Fall 2010_20101_Principles of Macroeconomics
Midterm_Sample Exam

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

1)Which of the following is a topic studied in Macroeconomics?
A)the price of IBM computers
B)gross domestic product
C)the amount of pizza produced
D)the wage of auto workers

2)Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are
A)sticky prices. B) administered prices.
C)market prices. D) regulatory prices.

3)Deflation occurs when
A)economic activity declines.
B)the average price level declines.
C)the economic growth rate declines.
D)the unemployment rate declines.

4)The diagram that shows the income received and payments made by each sector of the economy is the
A)income-production diagram.
B)aggregate demand-aggregate supply diagram.
C)income flow diagram.
D)circular flow diagram.

5)Which of the following is an assumption used by Classical economists?
A)Wages are inflexible.
B)Wages adjust upward but not downward.
C)Wages adjust both upward and downward.
D)Wages adjust downward but not upward.

6)According to the Classical model, unemployment
A)could be eliminated through fiscal and monetary policies.
B)could be eliminated only through government intervention.
C)could not persist because wages would fall to eliminate the excess supply of labor.
D)could not persist because wages would rise to eliminate the excess supply of labor.

7)Rapid increases in the price level during periods of recession or high unemployment are known as
A)depression. B) inflation.
C)stagflation. D) stagnation.

8)According to Keynes, the level of employment is determined by
A)the level of aggregate demand for goods and services.
B)price and wages.
C)flexible wages and prices.
D)interest rates.

9)Gross domestic product measures
A)the total spending of everyone in the economy.
B)the total income of everyone in the economy.
C)the value of all output in the economy.
D)all of the above

Refer to the information provided in Table 6.1 below to answer the questions that follow.

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Table 6.1

	$Billions
Durable goods	800
Nonresidential investment	400
Federal purchases of goods	300
Exports	400
State and local purchases of goods	200
Residential investment	50
Services	500
Imports	250
Change in business inventories	−25
Nondurable goods	700

10)Refer to Table 6.1. The value for gross private domestic investment in billions of dollars is
A)300. B) 375. C) 425. D) 450.

Refer to the information provided in Table 6.4 below to answer the questions that follow.

Table 6.4

	$Billions
Depreciation	40
Receipts of factor income from the rest of the world	30
Government purchases	100
Imports	50
Payments of factor income to the rest of the world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

11)Refer to Table 6.4. The value for GDP in billions of dollars is
A)910. B) 920. C) 950. D) 1,050.

12)Refer to Table 6.4. The value for GNP in billions of dollars is
A)900. B) 930. C) 980. D) 1,010.

13)Refer to Table 6.4. The value for NNP in billions of dollars is
A)890. B) 910. C) 940. D) 970.

14)Refer to Table 6.4. The value for national income in billions of dollars is
A)890. B) 910. C) 940. D) 970.

15)Gross domestic product measured in terms of the prices of a fixed, or base, year is
A)real GDP. B) base GDP.
C)current GDP. D) nominal GDP.

16)If real GDP in 2008 using 2007 prices is higher than nominal GDP of 2008, then
A)prices in 2008 are higher than prices in the base year.
B)prices in 2008 are lower than prices in the base year.
C)real GDP in 2008 is larger than real GDP in 2007.
D)nominal GDP in 2008 equals nominal GDP in 2007.

17)Productivity is the ratio of
A)total output to the total population.
B)total capital to the total number of workers.
C)total output to the total number of unemployed.
D)total output to the total number of worker hours.

18)Nominal GDP is gross domestic product measured
A)as the difference between the current year's GDP and last year's GDP.
B)in the prices of a base year.
C)at a constant output level but at the base-year prices.
D)in current dollars.

Refer to the information provided in Table 7.2 below to answer the questions that follow.

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Table 7.2	
Labor force participation rate	75%
Total population 16 years of age and older	200 million
Unemployment rate	10%

19)Refer to Table 7.2. The labor force
A)equals 130 million.
B)equals 150 million.
C)equals 170 million
D)cannot be determined from this information.

