Chapter 4

A FIRST LOOK AT MACROECONOMICS

■ Origins and Issues of Macroeconomics

Topic: Origins and Issues of Macroeconomics
Skill: Recognition*
1) Modern macroeconomics emerged
   A) in the 1750s.
   B) with the Great Depression.
   C) after World War II.
   D) during the Industrial Revolution.
Answer: B

Topic: Origins and Issues of Macroeconomics
Skill: Recognition*
2) The science of macroeconomics
   A) solved the Great Depression.
   B) did not solve the Great Depression but kept the
      U.S. economy from suffering.
   C) emerged during the decade of the Great Depres-
      sion.
   D) did not evolve until after World War II and so
      had no connection to the Great Depression.
Answer: C

Topic: Origins and Issues of Macroeconomics
Skill: Recognition
3) The years of the Great Depression was a time
   when the unemployment rate was
   A) low and the amount output was growing rap-
      idly.
   B) low and the amount of output was falling.
   C) high and the amount of output was falling.
   D) high and the amount of output was growing
      rapidly.
Answer: C

Topic: Origins and Issues of Macroeconomics
Skill: Recognition
4) In 1933, the worst year of the Great Depression,
   the unemployment rate was
   A) 5 percent of the labor force.
   B) 10 percent of the labor force.
   C) 25 percent of the labor force.
   D) 70 percent of the labor force.
Answer: C

Topic: Origins and Issues of Macroeconomics
Skill: Recognition
5) In 1933, the worst year of the Great Depression,
   total production in the United States was
   A) identical to its 1929 level.
   B) half of its 1929 level.
   C) 70 percent of its 1929 level.
   D) 20 percent of its 1929 level.
Answer: C

Topic: Origins and Issues of Macroeconomics
Skill: Recognition
6) In 1933, the worst year of the Great Depression,
   total production in the United States was
   A) 70 percent of its 1929 level, and 25 percent of
      the labor force was unemployed.
   B) 25 percent of its 1929 level, and 70 percent of
      the labor force was unemployed.
   C) 50 percent of its 1929 level, and 5 percent of the
      labor force was unemployed.
   D) 90 percent of its 1929 level, and 5 percent of the
      labor force was unemployed.
Answer: A

This is Chapter 20 in Economics.
136  CHAPTER 4  Topic: Origins and Issues of Macroeconomics Skill: Recognition*
7) During the Great Depression
A) at one time the United States had an unemployment rate of 25 percent.
B) the United States avoided any economic damage thanks to macroeconomics.
C) John Maynard Keynes served as Vice President of the United States.
D) only the United States suffered.
Answer: A

8) The year 1933 was
A) the best year for the United States during the Great Depression.
B) an average year for the United States with 2.5 percent unemployment.
C) the end of the Great Depression as the United States’ economy grew by 7 percent.
D) the worst year for the United States during the Great Depression with an unemployment rate of 25 percent.
Answer: D

9) In The General Theory of Employment, Interest, and Money, John Maynard Keynes argued that to eliminate a depression governments should spend
A) more to offset insufficient private spending.
B) more to offset excessive private spending.
C) less to offset excessive private spending.
D) less to offset insufficient private spending.
Answer: A

10) Keynes’ prescription for eliminating the Great Depression required a policy action of
A) additional taxes by government to decrease excessive spending in the economy.
B) additional spending by government to increase total spending in the economy.
C) decreased spending by government to decrease excessive total spending in the economy.
D) decreased spending by government to increase private spending in the economy.
Answer: B

11) John Maynard Keynes
A) served as the U.S. Vice President during the Great Depression.
B) wrote The General Theory of Employment, Interest and Money.
C) opposed the development of macroeconomics.
D) was the Prime Minister of Great Britain during the Great Depression.
Answer: B

12) John Maynard Keynes
A) focused on the short term in attempting to solve the Great Depression.
B) focused on the long term in attempting to solve the Great Depression.
C) worried mostly about long term consequences of any governmental action.
D) warned against the use of any short term governmental action.
Answer: A

13) In The General Theory of Employment, Interest, and Money, John Maynard Keynes argued for government policies that would eliminate
A) the Great Depression and Keynes focused primarily on the economy’s long-term problems.
B) the Great Depression and Keynes focused primarily on the economy’s short-term problems.
C) inflation and Keynes focused primarily on the economy’s long-term problems.
D) inflation and Keynes focused primarily on the economy’s short-term problems.
Answer: B

