SS 04 Microeconomics and Macroeconomics

Answers

Question #1 of 99

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)** No.
- ✓ **B)** Yes, if aggregate demand increases.
- ✗ **C)** Yes, if wages increase.

Explanation

An increase in aggregate demand when the economy is operating at long-run equilibrium (at full employment) will increase both the price level and real GDP in the short run.

References

Question From: Session 4 > Reading 16 > LOS k

Related Material:

- Key Concepts by LOS

Question #2 of 99

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)** Labor.
- ✗ **B)** Capital.
- ✓ **C)** Technology.

Explanation

The contributions of technology, labor, and capital to potential GDP can be modeled as follows: Growth in potential GDP = growth in technology + W_L(growth in labor) + W_C(growth in capital), where W_L is labor's relative share of national income, W_C is capital's relative share of national income, and $W_L + W_C = 1$.

References

Question From: Session 4 > Reading 16 > LOS o

Related Material:

- Key Concepts by LOS

Question #3 of 99

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.

Explanation

A decrease (shift to the left) in short-run aggregate supply results in lower output and a higher price level. A decrease in short-run aggregate supply will likely cause nominal and real interest rates to decrease.

References

Question From: Session 4 > Reading 16 > LOS i

Related Material:

- Key Concepts by LOS

Question #4 of 99

Question ID: 498748

Inflation resulting from a decrease in taxes is *most likely*:

- ✓ **A)** demand-pull inflation.
- ✗ **B)** stagflation.
- ✗ **C)** cost-push inflation.

Explanation

A decrease in taxes, other things equal, will increase personal disposable income and the consumption spending component of aggregate demand. An increase in aggregate demand from a position of long-run equilibrium is the most likely cause of demand-pull inflation.

References

Question From: Session 4 > Reading 17 > LOS h

Related Material:

- Key Concepts by LOS

Question #5 of 99

Question ID: 413786

A peak in the business cycle is *most likely* associated with:

- ✗ **A)** payroll employment turning from positive to negative.

✓ **B)** the highest level of economic output during the cycle.

✗ **C)** decreasing inflation pressure.

Explanation

The peak phase of a business cycle represents the highest level of economic output (real GDP) reached during that cycle. Inflation pressure that built during the expansion may continue into the early part of the contraction that follows the peak. Employment typically does not begin to decline until sometime after the peak.

References

Question From: Session 4 > Reading 17 > LOS a

Related Material:

- Key Concepts by LOS

Question #6 of 99

Question ID: 413806

Bradley works a 14-hour-per-week job as a bartender at McQuigley's Pub. Maddeline left her position at a commercial bank to raise her two-year old daughter. How would these individuals be classified from the viewpoint of employment statistics?

	Bradley	Maddeline
✓ **A)**	Employed	Not in labor force
✗ **B)**	Not in labor force	Not in labor force
✗ **C)**	Employed	Employed

Explanation

The labor force includes all people who are either employed or actively seeking employment. As such, Bradley is considered employed from the viewpoint of employment statistics whereas Maddeline is not counted in the labor force.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #7 of 99

Question ID: 413794

According to Austrian school theory, business cycles are caused by:

✓ **A)** government intervention in the economy.

- ✗ **B)** long-run structural changes in real economic variables.
- ✗ **C)** excessive optimism or pessimism among business managers.

Explanation

In Austrian school business cycle theory, cycles are caused by government intervention that reduces interest rates below what they would be without government intervention, which leads to an artificial economic boom that must eventually collapse because the economy lacks the physical capital to support it.

References

Question From: Session 4 > Reading 17 > LOS c

Related Material:

- Key Concepts by LOS

Question #8 of 99

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.

Explanation

Stagflation refers to an economic environment where high unemployment and high inflation exist at the same time.

References

Question From: Session 4 > Reading 16 > LOS j

Related Material:

- Key Concepts by LOS

Question #9 of 99

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.

Explanation

The sum-of-value-added method of calculating GDP requires data on the value added to goods at each stage of production and distribution. The value-of-final-output method only requires data on the final values of goods and services. The income approach to calculating GDP measures the total income of households and companies, rather than the value of goods and services.

