

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

- 1) In 2011, the per-capita GDP in the United States, in 2005 dollars, was about 1) _____
A) \$27,500. B) \$47,500. C) \$43,000. D) \$17,500.

- 2) Which of the following topics is NOT a primary concern of macroeconomists? 2) _____
A) fluctuations in the level of economic activity
B) relative wages of skilled and unskilled workers
C) differences in standards of living across countries
D) unemployment

- 3) Which of the following questions is of most interest for MACROECONOMISTS? 3) _____
A) Why do foreigners immigrate to the United States?
B) What is the appropriate stance of antitrust policy?
C) Why is there inflation?
D) Why does the steel industry want tariffs?

- 4) The nominal GDP of Year 2 is 4) _____
A) \$2400. B) 1900. C) \$800. D) \$1050.

- 5) Primarily, macroeconomists use microeconomic principles to study 5) _____
A) trends in the stock market and long-term economic growth.
B) business cycles and trends in the stock market.
C) long-run economic growth and antitrust policies.
D) long-run economic growth and business cycles.

- 6) Which is a question of interest in this book? 6) _____
A) What mechanism could force people to pollute less?
B) What causes illegal immigration?
C) What causes economic fluctuations?
D) What is the effect of penalties on crime?

- 7) Which is a question of interest in this book? 7) _____
A) How should a government be elected?
B) What is the impact of government provided health care?
C) What causes growth in the long term?
D) How should a labor contract be structured?

- 8) Which is a question of interest in this book? 8) _____
A) What are commodity futures? B) Where is the stock market heading?
C) How are stock options priced? D) What is the optimal inflation rate?

- 9) The two most important American business cycle events of the twentieth century were 9) _____
A) the Great Depression and stagflation.
B) government budget deficits and World War II.
C) the productivity slowdown and the Great Depression.
D) World War II and the Great Depression.

- 10) Over the course of the twentieth century, the typical American 10) _____
 A) became twice as rich. B) became five times as rich
 C) became eight times as rich. D) remained equally as rich.
- 11) Which of the following assertions is false? 11) _____
 A) Very rapid growth occurred during World War II.
 B) The Great Depression was a typical business cycle.
 C) Real GDP per capita dipped about 30% during the Great Depression.
 D) On average, the U.S. economy grows at a rate of 2.1%.
- 12) The relationship between the growth rate of an economic variable, g_t , and its level, y_t , can be 12) _____
 approximated by
 A) $\log g_t = y_t - y_{t-1}$. B) $g_t = \log y_t - \log y_{t-1}$.
 C) $g_t = y_t - y_{t-1}$. D) $y_t = \log g_t - \log g_{t-1}$.
- 13) The business cycle component of the log of real per-capita GNP is equal to 13) _____
 A) \log of trend GNP \div \log of actual real GNP.
 B) \log of actual real GNP \div \log of trend GNP.
 C) \log of actual real GNP - \log of trend GNP.
 D) \log of trend GNP - \log of actual real GNP.
- 14) For the study of economic growth, it is most helpful to examine movements in _____; for the 14) _____
 study of business cycles, it is most helpful to examine movements in _____.
 A) trend GNP; deviations from trend in GNP
 B) trend GNP; trend GNP
 C) deviations from trend in GNP; deviations from trend in GNP
 D) deviations from trend in GNP; trend GNP
- 15) Over the twentieth century, growth in per-capita GNP was highest 15) _____
 A) during the 1960s.
 B) during the 1980s.
 C) during World War II.
 D) immediately prior to the Great Depression.
- 16) When we say the U.S. economy has grown on average at 2.1%, we mean 16) _____
 A) the growth rate of nominal GDP.
 B) the growth rate of per-capita real GDP.
 C) the inflation rate.
 D) the growth rate of per-capita nominal GDP.
- 17) A useful macroeconomic model 17) _____
 A) is simple. B) is extremely realistic.
 C) never generates testable hypotheses. D) provides a lot of intricate details.
- 18) Macroeconomic models are 18) _____
 A) accurate descriptions of the economy. B) simple abstractions of reality.
 C) consistent with all economic data. D) never wrong.