14) During the 1960s and 1970s, the main economic problems of concern to policymakers were inflation, _____ economic growth, and _____ unemployment rates.
A) slow; high
B) slow; low
C) high; high
D) high; low
Answer: A
15) Which of the following are examples of long-term economic policy issues?
A) Inflation and recessions.
B) Inflation and slow economic growth.
C) Persistent unemployment and curing a depression.
D) Slow economic growth and recessions.
Answer: B

16) Which of the following is a long-run macroeconomic policy goal?
A) reduce unemployment
B) increase inflation
C) promote steady growth
D) eliminate recession
Answer: C

17) Real GDP is defined as
A) an increase in the average level of prices.
B) the value of total production when the unemployment rate is 6 percent.
C) the value of total production of all the nation’s farms, factories, shops and offices measured in the prices of a single year.
D) the value of total production of all the nation’s farms, factories, shops and offices measured at the prices of the year it was produced.
Answer: C

18) Real GDP is
A) the best measure we have for total production, though it does have some flaws.
B) the worst measure we have of total production because it misses much of what is produced.
C) the best measure we have for total production because it doesn’t miss anything.
D) ignored as a measure of total production because it is does not take account of inflation.
Answer: A

19) Potential GDP is
A) another name for real GDP.
B) always different from real GDP.
C) the level of GDP not adjusted for price changes.
D) achieved when all factors of production are fully employed.
Answer: D

20) Potential GDP is
A) the maximum GDP that an economy actually achieves throughout its entire history.
B) the level of GDP achieved during periods when 100 percent of the labor force is employed.
C) a goal that can never be achieved by the economy.
D) the value of production when all the nation’s resources are fully employed.
Answer: D

21) Potential GDP is
A) the value of production with fully employed resources.
B) current value of production in the economy.
C) value of production when the economy is in a recession.
D) value of production when the economy is at a peak.
Answer: A

22) Real GDP
A) fluctuates from year to year but is always below potential GDP.
B) fluctuates around potential GDP.
C) grows at a constant 3 to 4 percent per year.
D) can be called potential GDP when it is adjusted for price changes.
Answer: B
23) Economic growth is best defined as
A) the rate of growth of employment.
B) the long-run expansion of the nation’s production possibilities.
C) the rate of increase in economic productivity.
D) the business-cycle changes in total output.
Answer: B

24) Economic growth can be described as
A) an increase in the inflation rate.
B) an increase in employment in the manufacturing sector.
C) an outward shift in the economy’s production possibility frontier.
D) an undesirable goal because it is accompanied by severe inflation.
Answer: C

25) Economic growth in the United States can be characterized by
A) movements along its PPF.
B) increases in potential GDP.
C) the productivity growth slowdown in the 1990s.
D) high rates of inflation.
Answer: B

26) Economic growth is measured by
A) changes in real GDP.
B) changes in nominal GDP.
C) changes in the employment rate.
D) All of the above are used to measure economic growth.
Answer: A

27) Long-term economic growth is most closely associated with
A) getting unemployment as low as possible.
B) increasing potential GDP.
C) bringing about deflation.
D) reducing the number of job changes in the economy.
Answer: B
30) In the above figure, economic growth can be represented as the movement from
A) point a to point b.
B) point b to point c.
C) point c to point d.
D) point d to point a.
Answer: B

31) Which of the following apply to economic growth?
I. Economic growth allows people to buy more goods and services in the future.
II. Economic growth is the expansion of the economy’s production possibilities.
III. Economic growth is represented by the fluctuations of real GDP around potential GDP.
A) I.
B) I and II.
C) I and III.
D) I, II, and III.
Answer: B

32) Economic growth is measured using the increase in
A) real gross domestic product
B) the Lucas wedge
C) the consumer price index
D) the unemployment rate
Answer: A

33) All of the following statements are true about real GDP except
A) it has a trend component and a fluctuating component.
B) it measures changes in output and prices.
C) in the United States, it shows a general upward drift.
D) All of the above are false statements about real GDP.
Answer: B
34) In the figure above, long-term economic growth can be seen as
A) the growth in actual GDP from 1994 to 2002.
B) the growth in potential GDP from 1994 to 2002.
C) the fluctuations of real GDP around potential GDP.
D) the maximum point of real GDP as the economy moves through the business cycles.
Answer: B