References

Question From: Session 4 > Reading 16 > LOS b

Related Material:

- Key Concepts by LOS

Question #10 of 99

Question ID: 413749

The difference between personal income and personal disposable income is:

✓ **A)** taxes.

✗ **B)** savings.

✗ **C)** fixed expenses.

Explanation

Personal disposable income equals personal income minus taxes.

References

Question From: Session 4 > Reading 16 > LOS d

Related Material:

- Key Concepts by LOS

Question #11 of 99

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)** $50.

✗ **B)** $70.

✗ **C)** $20.

Explanation

Producing the shirt adds $50 to GDP under either the sum-of-value-added approach or the value-of-final-output approach.

Stage of production	Value	Value added
Cotton	$30	$30
Cloth	$40	$10
Shirt	$50	$10
Sum of value added		$50

References

Question From: Session 4 > Reading 16 > LOS b

Related Material:

- Key Concepts by LOS

Question #12 of 99

Question ID: 413821

Which of the following statements about biases that affect the consumer price index (CPI) is *least* accurate?

- ✗ **A)** The basket of goods on which the CPI is based becomes a less accurate measure of household costs as new goods appear on the market.
- ✓ **B)** The net effect of built-in biases in the CPI is to underestimate inflation.
- ✗ **C)** Price increases that result from quality improvements are reflected as increases in the CPI.

Explanation

The CPI is generally believed to overestimate inflation by about 1% per year. Upward biases include quality improvements (price increases due to improving quality do not represent inflation but are reflected in the CPI), new and more expensive goods replacing older and less expensive goods, and commodity substitution (consumers substitute less expensive goods for more expensive ones, rather than continuing to consume a fixed basket of goods).

References

Question From: Session 4 > Reading 17 > LOS g

Related Material:

- Key Concepts by LOS

Question #13 of 99

Question ID: 413785

Phases of a business cycle *least likely* include:

- ✗ **A)** expansion.
- ✗ **B)** trough.
- ✓ **C)** restriction.

Explanation

The four phases of a business cycle are expansion, peak, contraction (recession), and trough.

References

Question From: Session 4 > Reading 17 > LOS a

Related Material:

- Key Concepts by LOS

Question #14 of 99

Question ID: 413805

Which type of unemployment describes a situation where workers who have been laid off due to economic changes and they are unable to find work due to a lack of education or the necessary skills to move into another available job?

- ✗ **A)** Frictional.
- ✗ **B)** Cyclical.
- ✓ **C)** Structural.

Explanation

Structural unemployment is due to structural changes in the economy that eliminate some jobs while generating job openings for which unemployed workers are not qualified. Cyclical unemployment is when the economy is operating at less than full capacity.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #15 of 99

Question ID: 413759

An increase in real interest rates can be expected to:

- ✗ **A)** decrease investment and increase net exports.
- ✗ **B)** increase government spending and decrease consumption.
- ✓ **C)** decrease investment and decrease consumption.

Explanation

An increase in real interest rates can be expected to decrease business investment and decrease consumption. The impact on government spending and net exports is not clear-cut.

References

Question From: Session 4 > Reading 16 > LOS f

Related Material:

- Key Concepts by LOS

Question #16 of 99

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.

Explanation

Indirect business taxes are not subtracted because they are included in national income.

References

Question From: Session 4 > Reading 16 > LOS d

Related Material:

- Key Concepts by LOS

Question #17 of 99

Question ID: 472411

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

✗ **A)** will increase.

✓ **B)** may increase or decrease.

✗ **C)** will decrease.

Explanation

The effect on the price level of decreases in both AD and SRAS depends on the relative size of the decreases in AD and SRAS. An increase in AD increases the price level, but an increase in SRAS tends to decrease the price level, so their combined effect could be an increase or a decrease in the price level.

References

Question From: Session 4 > Reading 16 > LOS l

Related Material:

- Key Concepts by LOS

Question #18 of 99

Question ID: 498745

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

✓ **A)** short-run recessionary gap.