20)If the unemployment rate is 6.2% and the number of people employed is 200,000, the total number of people unemployed is approximately
A)10,970 people.
B)13,220 people.
C)12,400 people
D)cannot be determined from this information

21)If the number of people classified as unemployed is 20,000 and the number of people classified as employed is 620,000, what is the unemployment rate?
A)1.6% B) 10.6% C) 3.1% D) 632%

22)If the unemployment rate is 6.2% and the number of people employed is 200,000, the labor force is approximately
A)213,220 people.
B)210,970 people
C)212,400 people.
D)cannot be determined from this information

Refer to the information provided in Table 7.2 below to answer the questions that follow.

Table 7.2

Labor force participation rate	75%
Total population 16 years of age and older	200 million
Unemployment rate	10%

23)Refer to Table 7.2. The total number of people unemployed is
C)17 million. D) 13 million.

24)Refer to Table 7.2. The total number of people employed is
A)153 million. B) 180 million.
C)135 million. D) 117 million.

25)The natural rate of unemployment is generally thought of as the
A)sum of frictional unemployment and cyclical unemployment.
B)sum of structural unemployment and cyclical unemployment.
C)sum of frictional unemployment and structural unemployment.
D)ratio of the frictional unemployment rate to the cyclical unemployment rate.

26)The increase in unemployment that occurs during recessions and depressions is called
A)cyclical unemployment. B) structural unemployment.
C)frictional unemployment. D) normal unemployment.

27)Recessions today may cause lost output in the future because during a recession
A)imports tend to fall.
B)investment tends to fall.
C)government spending tends to increase.
D)consumption tends to fall.

28)Deflation is a decrease in
A)the average income level. B) the price of one item.
C)the overall price level. D) real gross national product.

Refer to the information provided in Table 7.3 below to answer the questions that follow.

Table 7.3

	Units Purchased	Price per Unit in 2005	2006	2007	2008
Blueberries	8	$2.00	$2.00	$2.10	$2.40
Pineapples	5	$2.00	$2.50	$2.50	$3.00
Cheese	3	$2.50	$3.00	$3.50	$4.00

29)Refer to Table 7.3. Suppose 2006 is the base year. The price index in 2006 is
A)10. B) 100. C) 1. D) 1,000.

30)The MPS is
A)income divided by saving.
B)the change in saving divided by the change in income.
C)1 + MPC
D)total saving divided by total income.

Refer to the information provided in Table 7.3 below to answer the questions that follow.

Table 7.3

	Units Purchased	Price per Unit in			
		2005	2006	2007	2008
Blueberries	8	$2.00	$2.00	$2.10	$2.40
Pineapples	5	$2.00	$2.50	$2.50	$3.00
Cheese	3	$2.50	$3.00	$3.50	$4.00

31)Refer to Table 7.3. If 2006 is the base year, the price index in 2005 is
A)96.0. B) 89.3. C) 111.9. D) 104.0.

32)Refer to Table 7.3. If 2006 is the base year, the inflation rate between 2006 and 2007 is
A)6.1%. B) 7.4%. C) 10.2%. D) 3.9%.

33)Refer to Table 7.3. If 2006 is the base year, the inflation rate between 2006 and 2007 is _____ %, and the inflation rate between 2007 and 2008 is _____ %.

A)10.2; 10.4 B) 7.4; 13.9 C) 3.9; 17.1 D) 6.1; 16.1

34)If the MPS is .60, MPC
A)is .40.
B)is 1.60.
C)is .30.
D)cannot be determined by the given information.

Refer to the information provided in Figure 8.1 below to answer the questions that follow.
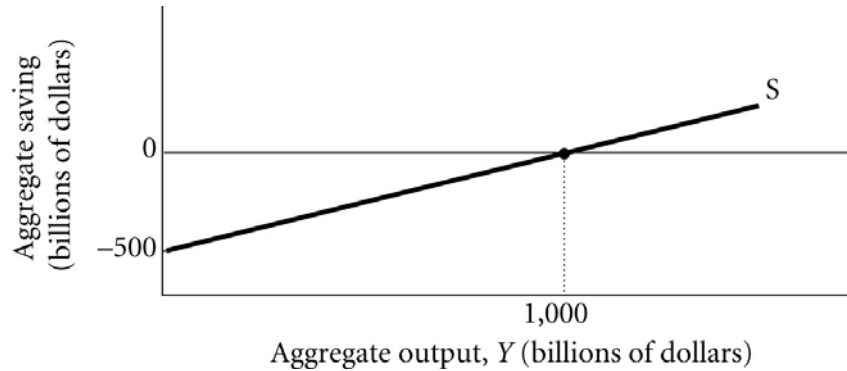

Figure 8.1

35)Refer to Figure 8.1. The MPS for this household is _____ and the MPC is _____.

