

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

- 1) Macroeconomics is the study of _____
A) the economic issues which affect the nation's total income, employment, and output.
B) the economic issues which affect foreign and domestic prices of related goods and services.
C) the economic issues which affect individual well-being and individual firms' profit levels.
D) inflation and poverty at the level of the household.
- 2) Political incumbents often gain or lose re-election because of a strong or weak economy. Which of the following is an exception to that rule? _____
A) George H.W. Bush
B) Al Gore
C) Jimmy Carter
D) Herbert Hoover
- 3) The "Big Three" concepts of Macroeconomics are _____
A) unemployment rate, inflation, and economic growth.
B) asset rebalancing, markups, and profitability.
C) federal budget, foreign trade, and quantitative easing.
D) profits, liquidity, and sustainability.
- 4) Economy with no productivity growth is called the _____
A) zero-sum society.
B) export-led society.
C) zero-growth society.
D) doomed-to-fail society.
- 5) The inflation rate is the _____
A) measure used to calculate the cost of borrowing money.
B) percentage increase in the average level of prices.
C) measure used to calculate the price level.
D) percentage increase in the average level of wages.
- 6) A rising inflation rate tends to help the following types of people: _____
A) homeowners with mortgages and students with loans.
B) landowners and borrowers.
C) borrowers and homeowners without mortgages.
D) retirees and students with savings accounts.
- 7) A rising inflation rate tends to injure the following types of people: _____
A) borrowers and homeowners.
B) homeowners with mortgages and students with student loans.
C) retirees and students with savings accounts.
D) landowners and borrowers.
- 8) Inflation tends to redistribute income from _____
A) homeowners to landowners.
B) parents to students.
C) savers to borrowers.
D) borrowers to savers.

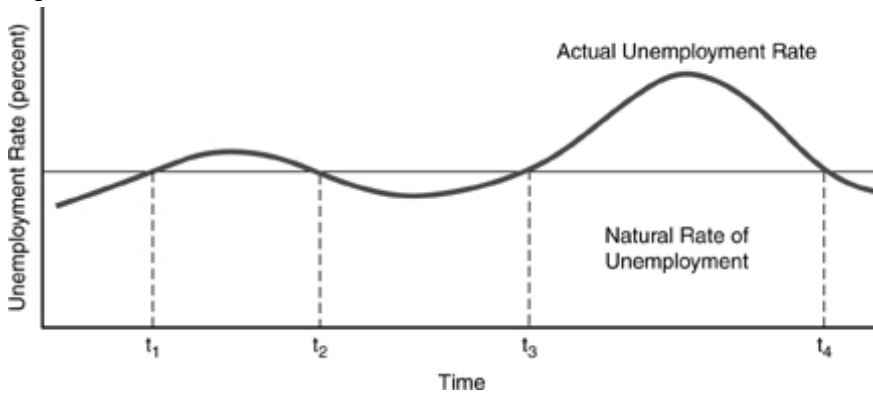
- 9) A high inflation rate will _____
A) harm those who have borrowed while helping those who have saved.
B) benefit those who have saved and those who have borrowed.
C) harm those who have saved and those who have borrowed.
D) harm those who have saved while helping those who have borrowed.
- 10) Which of the three central concepts in macroeconomics is cited in the textbook as being linked to crime, mental illness, and suicide? _____
A) productivity growth
B) the unemployment rate
C) the inflation rate
D) None of the above is cited as being linked to these events.
- 11) A high current rate of inflation _____ those who have saved and _____ those who have borrowed. _____
A) harms, helps
B) helps, has no effect on
C) helps, harms
D) harms, has no effect on
E) helps, helps
- 12) The average output produced per worker is one way of measuring _____
A) the interest rate. B) productivity.
C) inflation. D) employment.
- 13) To avoid the conflicts and suffering of a "zero-sum society," an economy must maintain a _____
A) foreign trade surplus B) positive rate of productivity growth.
C) government budget deficit. D) positive rate of inflation.
- 14) The branch of macroeconomics concerned with changes in the natural real GDP is the theory of _____
A) GDP gaps. B) business cycles.
C) unemployment. D) economic growth.
- 15) The central macroeconomic concept that is most clearly related to changes in the well-being of the *average* member of the economy is the _____
A) inflation rate. B) unemployment rate.
C) productivity growth rate. D) None of the above is closely related.
- 16) Among the subjects covered in macroeconomics are the _____
A) causes of the change in the individual firms' profits.
B) unemployment rate for the entire labor force, and the causes of the increase in the overall price level.
C) effects of low wages on the laborers' moral.
D) causes of the increase in the price of oil relative to other commodities.
- 17) Which of the following does Gordon believe people consider the single most important macroeconomic issue today? _____
A) low productivity B) unemployment
C) poverty D) inflation