✗ **B)** long-run inflationary gap.

✗ **C)** short-run inflationary gap.

Explanation

An increase in the wage rate decreases short-run aggregate supply, leading to a short-run recessionary gap.

References

Question From: Session 4 > Reading 16 > LOS j

Related Material:

- Key Concepts by LOS

Question #19 of 99

Question ID: 413780

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.

Explanation

The production function as defined as Y = A × *f*(L, K) where Y is the aggregate output; L = quantity of labor; K = amount of capital available; and A = total factor productivity. Total factor productivity represents output growth not directly attributable to changes in the quantities of either labor or capital, and is thought to primarily reflect technological advances.

References

Question From: Session 4 > Reading 16 > LOS n

Related Material:

- Key Concepts by LOS

Question #20 of 99

Question ID: 413804

Unemployment can be divided into the following three categories:

- ✗ **A)** Frictional, seasonal, cyclical.
- ✓ **B)** Frictional, cyclical, structural.
- ✗ **C)** Technical, frictional, seasonal.

Explanation

Unemployment can be divided into frictional, cyclical, or structural unemployment.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #21 of 99

Question ID: 413827

The inventory-to-sales ratio for manufacturing and trade is classified as a:

- ✗ **A)** coincident indicator.
- ✓ **B)** lagging indicator.
- ✗ **C)** leading indicator.

Explanation

The inventory-to-sales ratio for manufacturing and trade is considered a lagging indicator because it peaks after the economy does, even though it is sometimes used in forecasting economic activity.

References

Question From: Session 4 > Reading 17 > LOS i

Related Material:

- Key Concepts by LOS

Question #22 of 99

Question ID: 413808

Which of the following is *best* described as an example of structural unemployment?

- ✗ **A)** Smith was laid off due to negative growth of GDP, and did not seek other employment until he was recalled to his job.
- ✓ **B)** When the plant was modernized, Jones lost her job because she did not have the skill needed to operate the new equipment.
- ✗ **C)** Although there were jobs available, Johnson was unable to find an employer with a satisfactory opening.

Explanation

Structural unemployment exists when changes in the economy eliminate some jobs while generating new job openings for which unemployed workers are not qualified.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #23 of 99

Question ID: 413825

Which of the following economic indicators is classified as a leading indicator for the United States economy?

- ✗ **A)** Average duration of unemployment.
- ✓ **B)** Index of consumer expectations.
- ✗ **C)** Industrial production.

Explanation

Consumer expectations are a leading indicator. Industrial production is a coincident indicator. Average duration of unemployment is a lagging indicator.

References

Question From: Session 4 > Reading 17 > LOS i

Related Material:

- Key Concepts by LOS

Question #24 of 99

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.

Explanation

As capacity utilization rates increase to high levels (typically 80% to 85%), business investment in plant and equipment increases, shifting the AD curve to the right. A change in the price level represents a movement along the demand curve, not a shift in it. Appreciation of the country's currency increases the cost of exports and reduces the cost of imports, which shifts the aggregate demand curve to the left (net exports decrease).

References

Question From: Session 4 > Reading 16 > LOS h

Related Material:

- Key Concepts by LOS

Question #25 of 99

Question ID: 413826

Manufacturing and trade sales are *best* described as a:

- ✗ **A)** lagging indicator.
- ✓ **B)** coincident indicator.
- ✗ **C)** leading indicator.

Explanation

Manufacturing and trade sales are a coincident indicator that generally reflects the current phase of the business cycle.

References

Question From: Session 4 > Reading 17 > LOS i

Related Material:

- Key Concepts by LOS

Question #26 of 99

Question ID: 413792

A firm's *most likely* initial response to a cyclical increase in the inventory-to-sales ratio is to adjust their utilization of labor by:

- ✗ **A)** adding new workers.
- ✓ **B)** reducing overtime.
- ✗ **C)** laying off employees.