35) The productivity slowdown refers to the
A) increase in the growth rate of output per person that started during the 1970s.
B) decrease in the growth rate of output per person that started during the 1970s.
C) recession that occurred in 1981.
D) recession that occurred in 1991.
Answer: B

36) The growth rate of GDP per person since the 1960s has
A) consistently risen as shown with the Lucas wedge.
B) remained constant and is measured by the Okun gap.
C) slowed, especially during the 1970s, and has resulted in losses estimated by the Lucas wedge.
D) risen, particularly during the 1970s, and has meant GDP has grown as measured by the Okun gap.
Answer: C

37) A business cycle is
A) the pattern of short-run upward and downward movements in total output.
B) the increase in consumer spending that accompanies an increase in disposable income.
C) the cyclical change in the nation’s balance of trade.
D) the cyclical movement in the interest rates.
Answer: A

38) The business cycle is defined as the
A) regular growth rate of the real GDP.
B) regular fluctuations of real GDP below potential GDP.
C) irregular fluctuations of prices around real GDP.
D) irregular fluctuations of real GDP around potential GDP.
Answer: D

39) Business cycles
A) are not regular cycles like the phases of the moon.
B) can be caused by the phases of the moon.
C) are more regular than the phases of the moon.
D) often follow changes in the phases of the moon.
Answer: A
40) Business cycles are
A) irregular, with some having two recessions and no expansion.
B) predictable, with a recession following a trough.
C) unpredictable, but always have two phases and two turning points.
D) unpredictable, and don’t always have two phases and two turning points.
Answer: C

41) A recession
A) follows a trough.
B) is defined as a period of negative real GDP growth.
C) comes just before a peak.
D) is a period during which real GDP expands.
Answer: B

42) A recession is
A) a period during which real GDP increases for at least two successive quarters.
B) the lower turning point of a business cycle.
C) the upper turning point of a business cycle.
D) a period during which real GDP decreases for at least two successive quarters.
Answer: D

43) A recession is a period with
A) negative growth rate in real GDP that lasts at least one quarter.
B) positive growth rate in real GDP that lasts at least one quarter.
C) positive growth rate in real GDP that lasts at least two quarters.
D) negative growth rate in real GDP that lasts at least two quarters.
Answer: D

44) An observer of the economy notices that over the last nine months the unemployment rate has increased from 5.6 percent to 8.7 percent. During the same time the rate of growth in real gross domestic product has become negative. From this information we might conclude that
A) inflation is probably rampant in this economy.
B) a recession is occurring in this economy.
C) an expansionary phase of the business cycle is in process.
D) a peak in the business cycle will soon be reached.
Answer: B

45) A trough is the
A) lower turning point of a business cycle when an expansion begins.
B) lower turning point of a business cycle when a recession begins.
C) upper turning point of a business cycle when an expansion begins.
D) upper turning point of a business cycle when a recession begins.
Answer: A

46) An expansion occurs when the level of real GDP is
A) increasing.
B) decreasing.
C) at a cyclical peak.
D) at a cyclical trough.
Answer: A

47) An expansion
A) follows a peak.
B) is defined as a period of negative real GDP growth.
C) comes just before a trough.
D) is defined as a period of real GDP increases.
Answer: D
**Topic: Business Cycle**  
**Skill: Recognition**

48) An expansion ends when the economy
A) hits a trough and then enters a recession.
B) hits a peak and then enters a recession.
C) begins to grow following a peak.
D) has grown for two quarters in a row.

**Answer: B**

**Topic: Business Cycle**  
**Skill: Recognition**

49) A peak is the
A) lower turning point of a business cycle when an expansion ends.
B) lower turning point of a business cycle when a recession ends.
C) upper turning point of a business cycle when an expansion ends.
D) upper turning point of a business cycle when a recession ends.