- 18) The unemployment rate is the number of _____ 18) _____
A) jobless individuals divided by the total labor force.
B) jobless people looking for work divided by the population.
C) jobless individuals looking for work divided by those employed and unemployed but actively looking.
D) people looking for work divided by the population.
- 19) Generally, the higher the level of output in an economy is the _____ will be. 19) _____
A) lower the unemployment rate and the higher inflation rate
B) lower the unemployment rate and inflation rate
C) higher the unemployment rate and the lower inflation rate
D) higher the unemployment rate and inflation rate
- 20) A low unemployment rate implies that 20) _____
A) job offers are scarce and inflation is high.
B) jobs are difficult to find, and wages are low.
C) job offers are plentiful and wages are high.
D) jobs are permanent and job offers are plentiful.
- 21) Microeconomics focuses on 21) _____
A) the totals, or aggregates, of the economy.
B) unemployment.
C) the relationships among the different parts of the economy.
D) business cycles.
- 22) Macroeconomics is the study of 22) _____
A) how a private economy would function in the absence of government involvement.
B) The overall performance of an economy.
C) the role of the individual in an economy.
D) the role of government in an economy.
E) how one economy trades with other economies.
- 23) Do macroeconomic issues concern the well-being of the typical individual member of an economy? 23) _____
A) Yes, since macroeconomic events have widespread effects on everyday lives.
B) Yes, since macroeconomics focuses on the decisions constantly being made by the average individual.
C) No, since most individuals have little contact with other economies in the world.
D) No, since we are focusing on the behavior of aggregate quantities.
- 24) Macroeconomics focuses on a certain set of variables called 24) _____
A) marginals.
B) balances.
C) micros.
D) aggregates.
E) partials.

- 25) As an example of the simplifications that make economic theorizing possible, the major economic "totals" are assumed to be constant in the study of
- A) economic aggregates.
 - B) microeconomics.
 - C) unemployment and inflation.
 - D) government budget deficits.
 - E) macroeconomics.

25) _____

Figure 1-1

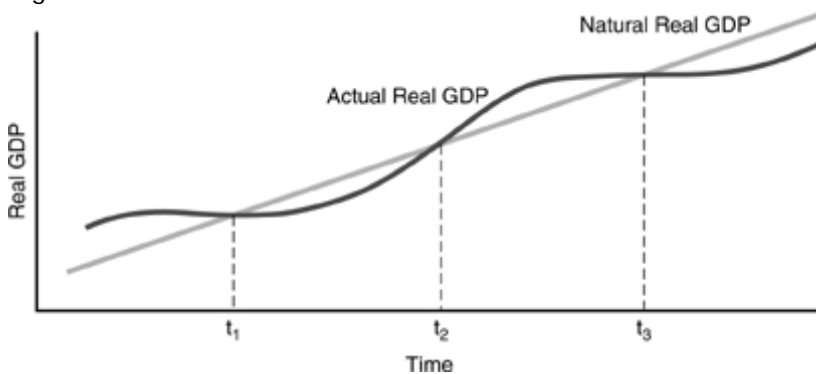


- 26) When the actual unemployment rate is likely to exceed the natural rate of unemployment, as in the time intervals between t_1 and t_2 and t_3 and t_4 in Figure 1-1 above, we can expect that

26) _____

- A) inflation is slowing down and real GDP is likely to fall below natural GDP.
- B) inflation is slowing down and real GDP is likely to exceed natural GDP.
- C) inflation is speeding up and real GDP is likely to exceed natural GDP.
- D) inflation is speeding up and natural GDP is likely to exceed real GDP.

