Reading 16: Aggregate Output, Prices, and Economic Growth

Question #1 of 54

Question ID: 498744

Compared to GDP calculated using the sum-of-value-added method, GDP using the value-of-final-output method will be:

A) biased upward.

B) equal to it.

C) biased downward.

Question #2 of 54

Question ID: 413761

The long-run aggregate supply curve is *best* described as:

A) perfectly elastic because input prices are sticky in the long run.

B) perfectly inelastic because input prices change proportionately with the price level in the long run.

C) elastic because most input prices are variable in the long run.

Question #3 of 54

Question ID: 413779

Sources of long-run economic growth *most likely* include increases in:

A) labor supply, physical capital, and technology.

B) government spending, labor supply, and physical capital.

C) human capital, money supply, and natural resources.

Question #4 of 54

Question ID: 498745

If money wages increase, other things equal, the *most likely* result is a:

A) short-run inflationary gap.

B) long-run inflationary gap.

C) short-run recessionary gap.

Question #5 of 54

Question ID: 413762

Because some input prices do not adjust rapidly to changes in the price level, the short-run aggregate supply curve:

A) may be interpreted as representing the economy's potential output.

B) exhibits a negative relationship between quantity supplied and the price level.

C) is more elastic than the long-run aggregate supply curve.

Question #6 of 54

Question ID: 413748

Under the expenditure approach, gross domestic product is the sum of:

A) consumption spending, gross private domestic investment, government spending, and net exports.

B) national income and transfer payments to households, less corporate and indirect business taxes and undistributed corporate profits.

C) wages and benefits, corporate profits, interest income, unincorporated business owners' income, rent, and indirect business taxes less subsidies.

Question #7 of 54

Question ID: 413766

Which of the following factors is *most likely* to increase long-run aggregate supply?

A) Wage rates increase.

B) The average rate of labor productivity increases.

C) Aggregate demand decreases.

Question #8 of 54

Question ID: 413780

In the production function approach to analyzing economic growth, total factor productivity accounts for:

A) capital deepening and any increase in the amount of capital available.

B) output growth not attributable to growth in labor and capital.

C) technological advances and growth of the labor force.

Question #9 of 54

Question ID: 413756

The LM curve is drawn holding which of the following factors constant?

A) Real money supply.

B) Real interest rate.

C) Real GDP.

Question #10 of 54

Question ID: 413770

Which of the following is *most likely* to occur in the short run aggregate demand decreases due to a reduction in business and consumer optimism?

A) A higher rate of inflation.

B) An increase in real GDP.

C) An increase in the rate of unemployment.

Question #11 of 54

Question ID: 472410

If both aggregate demand and short-run aggregate supply increase, real GDP:

A) will increase.

B) may increase or decrease.

C) will decrease.

Question #12 of 54

Question ID: 413758

Which of the following is *least likely* a reason that the aggregate demand curve slopes downward?

A) Because entitlements are adjusted for inflation, a rising price level forces government spending to increase.

B) Business investment declines as a rising price level increases interest rates.

C) The wealth effect causes consumers to spend less when the price level rises.

Question #13 of 54

Question ID: 472411

If both aggregate demand and short-run aggregate supply decrease, the price level:

A) will decrease.

B) will increase.

C) may increase or decrease.

Question #14 of 54

Question ID: 413746

The GDP deflator is the percentage difference between:

A) GDP calculated using the income and expenditure approaches.

B) GDP calculated using the value-of-final-output method and the sum-of-final-output method.

C) nominal GDP and real GDP.

Question #15 of 54

Question ID: 413767

Which of the following events is *least likely* to cause a decrease in short-run aggregate supply?

A) Oil exporting countries reduce their production levels.

B) A labor stoppage causes the price of steel to rise.

C) Inflation increases from 4% to 7%.

Question #16 of 54

Question ID: 413752

If a fiscal budget deficit increases, which of the following factors must also increase if all other factors are held constant?

A) Savings.

B) Trade surplus.

C) Investment.

Question #17 of 54

Question ID: 413773

When potential real GDP is less than actual real GDP, the economy is *most likely* experiencing:

A) underemployment.

B) recession.

C) inflation.

Question #18 of 54

Question ID: 413749

The difference between personal income and personal disposable income is:

A) taxes.