**Answer: C**

**Topic: Business Cycle**  
**Skill: Recognition**

51) In the above figure, a trough is at point ____ and a peak is at point ____.
A) $a; b$
B) $b; c$
C) $b; a$
D) $d; c$

**Answer: C**

**Topic: Business Cycle**  
**Skill: Analytical**

50) In the above figure, a recession begins at point ____ and an expansion begins at point ____.
A) $a; b$
B) $b; c$
C) $b; a$
D) $d; c$

**Answer: A**

**Topic: Business Cycle**  
**Skill: Analytical**

52) In the above figure, which point represents the under use of resources?
A) point $F$
B) point $G$
C) point $H$
D) point $K$

**Answer: B**

**Topic: Business Cycle**  
**Skill: Recognition**

53) In the above figure, which point represents the overuse of resources?
A) point $F$
B) point $G$
C) point $I$
D) point $K$

**Answer: A**
54) In the above figure, which point represents an economy which is at the peak part of a business cycle?

A) point F.
B) point G.
C) point I.
D) point K.

Answer: A

55) Most recently the U.S. economy

A) has experienced an expansion since the 4th quarter of 2001.
B) has been a long recession which began in the 3rd quarter of 2001.
C) experienced several recessions since the 4th quarter of 2001.
D) was at a peak during the 4th quarter of 2001.

Answer: A

56) During the late 1990s the U.S. economy

A) endured a recession that ended in the 1st quarter of 2001.
B) had real GDP below potential GDP.
C) experienced real GDP above potential GDP.
D) experienced real GDP that fluctuated around potential GDP.

Answer: C

57) In the United States, real GDP per person in 2003 was equal to approximately

A) $12,600
B) $16,900
C) $33,900
D) $58,600

Answer: C

58) If we look at the U.S. economy over the past 130 years we see that

A) real GDP expanded continuously throughout the period at a rate of 4.2 percent.
B) only potential GDP grew at a rate of 3.7 percent, without any growth in real GDP.
C) real GDP declined more often than it expanded.
D) real GDP averaged an annual growth rate of 3.7 percent.

Answer: D

59) If we compare U.S. GDP to other nations' GDP and the world GDP as a whole we see that

A) United States grew faster than some countries but slower than others.
B) United States had a lower growth rate than all other countries.
C) rest of the world always grew at a faster rate because it is bigger.
D) rest of the world always grew at a slower rate because it is bigger.

Answer: A

60) A meaningful measure that can be used to compare economic growth rates across countries is

A) inflation per person.
B) nominal GDP.
C) potential GDP.
D) real GDP per person.

Answer: A

61) To study economic growth across countries, you should compare growth in _____ across countries.

A) inflation rates.
B) real GDP.
C) unemployment.
D) real GDP per person.

Answer: D


**Topic: Economic Growth Around the World**

**Skill: Recognition**

62) Real GDP per person is defined as

A) nominal GDP divided by the number of workers.
B) nominal GDP divided by total population.
C) real GDP divided by total population.
D) real GDP divided by the number of workers.

**Answer: C**

**Topic: Benefits and Costs of Economic Growth**

**Skill: Recognition**

63) One of the costs of faster growth in GDP is that

A) too many goods are available for consumption.
B) more money for research and development is available.
C) it does not increase the wealth available for all.
D) resources may be depleted more rapidly.

**Answer: D**

**Topic: Benefits and Costs of Economic Growth**

**Skill: Analytical**

64) One of the costs of more rapid growth in GDP is that

A) people must give up current consumption.
B) more money is available for research and development.
C) it does not increase the wealth available for all.
D) too many goods eventually are available for consumption.

**Answer: A**

**Topic: Benefits and Costs of Economic Growth**

**Skill: Recognition**

65) Economic growth

A) is always desired and faster growth has only benefits and no costs.
B) is paid for in part by less current consumption.
C) allows for greater current consumption.
D) costs us with less future consumption.

**Answer: B**

**Jobs and Unemployment**

**Topic: Jobs**

**Skill: Recognition**

66) In 2003 in the United States the number of individuals with a job was approximately

A) 17 million.
B) 37 million.
C) 137 million.
D) 217 million.

**Answer: C**

**Topic: Jobs**

**Skill: Recognition**

67) In 2003, ____ people held jobs in the U.S. economy.

A) between 75 and 100 million.
B) between 95 and 105 million.
C) between 130 and 140 million.
D) between 250 and 270 million.

