1. Whose analysis serves as the foundation of modern macroeconomics?
   A) Milton Friedman
   B) John Maynard Keynes
   C) Adam Smith
   D) Joseph Schumpeter

2. An economy has historically grown at a rate of 2.25%. Currently, this economy is growing at a rate of 3%, and the unemployment rate is low by historical standards. The economy is expected to continue to grow in the near future, and the monetary authorities are concerned that inflation may increase. This economy is probably in the ______________ stage of the business cycle.
   A) expansion
   B) recovery
   C) contraction
   D) trough

3. During a typical economic recovery:
   A) inflation drops.
   B) people become pessimistic.
   C) unemployment drops.
   D) incomes fall.

4. According to the circular flow model, the value of the household sector and the value of the business sector will:
   A) never be the same.
   B) always be equal.
   C) differ by the amount of the resource market.
   D) differ by the amount of the product market.

5. In a simple circular flow diagram, total spending on goods and services in the product market:
   A) is greater than the total income earned in the resource market.
   B) is less than the total income earned in the resource market.
   C) is done by the government.
   D) equals the total income earned in the resource market.
6. Which ONE of the following would be included in the GDP calculations?
   A) a windshield purchased by General Motors
   B) a hamburger purchased by a hungry restaurant patron
   C) petroleum purchased by a refiner from the company that drilled it
   D) nails purchased by a building contractor

7. A benefit of using GDP per capita instead of GDP is that it:
   A) takes into account the differences in wealth between rich and poor within a country.
   B) measures the effects of outliers skewing the averages.
   C) takes into account the size of the population when measuring the value of the goods
      and services a country produces.
   D) takes into account the environmental benefits or harm of economic activity.

8. Which of the following activities is an example of a nonmarket transaction?
   A) hiring a maid to clean your home
   B) employing a lawn service worker to trim your bushes
   C) hiring a nanny to take care of your kids
   D) growing your own food in a vegetable garden

9. Which of the following statements about environmental quality and economic activity is
    TRUE?
   A) Wealthier countries tend to value environmental quality more than developing
      countries.
   B) As countries develop, they spend on less resources to improve environmental
      quality.
   C) No measure of economic progress incorporates environmental quality.
   D) Developing countries generally prefer to keep their environments pristine, even at
      the cost of such necessities as food and health care.

10. Which of the following would NOT be included in the GDP accounts?
    A) the value of time spent learning how to prepare your personal income tax return
    B) the value of the time a mechanic spends changing the battery of a customer's car
    C) the payment to a certified nursing assistant for caring for an aged relative in her
        home
    D) the value of the gambling winnings that you declare on your tax return
11. Suppose the market basket of goods and services cost $3,500 in 1996 but today costs $4,250. Using 1996 as the base year, the consumer price index for today is:
   A) 79.6.
   B) 120.0.
   C) 82.4.
   D) 121.4.

12. Suppose the Bureau of Labor Statistics collects the data presented in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of Basket</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$200</td>
</tr>
<tr>
<td>2011</td>
<td>$230</td>
</tr>
<tr>
<td>2012</td>
<td>$250</td>
</tr>
</tbody>
</table>

   If 2010 is the base year, then the consumer price index for 2012 is:
   A) 100.
   B) 114.
   C) 115.
   D) 125.

Use the following to answer question 13:

<table>
<thead>
<tr>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (billions of $)</td>
<td>7,280</td>
<td>8,000</td>
</tr>
<tr>
<td>Real GDP (billions of $)</td>
<td>7,280</td>
<td>7,425</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>103.6</td>
<td>106.1</td>
</tr>
</tbody>
</table>

13. (Table) According to the table, the GDP deflator for 2012 is:
   A) 0.
   B) 1.
   C) 72.8.
   D) 100.

Use the following to answer questions 14-15:

| Population | 500 |
| Number employed | 300 |
| Number unemployed | 50 |
14. (Table) According to the table, what is the labor force of this economy?
   A)  50
   B)  300
   C)  350
   D)  500

15. (Table) According to the table, if 50 discouraged workers suddenly decide to start actively seeking employment again, what will be the unemployment rate of this economy?
   A)  10%
   B)  14.3%
   C)  16.67%
   D)  25%

16. The nation of Workovia has a population of 15 million, of whom 10 million are in the labor force and 9 million are working. Workovia\'s unemployment rate is:
   A)  27%.
   B)  60%.
   C)  33%.
   D)  10%.

17. Wages set high to discourage employee turnover are called _______ wages.
   A)  turnover minimization
   B)  efficiency
   C)  productivity
   D)  labor utilization

18. Jennifer did not work during college. She just obtained a bachelor\'s degree in marketing, and she is now looking for a marketing job in the retail industry. Jennifer is considered:
   A)  structurally unemployed.
   B)  frictionally unemployed.
   C)  cyclically unemployed.
   D)  not in the labor force.

19. The mortgage crisis caused a lot of consumers to stop spending money. The decrease in spending led to a decrease in production. Which type of unemployment resulted?
   A)  structural
   B)  frictional
   C)  cyclical
   D)  statistical
20. During the 1970s, when handheld calculators became popular and replaced slide rules in performing computations, workers in the slide rule industry lost their jobs. These workers' unemployment status is:
   A) frictional.
   B) cyclical.
   C) structural.
   D) natural.