- 19) The structure of a macroeconomic model involves all of the following except 19) _____
 A) the available technology. B) the preferences of consumers.
 C) the behavior of consumers and firms. D) the available resources.
- 20) What characterizes a competitive equilibrium? 20) _____
 A) Governments stay out of the market. B) Economic agents are price-takers.
 C) Markets are rationed. D) It is costly to experiment with policies.
- 21) What do we assume about households and firms? 21) _____
 A) They look after each other.
 B) They optimize.
 C) They do what the government tells them to do.
 D) They act irrationally.
- 22) The development most responsible for the wide-spread introduction of macroeconomic models 22) _____
 built upon solid microeconomic foundations was the
 A) rational expectations revolution.
 B) popularization of supply-side economics.
 C) work of John Maynard Keynes.
 D) development of the Keynesian coordination failure model.
- 23) According to the *Lucas critique*, changes in economic policy are likely to have important effects on 23) _____
 A) the preferences of consumers.
 B) the available amounts of natural resources.
 C) the behavior of consumers and firms.
 D) none of the above
- 24) Current macroeconomic models use microeconomic principles because 24) _____
 A) they highlight the sociological aspects of production.
 B) we live in a democratic society and everybody has a say.
 C) the behavior of economic agents changes with policy.
 D) they use the same language for all economists.
- 25) Which aspect of macroeconomics generates the most controversy? 25) _____
 A) competitive equilibrium B) economic growth
 C) the causes of business cycles D) supply and demand
- 26) What is the key feature that differentiates business cycle theories? 26) _____
 A) whether the theory also explains economic growth.
 B) whether the theory is Keynesian or non-Keynesian.
 C) whether the theory explains how monetary policy works.
 D) whether the theory was developed before or after the Great Depression.
- 27) According to real business cycle theory, the primary causes of business cycles are 27) _____
 A) shocks to aggregate demand.
 B) technology shocks.
 C) waves of self-fulfilling optimism and pessimism.
 D) monetary factors.

- 28) According to Keynesian coordination failure theory, the primary causes of business cycles are 28) _____
 A) monetary factors.
 B) waves of self-fulfilling optimism and pessimism.
 C) shocks to aggregate demand.
 D) technology shocks.
- 29) The macroeconomic models that are most supportive of the role of government policy aimed at 29) _____
 smoothing business cycles are
 A) Keynesian models. B) real business cycle models.
 C) Solow growth models. D) endogenous growth models.
- 30) Two important theories of unemployment are 30) _____
 A) the efficiency wage theory and the quantity theory.
 B) game theory and search theory.
 C) the quantity theory and game theory.
 D) search theory and the efficiency wage theory.
- 31) What is produced and consumed in the economy is determined jointly by 31) _____
 A) the economy's productive capacity and the preferences of consumers.
 B) government policies and the economy's productive capacity.
 C) the preferences of consumers and the behavior of business managers.
 D) the behavior of business managers and government policies.
- 32) Improvements in a country's standard of living are brought about in the long run by 32) _____
 A) technological progress.
 B) constructing more machines and buildings.
 C) growth in the population.
 D) immigration policy.
- 33) Business cycles are 33) _____
 A) similar, but they can have many causes.
 B) similar, and they all have a single cause.
 C) each unique and they can have many causes.
 D) each unique, but all have a single cause.
- 34) Credit markets are 34) _____
 A) not important for the financial crisis.
 B) important, but given too little attention in the past by macroeconomists.
 C) markets that work perfectly.
 D) bad, as they cause people to accumulate debt.
- 35) In the long run, inflation is caused by 35) _____
 A) global warming. B) aggressive labor unions.
 C) growth in the money supply. D) greedy monopolists.
- 36) For macroeconomics, banks 36) _____
 A) are similar to other firms. B) are similar to households.
 C) can be abstracted away. D) play a key role.