**Answer: C**

**Topic: Jobs**

**Skill: Recognition**

68) In characterizing U.S. job creation during the 1980s and 1990s we see that jobs were

A) lost during the 1980s but created during the 1990s.
B) created at a faster annual rate during the 1980s than during the 1990s.
C) created during the 1980s but lost during the 1990s.
D) lost during both decades but at a faster rate during the 1980s.

**Answer: B**

**Topic: Jobs**

**Skill: Recognition**

69) The number of jobs in the U.S. economy

A) stays constant overtime because the same number of workers are lost during recessions as are created during expansions.
B) grows always, even during recessions.
C) has actually fallen as jobs have gone to places with lower wages around the globe.
D) generally grows over time, as fewer jobs are lost during recessions than are created during expansions.

**Answer: D**
70) During a recession, ____ jobs are destroyed than created and during an expansion ____ jobs are created than destroyed.

A) more; more  
B) fewer; fewer  
C) more; fewer  
D) fewer; more

**Answer: A**

71) The unemployment rate generally ____ during recessions and ____ during expansions.

A) rises; falls  
B) rises; rises  
C) falls; rises  
D) falls; falls

**Answer: A**

72) Which of the following is TRUE regarding the unemployment rate?

I. The unemployment rate tells the percentage of the nation’s population that is unemployed.  
II. The unemployment rate measures unemployed labor hours.

A) I only.  
B) II only.  
C) Both I and II.  
D) Neither I nor II.

**Answer: D**

73) Looking at the history of U.S. unemployment rates during the 20th century we see that the rate

A) was highest during the Great Depression when it reached 25 percent.  
B) at the end of the century was greater than even the Great Depression.  
C) was above 10 percent for much of the century.  
D) was highest during the Great Depression when it equaled 10 percent.

**Answer: A**

74) The unemployment rate

A) falls to 0 percent during expansions and goes up during recessions.  
B) rises during expansions and falls during recessions.  
C) never reaches 0 percent but rises during recessions and expansions.  
D) never reaches 0 percent but rises during recessions and falls during expansions.

**Answer: D**

75) Looking at unemployment rates around the world over the past 20 years we see that

A) the United States has had the highest unemployment rate most of the time.  
B) Japan had the lowest unemployment rate most of the time.  
C) Western Europe had the lowest unemployment rate most of the time.  
D) the United States had the lowest unemployment rate most of the time.

**Answer: B**

76) In the 1990s, the range of the unemployment rate was approximately ____ percent.

A) 4.0 to 7.5.  
B) 9.0 to 12.5.  
C) 2.5 to 4.5.  
D) 11.0 to 25.0.

**Answer: A**

77) Over the last 20 years, ____ has generally had the lowest unemployment rate.

A) Japan.  
B) the United States.  
C) Western Europe.  
D) Canada.

**Answer: A**
81) Inflation is a
A) process of rising prices.
B) process of falling prices.
C) minor change in the price level.
D) large, one-time fall in the price level.
Answer: A

82) Inflation is defined as a period where prices are
A) rising, falling or stable.
B) falling.
C) rising.
D) stable.
Answer: C

83) Deflation is a
A) process of rising prices.
B) process of falling prices.
C) minor change in the price level.
D) large, one-time hike in the price level.
Answer: B

84) The CPI can be used to measure
A) expectations of the future rate of inflation.
B) how consumer unemployment has changed.
C) changes in average price of the goods and services bought by a typical urban household.
D) the unemployment rates of discouraged workers.
Answer: C

85) If the inflation rate is positive, the price level in an economy is
A) falling rapidly.
B) rising.
C) constant.
D) falling slowly.
Answer: B
86) If the inflation rate is negative, the price level in an economy is
A) falling.
B) rising slowly.
C) constant.
D) rising rapidly.
Answer: A

87) If the inflation rate is negative, the _____ is falling and there is _____.
A) unemployment rate; inflation
B) price level; inflation
C) price level; deflation
D) unemployment rate; deflation
Answer: C

<table>
<thead>
<tr>
<th>Period</th>
<th>Price index</th>
<th>Inflation rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>117</td>
<td>A</td>
</tr>
<tr>
<td>3</td>
<td>125</td>
<td>B</td>
</tr>
<tr>
<td>4</td>
<td>120</td>
<td>C</td>
</tr>
<tr>
<td>5</td>
<td>D</td>
<td>8.3</td>
</tr>
<tr>
<td>6</td>
<td>150</td>
<td>E</td>
</tr>
</tbody>
</table>