B) fixed expenses.

C) savings.

Question #19 of 54

Question ID: 413754

Total investment is one of the components of a country's GDP. Which of the following is *least likely* to be considered a source of funds for investment?

A) National savings.

B) Household expenditures.

C) Foreign borrowing.

Question #20 of 54

Question ID: 413776

An increase in aggregate demand can result in output greater than potential GDP in:

A) neither the short run nor the long run.

B) the short run only.

C) the short run and the long run.

Question #21 of 54

Question ID: 460642

Which of the following amounts is *least likely* to be subtracted from gross domestic product in order to calculate national income?

A) Indirect business taxes.

B) Statistical discrepancy.

C) Capital consumption allowance.

Question #22 of 54

Question ID: 413760

The long-run aggregate supply curve is:

A) inelastic because all input prices can vary.

B) elastic because input prices are sticky.

C) perfectly elastic because input prices are fixed.

Question #23 of 54

Question ID: 413774

Stagflation refers to an environment of:

A) Low unemployment and high inflation.

B) High unemployment and low inflation.

C) High unemployment and high inflation.

Question #24 of 54

Question ID: 413769

Which of the following choices *best* describes the effects on consumption, investment, and net exports that would result from an increase in the price level, other factors held constant?

	Consumption	Investment	Net exports
A)	Increase	Increase	Increase
B)	Decrease	Decrease	Decrease
C)	Decrease	Increase	Increase

Question #25 of 54

Question ID: 413742

Which method of calculating gross domestic product requires data from each stage of production of goods?

A) Income method.
B) Sum of value added method.
C) Value of final output method.

Question #26 of 54

Question ID: 413741

A shirt with a retail price of $50 is produced using cloth with a value of $40. The cloth is produced from cotton with a value of $30. Using the sum-of-value-added method, what is the total value added to gross domestic product by producing the shirt?

A) $70.
B) $50.
C) $20.

Question #27 of 54

Question ID: 550539

Growth in total factor productivity is *best* described as driven by growth in:

A) capital.
B) labor.
C) technology.

Question #28 of 54

Question ID: 413783

Consider an economy in which labor's relative share of national income is 60%. For which of the following sources of economic growth will a 1% increase result in the largest increase in potential GDP?

A) Capital.

B) Technology.

C) Labor.

Question #29 of 54

Question ID: 413782

An economist wanting to determine the sources of an increase in a country's GDP using the production function approach would *most likely* investigate:

A) growth in productivity, the labor force, and the capital stock.

B) shifts in the aggregate supply curve.

C) increases in industrial production.

Question #30 of 54

Question ID: 413781

When the sources of economic growth are stated as a production function, which factor is treated as a multiplier?

A) Total factor productivity.

B) Amount of capital available.

C) Size of the labor force.

Question #31 of 54

Question ID: 498746

Can an economy that is at long-run equilibrium adjust to produce real GDP which is greater than full-employment real GDP in the short run?

A) Yes, if aggregate demand increases.

B) Yes, if wages increase.

C) No.

Question #32 of 54

Question ID: 413738

A country's gross domestic product is:

A) less than the country's aggregate income.

B) greater than the country's aggregate income.

C) equal to the country's aggregate income.

Question #33 of 54

Question ID: 413743

If the GDP deflator is less than 100, then real GDP is:

A) greater than nominal GDP.

B) less than nominal GDP.

C) equal to nominal GDP.

Question #34 of 54

Question ID: 454994

From an initial long-run equilibrium, an increase in aggregate demand combined with a decrease in short-run aggregate supply will *most likely* result in:

A) a higher price level.

B) a lower price level.

C) higher real GDP.

Question #35 of 54

Question ID: 413763

The sustainable growth rate of real GDP is *most likely* to be increased by:

A) the discovery of untapped oil fields.

B) an increase in government spending.

C) an increase in the propensity to consume by households.

Question #36 of 54

Question ID: 413771

Which of the following is *most likely* to cause an increase in aggregate demand?

A) An increase in the general price level.

B) Relative appreciation in the country's currency.

C) High capacity utilization rates.

Question #37 of 54

Question ID: 413753

If the government is running a budget deficit, which of the following relationships are *least likely* to occur in the economy at the same time?

