic liberalism is

- a) The *Wealth of Nations* by Adam Smith published in 1776.
- b) The General Theory of Employment, Interest and Money by John M. Keynes published in 1937.
- c) The *Communist Manifesto* by Karl Marx published in 1848.
- d) *Capitalism and Freedom* by Milton Friedman published in 1982.

ANSWER: a

According to Adam Smith, the “invisible hand” will create a situation where

- a) Business owners will prefer investing in their own country to investing in foreign countries.
- b) Business owners will not care whether they invest at home or abroad.
- c) Business owners will prefer to invest in projects that they already invested in before.
- d) Business owners will only invest in projects that the King endorses.

ANSWER: a

Capitalist economic institutions were fully developed in England

- a) by the end of the eighteenth century.
- b) by the end of the sixteenth century.
- c) by the end of the seventeenth century.
- d) by the end of the fifteenth century.

ANSWER: a

The philosophy of leaving and allowing the market to operate without the intervention of government is called

- a) laissez-faire
- b) c'est la vie
- c) à chacun son goût
- d) comme ci, comme ça

ANSWER: a

What do progressive economists mean by the term, “institutions”?

- a) Business associations such as the Chamber of Commerce.
- b) International organizations such as the United Nations.
- c) Social systems, habits and customs that influence human behavior.
- d) Major governmental bodies such as the Congress and the Supreme Court.

ANSWER: c

Business cycles

- a) occur in every type of economy.
- b) occur only in capitalism.
- c) occur in capitalism and feudalism.

- d) occur only in socialism.

ANSWER: b

Suppose the United States produced \$12 trillion of goods and services in 2005. According to Say's law

- a) the economy will produce more than \$12 trillion in 2006.
- b) the supply of \$12 trillion goods will lead to a general glut of goods if consumer demand falls.
- c) the supply of \$12 trillion in goods and services will be matched by \$12 trillion in spending.
- d) the economy will be able to save about \$1 trillion for future consumption.

ANSWER: c

An economy in which most output is produced for sale on the market is

- a) a feudal economy.
- b) a capitalist economy.
- c) a communal economy.
- d) a socialist economy.

ANSWER: b

According to conservative economists, how does the economy recover from an external shock?

- a) Government policy can help to stabilize the economy.
- b) The economy will restore itself to equilibrium automatically.
- c) Another outside shock will counteract the first shock.
- d) External shocks have no impact on an economy as large as the United States.

ANSWER: b

To qualify as "money," a commodity must

- a) be valuable.
- b) be nonperishable.
- c) be accepted as a medium of exchange.
- d) be a precious metal such as gold or silver.

ANSWER: c

3. The Classical View of the Macro-Economy

Traditional economics recognizes four broad categories or factors of production. These include:

- a) land, natural resources, labor, entrepreneurship.
- b) land, technology, labor, capital.
- c) land, labor, capital, entrepreneurship.
- d) land, capital, entrepreneurship, and natural resources.

ANSWER: c

What are the three main markets that comprise market capitalism?

- a) The market for goods, the market for services, and the market for technology.
- b) The market for goods, the market for services, and the market for labor.
- c) The market for goods and services, the market for labor, and financial markets.
- d) The market for goods and services, the market for technology, and real estate markets.

ANSWER: c

In the neoclassical view of the macroeconomy, any income not used for consumption

- a) will be used to pay taxes.
- b) will be used for investment.
- c) will be used for government projects.
- d) will be used for exports.

ANSWER: b

In the neoclassical view of the macroeconomy, the supply of savings is

- a) unrelated to the interest rate.
- b) inversely related to the interest rate.
- c) positively related to the interest rate is fixed.

ANSWER: c

In the neoclassical view of the macroeconomy, too many workers seeking work or unemployment will lead to

- a) falling wages.
- b) rising wages.
- c) rising interest rates.
- d) government programs to help the unemployed.

ANSWER: a

According to conservative economists, involuntary unemployment

- a) does not exist.
- b) should be imposed on those unwilling to work.
- c) occurs during an economic expansion.
- d) could be eliminated by effective government programs.

ANSWER: a

Say's law was developed

- a) by John Maynard Keynes in 1926.
- b) by Adam Smith in 1776.

- c) by Jean Baptiste Say in 1800.
- d) by Thomas Say in 1825.

ANSWER: c

According to Say's law, a lack of demand

- a) may occur briefly in one industry until capital moves to another industry.
- b) will never occur in the aggregate economy for any reason.
- c) occurs whenever there is insufficient income to purchase goods produced.
- d) will occur frequently, because people tend to hoard money.

ANSWER: a

Which of the following is a statement of Say's law?

- a) Good money always drives out bad.
- b) Must be reformed in order to preserve it.
- c) Any output supplied to the market generates an equal amount of demand.
- d) An economy left alone will always return to equilibrium.

ANSWER: c

In the classical version of the circular flow of economic life, all savings by households

- a) are deposited in banks.
- b) are borrowed by businesses for investment purposes.
- c) become part of total demand for goods and services.
- d) all of the above

ANSWER: d

In the classical version of the circular flow of economic life, all savings are done by

- a) households.
- b) households and businesses.
- c) only businesses.
- d) government, businesses, and households.

ANSWER: a

Which of the following is true of Say's law?

- a) There is often a lack of sufficient demand for goods and services.
- b) There can never be excess production above demand for any length of time.
- c) The economy is naturally prone to severe booms and busts.
- d) There is a constant danger of runaway inflation.

ANSWER: b