88) In the table above, what inflation rate belongs in space A?
A) 17.0 percent.
B) 6.8 percent.
C) 8.3 percent.
D) –4.0 percent.
Answer: A

89) In the table above, what inflation rate belongs in space B?
A) 17.0 percent.
B) 6.8 percent.
C) 8.3 percent.
D) –4.0 percent.
Answer: B

90) In the table above, what inflation rate belongs in space C?
A) 17.0 percent.
B) 6.8 percent.
C) 8.3 percent.
D) –4.0 percent.
Answer: D

91) In the table above, what price level belongs in space D?
A) 125.
B) 130.
C) 140.
D) 145.
Answer: B

92) In the table above, what inflation rate belongs in space E?
A) 17.0 percent.
B) 6.8 percent.
C) 8.3 percent.
D) 15.4 percent.
Answer: D

93) If the CPI was 132.5 at the end of 2003 and 140.2 at the end of 2004, the inflation rate over these two years was
A) 7.7 percent.
B) 5.4 percent.
C) 4.4 percent.
D) 5.8 percent.
Answer: D

94) If the CPI was 121.5 at the end of 2003 and 138.3 at the end of 2004, the inflation rate over these two years was
A) 10.2 percent.
B) 13.8 percent.
C) 12.2 percent.
D) 16.8 percent.
Answer: B
95) If the CPI was 122.3 at the end of 2003 and 124.5 at the end of 2004, the inflation rate over these two years was
A) 1.8 percent.
B) 2.5 percent.
C) 22.5 percent.
D) 18.0 percent.
Answer: A

96) If the CPI was 132.5 at the end of 2003 and 137.5 at the end of 2004, the inflation rate over these two years was
A) 3.6 percent.
B) 3.8 percent.
C) 5.0 percent.
D) None of the above answers is correct.
Answer: B

97) The price level last year was 120 in this year is 150 in 2004. What is the inflation rate between these two years.
A) 2.5 percent.
B) 20 percent.
C) 25 percent.
D) 30 percent.
Answer: C

98) In 2003 the CPI was 108; in 2004 it was 112. The rate of inflation between 2003 and 2004 was
A) 3.7 percent.
B) 4.0 percent.
C) 108 percent.
D) 112 percent.
Answer: A

99) In 2003 the CPI was 105; in 2004 it was 112. The rate of inflation between 2003 and 2004 was
A) 6.7 percent.
B) 7.0 percent.
C) 105 percent.
D) 112 percent.
Answer: A
105) Looking at inflation rates in the United States since the 1960s, we see that
A) inflation fell the most during the 1970s productivity slowdown.
B) the highest rates of inflation were the double digits during the 1990s.
C) the rate increased with the increased growth of the 1990s.
D) the 1970s experienced the highest rates of inflation.
Answer: D

106) In 2003 some people feared that the United States might be on the edge of
A) rising inflation.
B) good inflation.
C) deflation.
D) stable prices.
Answer: C

107) The U.S. inflation rate has been ____ that of other industrial countries over the past 25 years.
A) very different from
B) similar to
C) constantly greater than
D) constantly less than
Answer: B

108) Comparing other industrial countries’ inflation rates with those of the United States since the early 1980s we see that the
A) experiences have been similar with generally declining rates.
B) United States has had much higher rates.
C) other industrial countries have had much higher rates.
D) experiences have been very different between the two.
Answer: A

109) In comparing the inflation rates of developing countries to the industrial countries over the past 20 years we see that
A) both groups had similar experiences throughout of higher rates.
B) though their experiences were different, both saw rising rates most recently.
C) industrial countries have had higher rates though both groups have seen lower rates recently.
D) developing countries had higher rates though both groups have seen lower rates recently.
Answer: D

110) Inflation is a problem when
A) it is unpredictable.
B) it causes the value of money to vary unpredictably.
C) it causes resources to be diverted from productive uses.
D) All of the above answers are correct.
Answer: D

111) Unpredictable changes in the value of money, which brings about gains and losses, are a consequence of unpredictable changes in
A) real GDP.
B) unemployment rate.
C) inflation.
D) productivity.
Answer: C