A)0.4; 0.6 B) 0.2; 0.8 C) 0.3; 0.7 D) 0.5; 0.5

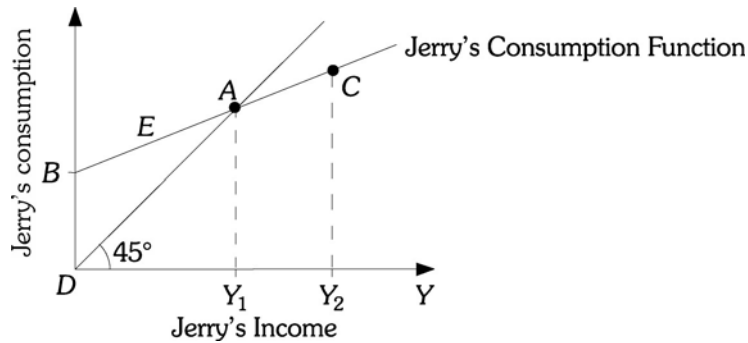*Refer to the information provided in Figure 8.2 below to answer the questions that follow.*

Figure 8.2

36)Refer to Figure 8.2. The line segment BD represents Jerry's
A)consumption when income equals zero.
B)saving when income is Y1.
C)saving when income equals zero.
D)consumption when income equals Y1.

37)Which of the following is NOT considered investment?
A)The purchase of government bonds
B)The increase in planned inventories
C)The acquisition of capital goods
D)The construction of a new factory

38)In macroeconomics, equilibrium is defined as that point at which
A)planned aggregate expenditure equals aggregate output.
B)aggregate output equals consumption minus investment.
C)planned aggregate expenditure equals consumption.
D)saving equals consumption.

39)If unplanned inventory investment is positive, then
A)planned investment must be zero.
B)planned aggregate spending must equal aggregate output.
C)planned aggregate spending must be less than aggregate output.
D)planned aggregate spending must be greater than aggregate output.

40)Assume there is no government or foreign sector. If the multiplier is 4, a $20 billion increase in investment will cause aggregate output to increase by
A)$40 billion. B) $20 billion.
C)$80 billion. D) $5 billion.

41)Fiscal policy refers to
A)the government's ability to regulate a firm's behavior in the financial markets.
B)the behavior of the nation's central bank, the Federal Reserve, regarding the nation's money supply.
C)the techniques used by a business firm to reduce its tax liability.
D)the spending and taxing policies used by the government to influence the economy.

42)In 2007, the city of Miketown collected $250,000 in taxes and spent $350,000. In 2007, the city of Miketown had a
A)budget deficit of $100,000. B) budget surplus of 57%.
C)budget surplus of $100,000. D) budget deficit of $200,000.

43)The aggregate consumption function is $C = 800 + .8Yd$. If income is $2,000 and net taxes are $500, consumption equals
A)2,000. B) 1,500. C) 2,050. D) 2,150.

44)The economy can be in equilibrium if, and only if,
A)planned investment is greater than actual investment.
B)planned investment is zero.
C)planned investment equals actual investment.
D)actual investment is zero.

Refer to the information provided in Table 9.2 below to answer the questions that follow.

Table 9.2

Output (Income)	Net Taxes	Consumption Spending	Planned Investment Spending	Government Purchases
Y	T	C	I	G
500	100	400	150	50
1,000	100	800	150	50
1,500	100	1,200	150	50
2,000	100	1,600	150	50
2,500	100	2,000	150	50

45)Refer to Table 9.2. At an output level of $1,500 billion, the level of aggregate expenditure is _____ billion.
A)$1,500 B) $1,400 C) $1,300 D) $1,600

46)Refer to Table 9.2. At an output level of $1,500 billion, there is an unplanned inventory
A)increase of $150 billion. B) increase of $100 billion.
C)decrease of $200 billion. D) change of $0.

47)Refer to Table 9.2. At an output level of $2,500, the level of aggregate expenditure is _____ billion.
A)$2,300 B) $2,200 C) $2,000 D) $1,500

48)Refer to Table 9.2. The equilibrium level of output is _____ billion.
A)$1000 B) $2,500 C) $2,000 D) $1,500

The Italian economy can be characterized by Equation 9.1.