Figure 1-2



- 27) When the actual real GDP exceeds the natural real GDP as in Figure 1-2 above, we expect to find that unemployment is

27) _____

- A) high and inflation is low.
- B) low and inflation is low.
- C) low and inflation is high.
- D) high and inflation is high.

- 28) The natural level of real GDP is that level of

28) _____

- A) Nominal real GDP at which the price level will continue to decrease.
- B) nominal GDP at which the price level will remain constant.
- C) real GDP at which the price level will continue increasing.
- D) real GDP at which there is no tendency for inflation to accelerate or decelerate.

- 29) Which of the following is a criterion by which Gordon judges the desirability of any given level of actual real GDP? 29) _____
- A) Actual real GDP is too high if it strains a nation's ability to produce and puts upward pressure on the inflation rate.
 - B) Actual real GDP is at a desirable level if there is no tendency for inflation to accelerate or decelerate.
 - C) Actual real GDP is too low if it causes the unemployment rate to be higher than necessary.
 - D) All of the above.
- 30) The *output gap* is zero when 30) _____
- A) Actual real GDP < Natural real GDP.
 - B) Actual real GDP > Natural real GDP.
 - C) Actual real GDP = Natural real GDP.
 - D) Natural real GDP = 0.
- 31) The "zero sum" society is 31) _____
- A) a society in which the fluctuations of GDP around the natural level of output sum to zero.
 - B) a society that has reached its limit in population growth and has placed quotas on its birth rate.
 - C) a society with no productivity growth in which any additional good enjoyed by one person requires that something be taken away from someone else.
 - D) a society where the rate of growth of GDP minus the inflation rate equals zero.
- 32) Business cycles in the United States 32) _____
- A) tend to have expansions that last longer than the recessions.
 - B) were quite common before World War II but have not occurred in the postwar period.
 - C) tend to occur at regular intervals and are periodic.
 - D) tend to recur at irregular intervals, but are usually of the same length.
- 33) "Natural" real GDP is defined as the total output 33) _____
- A) at business cycle peaks.
 - B) that causes the inflation rate to remain constant.
 - C) produced when all of our resources are being used to their maximum capacity.
 - D) at business cycle troughs.
 - E) that causes an inflation rate of zero.
- 34) When actual real GDP is equal to the natural real GDP, the unemployment rate is 34) _____
- A) decelerating.
 - B) at its "natural" rate.
 - C) zero.
 - D) accelerating.
- 35) Suppose that the natural rate of unemployment is 5.7 percent. If unemployment has for some time been varying between 5.1 and 5.3 percent, we should be at an actual real GDP _____ the natural real GDP, and should expect inflation to be _____. 35) _____
- A) below, speeding up
 - B) above, speeding up
 - C) above, constant
 - D) below, slowing down
 - E) above, slowing down

- 36) We are told that over the past year actual real GDP has risen by three percent. This fact alone is enough to tell us that 36) _____
- A) the actual real GDP is above natural real GDP.
 - B) the inflation rate has risen.
 - C) the unemployment rate has fallen.
 - D) productivity has grown.
 - E) none of the above.
- 37) The period of the business cycle between the peak and the trough is the 37) _____
- A) expansion.
 - B) recovery.
 - C) recession.
 - D) All of the above may fall between the peak and the trough.
- 38) The period of the business cycle which follows the trough is the 38) _____
- A) peak.
 - B) recession.
 - C) expansion.
 - D) All of the above may follow the trough.
- 39) Immediately following a business cycle "peak" comes a 39) _____
- A) "recurrence."
 - B) "trough."
 - C) "recession."
 - D) "expansion."
- 40) At a business cycle peak, we usually have _____ real Gross Domestic Product. 40) _____
- A) an historically average level of
 - B) the maximum growth rate of
 - C) an all-time high level of
 - D) an all-time low level of
 - E) accelerating growth of
- 41) Approaching a business cycle trough we find actual real GDP _____ natural real GDP, so inflation is _____. 41) _____
- A) below, slowing down
 - B) above, speeding up
 - C) below, speeding up
 - D) above, slowing down
- 42) Approaching a business cycle peak, actual real GDP _____ natural real GDP, which causes inflation to _____. 42) _____
- A) is less than, decelerate
 - B) equals, remain constant
 - C) exceeds, remain constant
 - D) equals, accelerate
 - E) exceeds, accelerate
- 43) Given the path of natural real GDP growth, economists prefer an economy such as _____, in which the real GDP gaps are _____. 43) _____
- A) Stabilia's, maximized
 - B) Volatilia's, maximized
 - C) Stabilia's, minimized
 - D) Volatilia's, minimized