112) During a period of unpredictable inflation,
A) the value of money changes unpredictably.
B) the price level falls unpredictably.
C) the Consumer Price Index falls.
D) the economy is unharmed.
Answer: A
113) The most serious type of inflation is called _____. which is defined as occurring when the inflation rate exceeds 50 percent a _____.
A) hyperinflation; month
B) hyperinflation; year
C) superinflation; month
D) superinflation; year
Answer: A

114) Hyperinflation is defined as
A) declining rates of inflation.
B) rising but low rates of inflation.
C) very high rates of inflation.
D) very low rates of inflation.
Answer: C

115) In a period of rapid, unexpected inflation, resources can be lost
A) when firms invest in research and development instead of forecasting inflation.
B) when firms use resources to forecast inflation.
C) because rapid inflation almost always turns into a hyperinflation.
D) Both answers B and C are correct.
Answer: B

116) Inflation has
A) no costs but reducing it is costly.
B) some costs but reducing it is also costly.
C) some costs but reducing it is costless.
D) no costs and reducing it is costless.
Answer: B

117) When the federal government spends less than it collects in tax revenue,
A) it has a government budget surplus.
B) it must enact fiscal policy.
C) it must enact monetary policy.
D) it has a government budget deficit.
Answer: A

118) The government has a budget surplus when government spending
A) exceeds tax receipts.
B) is less than tax receipts.
C) equals tax receipts.
D) is zero.
Answer: B

119) The government has a budget deficit when government spending
A) exceeds tax receipts.
B) is less than tax receipts.
C) equals tax receipts.
D) is zero.
Answer: A

120) If the government budget deficit stays the same and GDP increases, then
A) the ratio of the deficit to GDP increases.
B) the ratio of the deficit to GDP stays the same.
C) the ratio of the deficit to GDP decreases.
D) without more information, it is impossible to determine if the ratio of the deficit to GDP increases, decreases, or stays the same.
Answer: C
121) Which of the following best describes the government budget situation in the United States?
A) The government budget deficit has continually increased since 1980.
B) The U.S. government has had a budget surplus since 1990.
C) As a percentage of GDP, the budget deficit consistently increased throughout the 1990s.
D) The United States had a budget surplus between 1998 and 2000, while after 2001 the United States has had a budget deficit.

Answer: D

122) When the United States imports goods and services from the rest of the world, we
A) receive payments from the rest of the world.
B) make payments to the rest of the world.
C) increase our inflation rate.
D) decrease our inflation rate.

Answer: B

123) When we export goods to foreign countries, we
A) receive payments from the rest of the world.
B) make payments to the rest of the world.
C) increase our inflation rate.
D) decrease our inflation rate.

Answer: A

124) The current account
A) measures our exports minus our imports taking into account interest payments paid to and received from the rest of the world.
B) measures our imports minus our exports.
C) does not account for interest payments paid to and received from the rest of the world.
D) is part of GDP.

Answer: A

125) The current account is
A) the difference between exports and imports, also taking into account interest payments to and from the rest of the world.
B) the amount of money the government keeps on hand to pay its bills taking account of the interest payments on its debt.
C) the amount of tax revenue that the government expects to collect.
D) the total amount of interest payments that the U.S. owes to foreign countries.

Answer: D

Macroeconomic Policy Challenges and Tools

126) All of the following are policy goals targeted by macroeconomic policy EXCEPT
A) reduce unemployment.
B) stabilize the business cycle.
C) increase the current account deficit.
D) control inflation.

Answer: C

127) All of the following are part of fiscal policy EXCEPT
A) setting tax rates.
B) setting government spending.
C) choosing the size of the government deficit.
D) controlling the money supply.

Answer: D

128) Which of the following is included as part of fiscal policy?
A) The level of government spending.
B) Money supply.
C) The level of interest rates.
D) Monetary policy.