- 37) In the long run, the quantity of money _____
 A) influences GDP. B) influences unemployment.
 C) does not matter. D) influences the business cycle.
- 38) Regarding money, what matters most? _____
 A) that its quantity is known. B) that it exists.
 C) that its quantity is stable. D) that coins are available.
- 39) The quantity of money in circulation in the United States is managed by _____
 A) The Federal Reserve System. B) Wall Street.
 C) The United States Treasury. D) The Securities Exchange Commission.
- 40) Considering the future _____
 A) is key to macroeconomic modelling.
 B) has a limited impact on macroeconomic analysis.
 C) matters only under special circumstances.
 D) is irrelevant to macroeconomics.
- 41) International trade between two countries _____
 A) benefits both countries. B) benefits only the receiving country.
 C) benefits neither country. D) benefits only the sending country.
- 42) Unemployment, at the aggregate level., _____
 A) is part of a well-functioning economy. B) would not happen with good policy.
 C) is always a sign of market failure. D) is avoidable.
- 43) A trade-off between aggregate output and inflation _____
 A) may exist in the short run, but not in the long run.
 B) exists in both the short run and the long run.
 C) is theoretically possible, but has never been observed in practice.
 D) may exist in the long run, but not in the short run.
- 44) A good measure of productivity is _____
 A) the growth rate of aggregate output.
 B) aggregate output divided by employment.
 C) the inflation rate.
 D) the interest rate.
- 45) Which is not a cause for business cycles considered by macroeconomists? _____
 A) variations in optimism B) greed
 C) shocks to money supply D) shocks to technological ability
- 46) A productivity slowdown was observed from the _____
 A) mid-1980s to the late 1990s. B) early 1960s to the early 1970s.
 C) late 1960s to the early 1980s. D) early 1950s to the late 1960s.

- 47) Two plausible hypotheses to explain the productivity slowdown are 47) _____
A) globalization of capital markets and reductions in tariffs.
B) measurement problems and adjustments to new technologies.
C) large government budget deficits and large balance of trade deficits.
D) adjustments to new technologies and failures in the educational system.
- 48) The Beveridge curve is 48) _____
A) a negative relationship between the vacancy rate and the unemployment rate.
B) a positive relationship between unemployment and the inflation rate.
C) a positive relationship between the inflation rate and the nominal interest rate.
D) a positive relationship between the government deficit and aggregate output.
- 49) The Beveridge curve shifted outward during what period? 49) _____
A) between January 2000 and December 2007.
B) after January 2008.
C) during the Great Depression.
D) during the Great Moderation.
- 50) The major contributor to the long-run improvement of a country's standard of living is 50) _____
A) low inflation. B) population growth.
C) technological progress. D) growth in government.
- 51) Unemployment is good from a social point of view because 51) _____
A) it keeps wages in check.
B) it provides free time.
C) it keeps the least efficient workers out.
D) it allows for better matches between workers and firms.
- 52) The U.S. government budget was 52) _____
A) continuously in surplus from 1959 to the late 1990s.
B) in deficit for most of the period from 1959-1970, but was in surplus for most of the period from 1970 to the late 1990s.
C) in surplus for most of the period from 1959-1970, but was in deficit for most of the period from 1970 to the late 1990s.
D) continuously in deficit from 1959 to the late 1990s.
- 53) Over the long run, taxes and government expenses have 53) _____
A) increased. B) remained relatively stable.
C) drifted apart. D) decreased.
- 54) A government deficit occurs when 54) _____
A) the government still has Treasury bonds to reimburse.
B) public goods are worth less than what was paid for them.
C) the government spends more than what it gets in taxes.
D) a government loses an election.

