Question #1 of 54

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

A) equal to nominal GDP.

B) greater than nominal GDP.

C) less than nominal GDP.

Question #2 of 54

The long-run aggregate supply curve is:

A) elastic because input prices are sticky.

B) perfectly elastic because input prices are fixed.

C) inelastic because all input prices can vary.

Question #3 of 54

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 #4 of 54

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

A) technology.

B) labor.

C) capital.

Question #5 of 54

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

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 #7 of 54

Stagflation refers to an environment of:

A) Low unemployment and high inflation.

B) High unemployment and high inflation.

C) High unemployment and low inflation.

Question #8 of 54

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	Increase	Increase
C)	Decrease	Decrease	Decrease

Question #9 of 54

The difference between personal income and personal disposable income is:

A) savings.

B) fixed expenses.

C) taxes.

Question #10 of 54

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

A) Increasing real interest rates.

B) An expected decrease in future prices.

C) An increase in real wealth.

Question #11 of 54

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

A) equal to it.

B) biased upward.

C) biased downward.

Question #12 of 54

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

A) an increase in government spending.

B) the discovery of untapped oil fields.

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

Question #13 of 54

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 #14 of 54

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

A) An increase in the general price level.

B) High capacity utilization rates.

C) Relative appreciation in the country's currency.

Question #15 of 54

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

A) money wage rates have decreased.

B) aggregate demand has decreased.

C) long-run aggregate supply has decreased.

Question #16 of 54

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

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

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

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

Question #17 of 54

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

A) Sum of value added method.

B) Value of final output method.

C) Income method.

Question #18 of 54

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

A) will decrease.

B) may increase or decrease.

C) will increase.

Question #19 of 54

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 #20 of 54

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) An increase in real GDP.

B) An increase in the rate of unemployment.

C) A higher rate of inflation.

Question #21 of 54

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 wages increase.

B) Yes, if aggregate demand increases.

C) No.

Question #22 of 54

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 and the long run.

C) the short run only.

Question #23 of 54

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

A) the price level.

B) real interest rates.

C) real GDP.

Question #24 of 54

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

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

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

C) technological advances and growth of the labor force.

Question #25 of 54

Gross domestic product includes the value of all goods:

A) produced and purchased during the measurement period.

B) purchased during the measurement period.

C) produced during the measurement period.

Question #26 of 54

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

A) labor supply, physical capital, and technology.

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

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

Question #27 of 54

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) increases in industrial production.

B) shifts in the aggregate supply curve.

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

Question #28 of 54

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

B) is negative.

C) is positive.

Question #29 of 54

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

A) Wage rates increase.

B) Aggregate demand decreases.

C) The average rate of labor productivity increases.

Question #30 of 54

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) Foreign borrowing.

C) Household expenditures.

Question #31 of 54

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

A) Real interest rate.

B) Real GDP.

C) Real money supply.

Question #32 of 54

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

A) consumption and investment.

B) private and government spending.

C) the labor force and productivity.

Question #33 of 54

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) higher real GDP.

B) a lower price level.

C) a higher price level.

Question #34 of 54

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

A) underemployment.

B) inflation.

C) recession.

Question #35 of 54

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 #36 of 54

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) $20

B) $50

C) $70

Question #37 of 54

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) money wages decreased.

B) the production function is multiplicative.

C) total factor productivity increased.

Question #38 of 54

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

A) Consumption.

B) Net imports.

C) Investment.

Question #39 of 54

An increase in real interest rates can be expected to:

A) decrease investment and decrease consumption.

B) decrease investment and increase net exports.

C) increase government spending and decrease consumption.

Question #40 of 54

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

A) long-run inflationary gap.

B) short-run recessionary gap.

C) short-run inflationary gap.

Question #41 of 54

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

A) Savings.

B) Investment.

C) Trade surplus.

Question #42 of 54

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

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

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

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

Question #43 of 54

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

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

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

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

Question #44 of 54

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

A) will decrease.

B) will increase.

C) may increase or decrease.

Question #45 of 54

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) Labor.

B) Capital.

C) Technology.

Question #46 of 54

The GDP deflator is the percentage difference between:

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

B) nominal GDP and real GDP.

C) GDP calculated using the income and expenditure approaches.

Question #47 of 54

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 #48 of 54

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 #49 of 54

Components of national income include:

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

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

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

Question #50 of 54

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

A) $440 billion.

B) $470 billion.

C) $560 billion.

Question #51 of 54

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

A) (S – I) = (G – T) + (X – M).

B) (X – M) = (S – I) + (G – T).

C) (G – T) = (S – I) + (X – M).

Question #52 of 54

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) 3.5%.

B) 4.0%.

C) 4.5%.

Question #53 of 54

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

A) no fiscal surplus or deficit.

B) a fiscal surplus.

C) a fiscal deficit.

Question #54 of 54

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%.