Exports relative to imports	Savings relative to investment

A) exports > imports private savings < private investment

B) exports < imports private savings > private investment

C) exports < imports private savings < private investment

Question #38 of 54

Question ID: 413740

Which of the following *least* accurately describes a component of gross domestic product?

A) Net imports.

B) Investment.

C) Consumption.

Question #39 of 54

Question ID: 413772

If the economy is in short-run disequilibrium below full employment, the *most likely* explanation is that:

A) money wage rates have decreased.

B) long-run aggregate supply has decreased.

C) aggregate demand has decreased.

Question #40 of 54

Question ID: 413751

The relationship between savings (S), investment (I), government spending (G), government tax revenue (T), exports (X), and imports (M) is:

A) (X − M) = (S − I) + (G − T).

B) (S − I) = (G − T) + (X − M).

C) (G − T) = (S − I) + (X − M).

Question #41 of 54

Question ID: 413778

The sustainable growth rate of an economy is *best* viewed as the sum of the growth rates of:

A) the labor force and productivity.

B) consumption and investment.

C) private and government spending.

Question #42 of 54

Question ID: 413759

An increase in real interest rates can be expected to:

A) decrease investment and increase net exports.

B) decrease investment and decrease consumption.

C) increase government spending and decrease consumption.

Question #43 of 54

Question ID: 413750

If private saving equals private business investment, a trade surplus implies that there is:

A) a fiscal deficit.

B) no fiscal surplus or deficit.

C) a fiscal surplus.

Question #44 of 54

Question ID: 413745

Nominal GDP is $562 billion and the GDP deflator is 119. Using base-year prices, real GDP is *closest to*:

A) $470 billion.

B) $440 billion.

C) $560 billion.

Question #45 of 54

Question ID: 413744

Nominal GDP for the year 20X7 is $784 billion and real GDP is $617 billion. If the base period for the GDP deflator is 20X1, the annual rate of increase in the GDP deflator since the base year is *closest to*:

A) 4.5%.

B) 4.0%.

C) 3.5%.

Question #46 of 54

Question ID: 413765

Which of the following factors is *most likely* to increase aggregate demand?

A) Increasing real interest rates.

B) An increase in real wealth.

C) An expected decrease in future prices.

Question #47 of 54

Question ID: 696227

When national income in an important trading partner's economy increases, aggregate demand in the domestic economy is *most likely* to:

A) increase because foreign consumers will tend to buy more export goods from the domestic country.

B) decrease because foreign consumers will tend to buy less export goods from the domestic country.

C) decrease because interest rates in the domestic economy will tend to increase.

Question #48 of 54

Question ID: 413757

Which of the following statements concerning aggregate demand is *most* accurate?

A) When price levels rise, real wealth increases, and individuals will spend more.

B) When price levels rise, real wealth decreases, and individuals will spend less.

C) When price levels fall, real wealth increases, and individuals will spend less.

Question #49 of 54

Question ID: 413755

The IS curve illustrates the:

A) direct relationship between investment and savings.

B) inverse relationship between income and the price level.

C) inverse relationship between real interest rates and income.

Question #50 of 54

Question ID: 413777

A country's labor force is projected to decrease by 2% while its labor productivity is projected to increase by 3% per year. Based on these projections, the country's sustainable annual economic growth rate:

A) is negative.

B) depends on the proportions of labor and capital in production.

C) is positive.

Question #51 of 54

Question ID: 472409

A reduction in short-run aggregate supply is *most likely* to be accompanied by an increase in:

A) real GDP.

B) real interest rates.

C) the price level.

Question #52 of 54

Question ID: 413747

Components of national income include:

A) wages and benefits, corporate profits, and indirect business taxes less subsidies.

B) rent, interest income, and capital consumption allowance.

C) government enterprise profits, unincorporated business net income, and statistical discrepancy.

Question #53 of 54

Question ID: 498747

Over the last five years, in the country of Midlothian, both the labor supply and the real stock of physical capital have increased by 20% and real GDP increased 22%. The reason that real GDP growth was greater than input growth over the period is *most likely* that:

A) total factor productivity increased.

B) money wages decreased.

C) the production function is multiplicative.

Question #54 of 54

Question ID: 413739

Gross domestic product includes the value of all goods:

A) purchased during the measurement period.

B) produced and purchased during the measurement period.

C) produced during the measurement period.