- 44) In an economy where actual real GDP is always equal to the natural real GDP, inflation _____
 A) fluctuates around an average of zero percent.
 B) is at the same rate as GDP growth.
 C) is constant at a rate that can be low or high.
 D) settles down to zero percent.
- 45) Between 1900 and 2007, the ratio of actual to natural real GDP hit its low point in _____
 A) 1982. B) 1933. C) 1904. D) 1944.
- 46) In 1991 the unemployment rate in the United States rose to 7.1 percent. This is _____ the unemployment rate reached in the depths of the Great Depression.
 A) about half of
 B) roughly equal to
 C) about three percentage points less than
 D) about two percentage points more than
 E) less than one-third of
- 47) In the United States, the most recent period in which the unemployment rate stayed below the natural unemployment rate for several consecutive years was _____
 A) the late 1940s.
 B) the late 1990s.
 C) the mid 1980s.
 D) the early 1930s.
 E) the late 1960s.
- 48) International influences have become relatively _____ important for the U.S. economy in recent decades, as we become a more _____ economy.
 A) less, "open" B) more, "closed" C) less, "closed" D) more, "open"
- 49) By participating in international financial markets, a nation can finance its government budget deficit in part by _____, which _____ the link between the nation's deficit and its internal private investment.
 A) selling assets to foreigners, weakens B) selling assets to foreigners, strengthens
 C) buying foreign assets, strengthens D) buying foreign assets, weakens
- 50) Going from a closed to an open economy _____ macroeconomic policymaking, especially now that exchange rates are _____.
 A) simplifies, flexible B) simplifies, fixed
 C) complicates, fixed D) complicates, flexible
- 51) Prior to 1995 productivity growth in Europe was _____ in the United States.
 A) lower than B) same as
 C) higher than D) None of the above
- 52) Compared to the US, the unemployment rate in Europe was _____ throughout the 1960s and 1970s and _____ after 1980.
 A) lower; remained lower B) higher, remained higher
 C) lower; higher D) higher; lower

- 53) After 1995 U.S. growth rate _____ and the European Rate _____ 53) _____
A) speeded up; slowed down B) slowed down; speeded up
C) slowed down; slowed down D) speeded up, speeded up
- 54) *Hyperinflation* can be defined as an inflation rate of 54) _____
A) 50% or more decade.
B) 50% or more per month.
C) 50% or more per year.
D) All of the above are appropriately defined as hyperinflation.
- 55) The U.S. business cycle record, in common with most, has 55) _____
A) expansions lasting longer than recessions. B) recessions lasting longer than expansions.
C) peaks lasting longer than troughs. D) troughs lasting longer than peaks.
- 56) Over the period between 1960 and 2010, the increase in unemployment rate was the greatest in 56) _____
A) late 2000s.
B) early 1960s.
C) early 1980s.
D) early 1990s.
E) mid 1970s.
- 57) The recession of 1990-1992 _____ the trend set over 1965-1990 of _____ unemployment rates 57) _____
at each successive cyclical trough.
A) broke, lower B) continued, lower
C) broke, higher D) continued, higher
- 58) Which of the following contributed to the emergence of hyperinflation in Germany in the early 1920s? 58) _____
A) payment of massive war reparations required by the Versailles Peace Treaty
B) decreased desire to hold money on the part of the German people
C) huge budget deficits financed by printing paper money
D) All of the above
- 59) Gordon states that _____ caused the substantial increase in the standard of living in South Korea 59) _____
relative to that of the Philippines during the period 1960-2010.
A) higher inflation rates
B) higher rate of growth in per capita real GDP.
C) lower unemployment rates
D) All of the above
- 60) In 1999 the European unemployment rate was _____ that in the United States. 60) _____
A) lower compared to B) double
C) equal to D) triple