Explanation

As a cyclical indicator, an increase in the inventory-to-sales ratio is a sign of slowing economic growth. When decreasing their utilization of labor in response to a slowing economy, firms typically first reduce overtime. Firms tend to be slow to lay off workers until it is clear that an economic contraction is underway.

References

Question From: Session 4 > Reading 17 > LOS b

Related Material:

- Key Concepts by LOS

Question #27 of 99

Question ID: 413801

Which of the following is the *most* accurate definition of the unemployment rate? The unemployment rate is the number of:

- ✗ **A)** individuals employed divided by the number of people who are unemployed and retired.
- ✗ **B)** unemployed individuals divided by the number of employed individuals.
- ✓ **C)** unemployed individuals divided by the total labor force.

Explanation

The unemployment rate of a country is the percentage of people in the labor force who are unemployed. It is calculated as: unemployment rate = (number of unemployed / labor force) × 100. The labor force includes those individuals who are employed or are actively seeking employment.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #28 of 99

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)** the production function is multiplicative.
- ✗ **B)** money wages decreased.
- ✓ **C)** total factor productivity increased.

Explanation

Any excess of real GDP growth over the rate of growth in labor and capital indicates there has been an increase in total factor productivity.

References

Question From: Session 4 > Reading 16 > LOS o

Related Material:

- Key Concepts by LOS

Question #29 of 99

Question ID: 413817

Consumer price indexes are *least likely* to:

- ✗ **A)** reflect the typical purchasing patterns of consumers.
- ✓ **B)** be calculated for stages of processing.
- ✗ **C)** compare current prices to prices in a base year.

Explanation

Stages of processing are components of producer price indexes. Consumer price indexes compare the current prices of a typical consumption basket to prices in a base year.

References

Question From: Session 4 > Reading 17 > LOS f

Related Material:

- Key Concepts by LOS

Question #30 of 99

Question ID: 413776

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

✓ **A)** the short run only.

✗ **B)** the short run and the long run.

✗ **C)** neither the short run nor the long run.

Explanation

From long-run equilibrium, an increase in aggregate demand can result in short-run equilibrium output greater than potential GDP. However, this above-full-employment output cannot be sustained in the long run because upward pressure on input costs (e.g., wages) will decrease short-run aggregate supply, decreasing output back to the full-employment level in the long run.

References

Question From: Session 4 > Reading 16 > LOS k

Related Material:

- Key Concepts by LOS

Question #31 of 99

Question ID: 413813

Which one of the following is *most likely* to experience loss of wealth from an increase in the inflation rate?

✗ **A)** An individual investor who recently purchased a substantial amount of variable rate bonds.

✗ **B)** An individual investor who financed the purchase of a home with a 30-year fixed rate mortgage.

✓ **C)** A commercial bank that has a large quantity of fixed-rate mortgages in its loan portfolio.

Explanation

If an economy experiences inflation, the losers are those who hold long-term contracts in which they are to receive fixed payments. A bank that has a large quantity of fixed-rate mortgages in its loan portfolio (i.e., they are investments for the bank) is receiving fixed-rate payments. Both remaining choices are investors who are either making fixed rate payments (the homeowner) or receiving floating-rate payments (the investor in variable rate bonds).

References

Question From: Session 4 > Reading 17 > LOS e

Related Material:

- Key Concepts by LOS

Question #32 of 99

Question ID: 413814

An economy with a consistently negative inflation rate is *best* described as experiencing:

- ✓ **A)** deflation.
- ✗ **B)** hyperinflation.
- ✗ **C)** disinflation.

Explanation

Deflation is a sustained decline in the price level, which is reflected in a negative inflation rate. Disinflation refers to a decrease in the inflation rate over time but does not imply a negative inflation rate. Hyperinflation is an extremely high and accelerating inflation rate.

References

Question From: Session 4 > Reading 17 > LOS e

Related Material:

- Key Concepts by LOS

Question #33 of 99

Question ID: 413791

As an economic expansion approaches its peak, the economy is *most likely* to show:

- ✗ **A)** accelerating sales growth.
- ✗ **B)** a decrease in inventory levels.
- ✓ **C)** an increase in the inventory-to-sales ratio.