EQUATION 9.1:

$C = 300 + .8Yd$
$G = 400$
$T = 200$
$I = 200$

49)Refer to Equation 9.1. The equilibrium level of output for the Italian economy is
A)$3,700. B) $2,850. C) $3,145. D) $3,800.

50)The President of Vulcan hires you as an economic consultant. He is concerned that the output level in Vulcan is too high and that this will cause prices to rise. He feels that it is necessary to reduce output by $10 billion. He tells you that the MPC in Vulcan is 0.6. Which of the following would be the best advice to give to the Vulcan president?
A)reduce government purchases by $10 billion
B)increase taxes by $2.5 billion
C)increase taxes by $10 billion
D)reduce government purchases by $4 billion

Refer to the information provided in Table 9.4 below to answer the questions that follow.

Table 9.4
All Figures in Billions of Dollars

Output (Income)	Net Taxes	Consumption Spending (C = 100 + .9Yd)	Savings	Planned Investment Purchases	Government Spending
2,400	100	2,170	150	130	200
2,800	100	2,530	170	130	200
3,000	100	2,710	190	130	200
3,200	100	2,890	210	130	200
3,400	100	3,070	230	130	200
3,600	100	3,250	250	130	200
3,800	100	3,300	270	130	200

51)Refer to Table 9.4. The equilibrium level of income is
A)$3,800 billion. B) $3,400 billion.
C)$3,600 billion. D) $2,000 billion.

52)Refer to Table 9.4. The economy is at the equilibrium level of output. If government spending increases to a level of $400 billion, the new equilibrium level of output
A)$6,600 billion. B) $2,100 billion.
C)$5,400 billion. D) $6,040 billion.

53)Refer to Table 9.4. If taxes are reduced from $100 billion to $50 billion, the new equilibrium level of output is
A)$3,850 billion. B) $1,600 billion.
C)$2,100 billion. D) $4,050 billion.

54)Refer to Table 9.4. If taxes are reduced from $100 billion to $50 billion and government spending is reduced from $200 billion to $150 billion, the new equilibrium level of income
A)is $3,350 billion.
B)is $1,600 billion.
C)is $3,550 billion.
D)cannot be determined from this information.

55)The tax multiplier is
A)the ratio of the change in taxes to the change in the equilibrium level of output.
B)the MPC multiplied by the MPS.
C)the ratio of the change in the equilibrium level of output to the change in taxes.
D)the difference in taxes multiplied by the change in the equilibrium level of output.

56)If the tax multiplier is -9 and taxes are reduced by $100 billion, output
A)increases by $100 billion. B) falls by $100 billion.
C)increases by $900 billion. D) falls by $900 billion.

57)Which of the following is a CORRECT sequence of events during a recession?
A)unemployment falls, income falls, tax revenue falls, unemployment benefits rise, and the budget deficit rises
B)unemployment rises, income falls, tax revenue falls, unemployment benefits rise, and the budget deficit rises
C)unemployment rises, income rises, tax revenue rises, unemployment benefits rise, and the budget deficit rises
D)unemployment rises, income falls, tax revenue rises, unemployment benefits fall, and the budget deficit falls

58)An example of an automatic stabilizer is
A)the indexation of social security benefits to the consumer price index.
B)the food stamp program.
C)changing the tax laws to increase the marginal tax rates.
D)the interest the government pays on loans.

59)If taxes are a function of income, then the AE function is
A)flatter than if taxes are a lump-sum amount.
B)vertical.
C)steeper than if taxes are a lump-sum amount.
D)downward sloping.

Answer Key

1)B

2)A

3)B

4)D

5)C

6)C

7)C

8)A

9)D

10)C

11)C

12)B

13)A

14)A

15)A

16)B

17)D

18)D

19)B

20)B

21)C

22)A

23)B

24)C

25)C

26)A

27)B

28)C

29)B

30)B

31)B

32)A

33)D

34)A

35)D

36)A

37)A

38)A

39)C

40)C

41)D

42)A

43)A

44)C

45)B

46)B

47)B

48)A

49)A

50)D

51)B

52)C

53)A

54)A

55)C

56)C

57)B

58)B

59)A