Answer: A
CHAPTER 4

Topic: Fiscal Policy
Skill: Recognition
129) Changes in which of the following is included as part of fiscal policy?
   A) The money supply.
   B) The level of interest rates.
   C) Monetary policy.
   D) Tax rates.
Answer: D

Topic: Monetary Policy
Skill: Recognition
130) Monetary policy is controlled by
   A) Congress.
   B) the president.
   C) the Federal Reserve.
   D) the Treasury Department.
Answer: C

Topic: Monetary Policy
Skill: Recognition
131) Which of the following is a policy tool of the Federal Reserve?
   A) Changes in interest rates.
   B) Changes in government spending.
   C) Changes in the government deficit.
   D) Changes in tax rates.
Answer: A

Topic: Monetary Policy
Skill: Recognition
132) Which of the following is a policy tool of the Federal Reserve?
   A) The level of government spending.
   B) Changes in the money supply.
   C) The government deficit.
   D) Tax rates.
Answer: B

Topic: Monetary Policy
Skill: Conceptual
133) The principal goal of monetary policy is to
   A) reverse the productivity growth slowdown
   B) keep the budget deficit small and/or the budget surplus large.
   C) lower taxes
   D) maintain low inflation
Answer: D

Topic: Monetary Policy
Skill: Recognition
134) The principal aim of monetary policy is to
   A) change government spending to spur innovation.
   B) keep inflation in check.
   C) change tax rates to boost investment.
   D) change tax rates to boost saving.
Answer: B

Topic: Monetary Policy
Skill: Conceptual
135) If the economy is in a too-rapid expansion, the Fed might
   A) decrease interest rates to stimulate the economy.
   B) raise tax rates to restrain the economy.
   C) decrease government spending.
   D) increase interest rates to restrain the economy.
Answer: D

Topic: Monetary Policy
Skill: Conceptual
136) If the economy is in a recession, the Fed might
   A) reduce interest rates to stimulate the economy.
   B) cut tax rates to stimulate the economy.
   C) increase government spending.
   D) increase interest rates.
Answer: A

Study Guide Questions

Topic: Study Guide Question, Origins and Issues of Macroeconomics
Skill: Recognition
137) During the Great Depression,
   A) the unemployment rate was 25 percent and the major focus of macroeconomics switched to economic growth.
   B) productivity growth increased and the focus of macroeconomics changed to business cycles.
   C) the unemployment rate was 25 percent and economists paid more attention to stimulating total spending.
   D) John Maynard Keynes suggested that inflation was the major problem facing capitalist nations.
Answer: C
**Topic: Study Guide Question, Productivity Growth Slowdown**

**Skill: Recognition**

138) Which of the following statements about the slowdown in productivity growth is correct?

A) The slowdown in productivity growth occurred only in Japan.
B) The slowdown in productivity growth occurred during the 1980s.
C) Potential GDP growth also decreased during this period.
D) Extremely high inflation rates were a major cause of the slowdown in productivity growth.

**Answer: C**

---

**Topic: Study Guide Question, Business Cycle**

**Skill: Recognition**

139) Suppose real GDP decreases in all four quarters of 2005; thus 2005 definitely would be a year

A) of expansion.
B) with a business cycle peak.
C) of recession.
D) with a business cycle trough.

**Answer: C**

---

**Topic: Study Guide Question, Business Cycle**

**Skill: Conceptual**

140) The unemployment rate generally rises during ____ in the business cycle.

A) a peak
B) a recession
C) a trough
D) an expansion

**Answer: B**

---

**Topic: Study Guide Question, Government Budget Deficit**

**Skill: Conceptual**

141) Which of the following statements about the government budget is correct?

A) Whenever tax revenues exceed government spending, the government has a budget deficit.
B) As a fraction of GDP, the budget deficit has increased steadily since 1980.
C) The government has had a budget deficit every year since 1970.
D) None of the above are correct

**Answer: D**

---

**Topic: Study Guide Question, Inflation Rate**

**Skill: Analytical**

142) If last year’s price level was 100 and this year’s price level is 114, over the year the inflation rate has been

A) 14 percent.
B) 114 percent.
C) 12 percent
D) 100 percent.

**Answer: A**

---

**Topic: Macroeconomic Policy Challenges**

**Skill: Recognition**

143) Which of the following is NOT a macroeconomic policy challenge?

A) Boosting long-term growth.
B) Lowering unemployment.
C) Stabilizing the business cycle.
D) Raising the government budget deficit.

**Answer: A**

---

**Topic: Study Guide Question, Monetary Policy**

**Skill: Recognition**

144) Which of the following is an example of monetary policy?

A) Changing the level of the money supply.
B) Changing government spending.
C) Changing tax rates.
D) Changing the government’s budget surplus.

**Answer: A**