1. The National Bureau of Economic Research:
   A) is a government agency that dates business cycles in the United States.
   B) is a nonprofit research organization that dates business cycles in the United States.
   C) consists of elected officials from the U.S. Senate.
   D) is a nonprofit research organization that only determines when recessions begin.

2. In the circular flow diagram, the counterclockwise direction shows the flow of _____, where households supply _____ and businesses supply _____.
   A) money; purchases of goods and services; income to households
   B) money; labor; goods and services
   C) goods and services; labor; goods and services
   D) goods and services; purchases of goods and services; income to households

3. The informal economy in the United States is approximately 40% of GDP.
   A) True
   B) False

4. Which component is the smallest part of U.S. GDP?
   A) personal consumption expenditures
   B) gross private domestic investment
   C) government purchases of goods and services
   D) net exports

5. The total of disposable income must be either spent or saved.
   A) True
   B) False

6. Macroeconomics studies economic activity from the level of one individual or firm.
   A) True
   B) False
7. 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.

8. It is possible for the unemployment rate at the beginning of a recession to be lower than the unemployment rate at the beginning of a recovery.
   A) True
   B) False

9. Soy-beans produced in Brazil but eaten by cows in a Kansas feedlot will be included in the U.S. GDP.
   A) True
   B) False

10. The brand of car you buy is a topic of interest for macroeconomics.
    A) True
    B) False

11. Frictional unemployment is primarily related to changes in consumer demand or technology.
    A) True
    B) False

Use the following to answer question 12:

<table>
<thead>
<tr>
<th></th>
<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>
<td></td>
</tr>
<tr>
<td>Real GDP (billions of $)</td>
<td>7,280</td>
<td>7,425</td>
<td></td>
</tr>
<tr>
<td>GDP deflator</td>
<td></td>
<td>103.6</td>
<td>106.1</td>
</tr>
</tbody>
</table>

12. (Table) According to the table, nominal GDP for 2013 is approximately:
    A) $7,292 billion.
    B) $7,492 billion.
    C) $7,692 billion.
    D) $7,892 billion.
13. In the United States, the Census Bureau computes the unemployment rate from:
   A) data on applications for unemployment compensation.
   B) data reported to it by firms when employees leave.
   C) the Current Population Survey.
   D) tax records.

14. If the cost of a typical market basket is 400 in 2018, 410 in 2019, and 405 in 2020, then during this period the economy is undergoing:
   A) inflation.
   B) disinflation.
   C) deflation.
   D) hyperinflation.

15. The consumer price index measures private goods as well as public goods.
   A) True
   B) False

16. The formula for price change is \([\left(\frac{\text{CPI in Current Year}}{\text{CPI in Original Year}}\right) \times 100] - 100 = \text{Percent Change in Price}\).
   A) True
   B) False

17. The current consumer price index is:
   A) a cost-of-goods index.
   B) a true cost-of-living measure.
   C) based on a changing bundle of goods and services from one period to the next.
   D) calculated by dividing the market basket's cost in the base period by its cost in the current period.

18. U.S. steelworkers who have lost their job to workers receiving lower wages overseas are part of __________ unemployment.
   A) frictional
   B) cyclical
   C) seasonal
   D) structural
19. When a high-quality counterfeit bill is circulated, the government ultimately loses.
   A) True  
   B) False

20. Frictional unemployment occurs when job openings:
   A) exist and people are willing to take them, but the applicants do not have the necessary skill set.
   B) do not exist, although people are willing to work, so it makes no sense to try to bring the two together.
   C) exist, but people are not willing to take them, so it makes no sense to bring the two together.
   D) exist, and people are willing to take them, but it takes some time to bring the two together.

21. One way a stable financial system supports economic growth is that it:
   A) subsidizes borrowers of financial capital.
   B) facilitates the movement of capital from savings to investment.
   C) keeps tax rates low.
   D) increases the incidence of unanticipated price changes.