- 61) Are government activities of any concern to macroeconomists? 61) _____
A) Yes, since macroeconomics is defined as the study of the role that government plays in the economy.
B) No, since macroeconomists study hypothetical economies that have no government involvement at all.
C) Yes, since government actions and policies can affect an economy's overall performance.
D) No, since the government cannot affect the functioning of the private economy.
- 62) In policy discussions macroeconomic aggregates (inflation, unemployment, and productivity) are called 62) _____
A) target variables. B) monetary variables.
C) fiscal variables. D) interest variables.
- 63) Much of macroeconomics is concerned with advising governments on ways to _____ business cycles, since it is desirable to _____. 63) _____
A) amplify, create the greatest cyclical peaks possible
B) amplify, create deep recessions to cool down the economy
C) dampen, keep the economy at its maximum productive capacity
D) dampen, avoid both very low troughs and very high peaks
- 64) Our business cycle experiences suggest that a macroeconomic policy designed to lower the average rate of inflation will require _____ in actual real GDP and an accompanying _____ in the unemployment rate. 64) _____
A) an increase, decrease B) a reduction, decrease
C) a reduction, increase D) an increase, increase
- 65) Why would macroeconomists rate economic performance in Speed-Nation superior to that in Stag-Nation? Speed-Nation has 65) _____
A) faster economic growth.
B) smaller real GDP gaps.
C) more volatile business cycles.
D) larger real GDP gaps.
E) milder business cycles.
- 66) The proper short-run goal of macroeconomic policymakers is to 66) _____
A) promote high economic growth. B) dampen the business cycle.
C) amplify the business cycle. D) maintain low economic growth.
- 67) Any policy that seeks to influence the level of aggregate demand is called 67) _____
A) employment policy. B) productivity policy.
C) aggregate policy. D) stabilization policy.
- 68) Policy that tries to influence target variables by changing the interest rate is called 68) _____
A) fiscal policy. B) recession policy.
C) monetary policy. D) interest rate policy.
- 69) Fiscal policy tries to influence target variables by manipulating 69) _____
A) government expenditures. B) money supply.
C) interest rates. D) All of the above.

- 70) Policy that tries to influence target variables by changing the tax rates is called 70) _____
A) fiscal policy. B) monetary policy.
C) tax rate policy. D) recession policy.
- 71) According to Gordon, for which of the following should policymakers set a target rate of zero? 71) _____
A) unemployment rate B) inflation rate
C) productivity growth D) None of the above

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 72) There are no questions for this section. 72) _____

Answer Key

Testname: UNTITLED1

- 1) A
- 2) B
- 3) A
- 4) A
- 5) B
- 6) A
- 7) C
- 8) C
- 9) D
- 10) B
- 11) A
- 12) B
- 13) B
- 14) D
- 15) C
- 16) B
- 17) B
- 18) C
- 19) A
- 20) C
- 21) C
- 22) B
- 23) A
- 24) D
- 25) B
- 26) A
- 27) C
- 28) D
- 29) D
- 30) C
- 31) C
- 32) A
- 33) B
- 34) B
- 35) B
- 36) E
- 37) C
- 38) C
- 39) C
- 40) C
- 41) A
- 42) E
- 43) C
- 44) C
- 45) B
- 46) E
- 47) B
- 48) D
- 49) A
- 50) D

Answer Key

Testname: UNTITLED1

- 51) C
- 52) C
- 53) A
- 54) B
- 55) A
- 56) A
- 57) C
- 58) D
- 59) B
- 60) B
- 61) C
- 62) A
- 63) D
- 64) C
- 65) A
- 66) B
- 67) D
- 68) C
- 69) A
- 70) A
- 71) D
- 72)