21. If the growth rate in an economy is 3.5%, then its GDP will double in about:
   A) 3.5 years.
   B) 20 years.
   C) 70 years.
   D) 245 years.

22. If a country's population increases at a slower rate than the growth in its real GDP:
   A) GDP per capita has increased.
   B) the standard of living in the country has declined.
   C) average output per person has decreased.
   D) the country's rate of inflation has decreased.

23. Human capital includes:
   A) physical capital.
   B) labor.
   C) the improvements to labor capabilities from training, education, and apprenticeship programs.
   D) pension plans that enable early retirement.

24. The natural gas deposits found in the United States over the past decade are an example of an increase in:
   A) land and natural resources.
   B) labor.
   C) physical capital.
   D) entrepreneurial ability, technology, and ideas.

25. Which of the following items is NOT an example of investment in human capital?
   A) policy of universal education
   B) on-the-job training
   C) acquisition of obsolete skills
   D) apprenticeship
26. The following table shows data for four countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Workers</th>
<th>Capital Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100</td>
<td>$4,000</td>
</tr>
<tr>
<td>B</td>
<td>50</td>
<td>$500</td>
</tr>
<tr>
<td>C</td>
<td>200</td>
<td>$1,000</td>
</tr>
<tr>
<td>D</td>
<td>150</td>
<td>$150</td>
</tr>
</tbody>
</table>

The table shows that the country with the most productive workers is:
A) A.
B) B.
C) C.
D) D.

27. According to Malthus, what part of the economy might increase at a rate such that the data would show an increase from 1,000 to 2,000 to 4,000 to 16,000?
A) population
B) food
C) GDP
D) inflation

28. Government funding of Los Alamos National Labs is an example of government acting in its role to promote economic growth by:
A) ensuring a stable legal system.
B) enhancing physical and human capital.
C) ensuring a stable and secure financial system.
D) promoting free and competitive markets.

29. In the absence of copyright and patent laws:
A) the quality of goods and services consumed by purchasers improves.
B) innovators can invent more, because they don't have to spend resources navigating the legal system.
C) it is difficult for innovators to profit from their efforts.
D) the profits of writers and inventors rise.

30. Unanticipated _____ is detrimental to economic growth.
A) inflation but not deflation
B) inflation or deflation
C) deflation but not inflation
D) Neither inflation nor deflation is detrimental to economic growth.
31. In the Keynesian aggregate expenditure model, prices are assumed to be fixed because:
   A) unemployment is low.
   B) resources are idle (underutilized).
   C) consumption and disposable income are closely related.
   D) the government heavily intervenes in the economy.

32. If disposable income is $3,000 and saving is $1,200, how much is consumption?
   A) −$1,200
   B) $1,800
   C) $2,100
   D) $4,200

33. If disposable income is $250 and saving is $50, how much is the average propensity to consume?
   A) 0.2
   B) 0.25
   C) 0.5
   D) 0.8

34. If AE = $6,200 and Y = $5,800, businesses will produce:
   A) more, raising both employment and income.
   B) less, lowering both employment and income.
   C) more, raising employment and lowering income.
   D) less, lowering employment and raising income.

35. If the marginal propensity to save is 0.2, how much is the spending multiplier?
   A) 0.8
   B) 1.25
   C) 5
   D) 8

36. In the simple Keynesian model, the economy will be in equilibrium when:
   A) savings is greater than investment.
   B) savings is greater than income.
   C) savings is equal to investment.
   D) investment is equal to income.
37. If the marginal propensity to consume increases, the spending multiplier _______ and the balanced budget multiplier _____________.
A) decreases; remains the same.
B) increases; remains the same.
C) increases; increases.
D) decreases; decreases.

38. In the nation of Economia, the economy is overheating and there is danger of inflation. The chief economist estimates that current income is $50 billion, while the optimal level is $40 billion. The multiplier is 4. If government wants to close the inflationary gap, it should reduce government spending by:
A) $10 billion.
B) $7.5 billion.
C) $40 billion.
D) $2.5 billion.

39. Assume that the multiplier is 10. Full employment is considered to be at a GDP level of $500 billion. The current GDP is $400 billion. According to Keynesian macroeconomics, what should the government do to achieve full employment?
A) increase spending by $25 billion
B) increase spending by $10 billion
C) reduce spending by $25 billion
D) reduce spending by $100 billion

40. Assume that the MPC is 0.8. Full employment is considered to be at a GDP level of $500 billion. The current GDP is $400 billion. The government is committed to a balanced budget. To achieve full employment, the government should _______ taxes by _____________ and increase government spending by _________.
A) increase; $100 billion; $100 billion
B) increase; $20 billion; $100 billion
C) increase; $25 billion; $100 billion
D) reduce; $100 billion; $100 billion
ECO 2013 Principles of Macroeconomics - Answer Key

1. B
2. A
3. C
4. B
5. D
6. B
7. C
8. D
9. A
10. A
11. D
12. D
13. D
14. C
15. D
16. D
17. B
18. B
19. C
20. C
21. B
22. A
23. C
24. A
25. C
26. A
27. A
28. B
29. C
30. B
31. B
32. B
33. D
34. A
35. C
36. C
37. B
38. D
39. B
40. A