Explanation

As the economy approaches its peak, sales growth begins to slow, unsold inventories begin to accumulate, and the inventory-to-sales ratio increases.

References

Question From: Session 4 > Reading 17 > LOS b

Related Material:

- Key Concepts by LOS

Question #34 of 99

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)** An increase in real GDP.
- ✓ **B)** An increase in the rate of unemployment.
- ✗ **C)** A higher rate of inflation.

Explanation

If business and consumer optimism wanes, consumers will spend less and defer current consumption and save more of their disposable income. With reduced product demand, businesses will reduce their capital expenditures and investments. These actions will lead businesses to reduce their number of employees, thereby increasing the rate of unemployment. Moreover, current output will decrease and the price level will fall.

References

Question From: Session 4 > Reading 16 > LOS i

Related Material:

- Key Concepts by LOS

Question #35 of 99

Question ID: 413763

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.

Explanation

Sustainable growth in real GDP is defined as the growth rate in real GDP that is sustainable over the long term. The sustainable growth rate is positively affected by increases in the supply of natural resources, the supply of physical capital, or the supply or productivity of labor. An increase in government spending does not increase an economy's sustainable growth rate.

References

Question From: Session 4 > Reading 16 > LOS h

Related Material:

- Key Concepts by LOS

Question #36 of 99

Question ID: 550539

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

- ✓ **A)** technology.

- ✗ **B)** labor.
- ✗ **C)** capital.

Explanation

Total factor productivity represents increased productivity that cannot be directly accounted for by increases in capital and labor, and is generally considered to be driven by changes in technology.

References

Question From: Session 4 > Reading 16 > LOS o

Related Material:

- Key Concepts by LOS

Question #37 of 99

Question ID: 413820

Which of the following is *least likely* a source of bias in CPI data?

- ✗ **A)** Substitution
- ✓ **B)** Sample selection
- ✗ **C)** Quality changes

Explanation

The three sources of bias associated with CPI data are: new goods, quality changes, and substitution.

References

Question From: Session 4 > Reading 17 > LOS g

Related Material:

- Key Concepts by LOS

Question #38 of 99

Question ID: 413819

A Laspeyres price index tends to:

- ✗ **A)** overstate the inflation rate because its market basket is variable.
- ✗ **B)** understate the inflation rate because its market basket is fixed.
- ✓ **C)** overstate the inflation rate, because its market basket is fixed.

Explanation

A Laspeyres price index tends to overstate the inflation rate because it uses fixed market basket weights from a base period. This does not consider that consumers will substitute away from goods that have risen dramatically in price.

References

Question From: Session 4 > Reading 17 > LOS g

Related Material:

- Key Concepts by LOS

Question #39 of 99

Question ID: 413822

A price index that is calculated using the current weights of the index's basket of goods and services is known as a:

- ✓ **A)** chained price index.
- ✗ **B)** Laspeyres price index.
- ✗ **C)** hedonic price index.

Explanation

A chained or chain-weighted price index uses updated weights for each good and service in its market basket. A price index that is not chain-weighted, such as a Laspeyres index, is calculated using weights for each good and service in the market basket as of the index's base period. Hedonic pricing is a technique used to adjust a price index for upward bias from quality changes of goods in its market basket.

References

Question From: Session 4 > Reading 17 > LOS g

Related Material:

- Key Concepts by LOS

Question #40 of 99

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)** Investment.
- ✓ **B)** Savings.
- ✗ **C)** Trade surplus.

Explanation

The relationship between the fiscal balance, savings, investment, and the trade balance is $(G - T) = (S - I) - (X - M)$. An increase in a fiscal budget deficit $(G - T)$ must be funded by an increase in savings (S), a decrease in investment (I), or a decrease in net exports $(X - M)$, which would decrease a trade surplus or increase a trade deficit.