- 55) In the 2008-09 recession, the government deficit 55) _____
 A) decreased.
 B) would have increased if the government had intervened.
 C) increased.
 D) stayed roughly constant.
- 56) The idea that government budget deficits do not matter under certain circumstances is 56) _____
 A) attributed to Edward Prescott and Finn Kydland.
 B) called the Friedman-Lucas theory.
 C) called the Ricardian equivalence theorem.
 D) preposterous.
- 57) In the second half of the twentieth century, the U.S. inflation rate was at its highest in the period 57) _____
 from
 A) 1960 to the early 1970s. B) the mid-1970s to the early 1980s.
 C) 1990-2000. D) the mid-1980s to the early 1990s.
- 58) Average labor productivity is defined as 58) _____
 A) real GDP divided by employment.
 B) per-capital real GDP divided by employment.
 C) per-capita nominal GDP divided by employment.
 D) nominal GDP divided by employment.
- 59) A government surplus is 59) _____
 A) when its income is higher than its spending.
 B) when it is owed more than what it owes.
 C) when it spends more than its income.
 D) when it owes more than what it is owed.
- 60) Government debt is different from individual debt because 60) _____
 A) the government can decide the interest rate.
 B) the government can always tax to reduce it.
 C) the government does not need to pay interest.
 D) the government cannot declare bankruptcy.
- 61) The real interest rate is 61) _____
 A) always equal to the pure rate of time preference.
 B) equal to the nominal rate of interest minus the rate of inflation.
 C) equal to the rate of inflation minus the nominal rate of interest.
 D) less important for decision making than the nominal rate of interest.
- 62) The real interest rate is 62) _____
 A) zero. B) always positive.
 C) variable. D) always negative.
- 63) When there is positive inflation 63) _____
 A) the real interest rate is negative.
 B) the nominal interest rate is greater than the real interest rate.
 C) the nominal interest rate is approximately equal to the real interest rate.
 D) the real interest rate is greater than the nominal interest rate.

- 64) Real interest rates were negative during most of the _____
 A) 1960s. B) 1990s. C) 1970s. D) 1980s.
- 65) An increase in energy prices is a likely cause of _____
 A) the recession in 1973-1975. B) Korean War inflation.
 C) Great Depression. D) the Great Moderation.
- 66) Which period was not a recession in the United States? _____
 A) 1990-1991 B) 2001 C) 1984-1985 D) 1974-1975
- 67) Which was the deepest recession in the United States *before* the recession of 2008-09? _____
 A) 1981-1982 B) 2001 C) 1978-1979 D) 1990-1991
- 68) The most likely explanation of the recession of 1981-1982 was _____
 A) an increase in energy prices.
 B) a dramatic decrease in stock prices.
 C) a collapse in investment spending.
 D) that it was an unfortunate byproduct of a decrease in inflation.
- 69) A likely explanation for the 2008-2009 recession is _____
 A) an increase in taxes.
 B) a drastic reduction in government expenses.
 C) an increase in energy prices.
 D) financial market problems.
- 70) Asymmetric information is: _____
 A) some economic agents have more information than others.
 B) the government knows less about the economy than households and firms.
 C) inflation forecasts are systematically too high or too low.
 D) information revealed by economic agents turns out to be wrong.
- 71) Limit commitment occurs when _____
 A) one cannot borrow as much as necessary to conduct business.
 B) the bank can sell your loan to another bank.
 C) one cannot be forced to repay a loan.
 D) collateral is required to get a loan.
- 72) Inflation is defined as _____
 A) the rate of change in the average level of prices.
 B) the nominal interest rate minus the price level.
 C) the increase in the money supply.
 D) the rate of increase in the government budget deficit.
- 73) When a country has a current account deficit, the country _____
 A) is lending abroad. B) is borrowing from abroad.
 C) must have a government budget surplus. D) must have a government budget deficit.

74) Between 1947 and 2011,

- A) The current account surplus rose.
- B) The current account deficit fell.
- C) Exports decreased and imports decreased.
- D) Exports and imports increased.

74) _____

Answer Key

Testname: UNTITLED1

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

Answer Key

Testname: UNTITLED1

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