22. If a country's growth rate is 1.25%, then it will take about 40 years for its output to double.
   A) True  
   B) False

23. Schumpeter would consider the decline in sales of laptop computers as people switch to tablet computers to be a natural part of the cycle of creative destruction.
   A) True  
   B) False

24. Human capital can be increased by providing more education opportunities.
   A) True  
   B) False

25. From 2002 to 2012, developed countries like the United States, Japan, and Germany have achieved the highest annual growth rates in the world.
   A) True  
   B) False
26. Whispering Valley Furniture employs five workers working eight hours each to produce 80 rocking chairs. Rocky Gap Furniture employs 10 workers working eight hours each to produce 100 rocking chairs. Which company's workers are more productive?
   A) Whispering Valley Furniture's workers are more productive.
   B) Rocky Gap Furniture's workers are more productive.
   C) The two companies' workers are equally productive.
   D) It is not possible to determine which workers are more productive.

27. Year-over-year growth data exclude seasonal variations in growth rates.
   A) True
   B) False

28. The year-over-year growth rate of real GDP in the United States in the fourth quarter of 2012 was 1.5%. About how long will it take our economy to double in size at this rate?

29. Absence of enforcement of contracts would encourage economic development, because people would be more willing to incur risks if they did not have to worry about getting sued.
   A) True
   B) False

30. Policymakers look at _____________ to compare growth rates over an entire year without seasonal ups and downs.
   A) year-over-year GDP growth rates
   B) annualized GDP growth rates
   C) quarter-to-quarter annualized growth rates
   D) quarterly growth rates

31. One implication of a straight line aggregate expenditure curve is that:
   A) the marginal propensity to consume is constant.
   B) the average propensity to consume is constant.
   C) the average propensity to save is constant.
   D) All of the answers are correct.
32. When taxes are decreased, disposable income _______ and consumption spending ______________ multiplied by the change in disposable income.
   A) rises; rises by the marginal propensity to consume
   B) falls; falls by the marginal propensity to consume
   C) rises; falls by the marginal propensity to consume
   D) falls; rises by the marginal propensity to consume

33. AE is equal to C + I + G – (X + M).
   A) True
   B) False

34. The marginal propensity to consume:
   A) increases when income increases.
   B) is the change in consumption associated with a change in income.
   C) is equal to consumption divided by income.
   D) decreases when income increases.

35. (Table) In the table, the marginal propensity to consume is ________ and the average propensity to consume ________.

<table>
<thead>
<tr>
<th>Income</th>
<th>Consumption Spending</th>
<th>Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$30,000</td>
<td>$0</td>
</tr>
<tr>
<td>$40,000</td>
<td>$35,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>$50,000</td>
<td>$40,000</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

   A) 0.5; varies with the level of income
   B) $5,000; is $5,000
   C) $10,000; is $35,000
   D) 2; varies with the level of income

36. 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.

37. In both the simple Keynesian model and the full Keynesian model, the sum of injections of spending must equal the sum of withdrawals at equilibrium.
   A) True
   B) False
38. Taxes are added to total income to form disposable income.
   A) True
   B) False

39. Saving is zero when the economy is in macroeconomic equilibrium in the simple Keynesian model.
   A) True
   B) False

40. A depression economy has considerable slack, so:
   A) unemployment is high.
   B) there is no excess plant capacity.
   C) all resources are being used efficiently.
   D) there is an increase in aggregate price levels.
ECO 2013.004 Practice Test #2A - Answer Key

1. B
2. B
3. B
4. D
5. A
6. B
7. B
8. A
9. B
10. B
11. B
12. C
13. C
14. B
15. B
16. A
17. A
18. D
19. A
20. D
21. B
22. B
23. A
24. A
25. B
26. A
27. A

28. According to the Rule of 70, it will take $70 / 1.5 = 46.7$, or about 47 years, for our economy to double at this growth rate.

29. B
30. A
31. A
32. A
33. B
34. B
35. A
36. B
37. A
38. B
39. B
40. A