References

Question From: Session 4 > Reading 16 > LOS e

Related Material:

- Key Concepts by LOS

Question #41 of 99

Question ID: 413789

When the economy enters an expansion phase, the *most likely* effect on external trade is a(n):

- ✗ **A)** decrease in exports.
- ✓ **B)** increase in imports.
- ✗ **C)** increase in exports.

Explanation

When the domestic economy is expanding, demand for imports is likely to increase as domestic incomes increase. Exports tend to be independent of domestic economic growth and are more closely related to trading partners' economic growth.

References

Question From: Session 4 > Reading 17 > LOS b

Related Material:

- Key Concepts by LOS

Question #42 of 99

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

Explanation

A government budget deficit, a trade surplus, and an excess of private investment over private savings cannot all occur at the same time. If the government runs a budget deficit, the deficit must be financed by a trade deficit (exports < imports), surplus private savings (private savings > private investment), or both.

References

Question From: Session 4 > Reading 16 > LOS e

Related Material:

- Key Concepts by LOS

Question #43 of 99

Question ID: 413762

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

- ✗ **A)** exhibits a negative relationship between quantity supplied and the price level.
- ✗ **B)** may be interpreted as representing the economy's potential output.
- ✓ **C)** is more elastic than the long-run aggregate supply curve.

Explanation

The short-run aggregate supply curve slopes upward (i.e., is not perfectly inelastic) because in the short run some input prices do not adjust fully to changes in the price level. Because firms can increase profit in the short run by increasing output in response to higher prices, there is a positive short-run relationship between the price level and quantity supplied.

References

Question From: Session 4 > Reading 16 > LOS g

Related Material:

- Key Concepts by LOS

Question #44 of 99

Question ID: 413788

The expansion phase of a business cycle is *least likely* characterized by:

- ✓ **A)** increasing unemployment.
- ✗ **B)** a positive rate of economic growth.
- ✗ **C)** increasing inflationary pressures.

Explanation

Unemployment is typically decreasing during the expansion phase of a business cycle.

References

Question From: Session 4 > Reading 17 > LOS a

Related Material:

- Key Concepts by LOS

Question #45 of 99

Question ID: 413779

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.

Explanation

Sources of sustainable long-run economic growth (increases in long-run aggregate supply) include increases in the labor force, human capital (the education and skill level of the labor force), the stock of physical capital, the supply of natural resources, and the level of technology. Increases in the money supply or government spending increase aggregate demand but do not increase long-run aggregate supply.

References

Question From: Session 4 > Reading 16 > LOS m

Related Material:

- Key Concepts by LOS

Question #46 of 99

Question ID: 413765

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

- ✗ **A)** An expected decrease in future prices.
- ✗ **B)** Increasing real interest rates.
- ✓ **C)** An increase in real wealth.

Explanation

While an increase in real wealth will shift the AD curve to the right, an increase in the real rate of interest will shift the AD curve to the left as consumers and businesses reduce their borrowing and spending. An expected decrease in prices will shift the AD curve to the left as households and businesses postpone their consumption in anticipation of lower prices in the future.

References

Question From: Session 4 > Reading 16 > LOS h

Related Material:

- Key Concepts by LOS

Question #47 of 99

Question ID: 413756

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

- ✓ **A)** Real money supply.

✗ **B)** Real GDP.

✗ **C)** Real interest rate.

Explanation

The LM curve illustrates the relationship between real income and the real interest rate, for a given level of the real money supply.

References

Question From: Session 4 > Reading 16 > LOS f

Related Material:

- Key Concepts by LOS

Question #48 of 99

Question ID: 413823

Which of the following statements is *most* accurate? Cost-push inflation:

✓ **A)** typically results from a significant price increase in a production input.

✗ **B)** often occurs because of an increase in short-run aggregate supply.

✗ **C)** results from excess short-run aggregate demand.

Explanation

Cost-push inflation typically results from a significant price increase in a production input that causes a decrease in short-run aggregate supply.

References

Question From: Session 4 > Reading 17 > LOS h

Related Material:

- Key Concepts by LOS

Question #49 of 99

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)** 3.5%.

✓ **B)** 4.0%.

✗ **C)** 4.5%.

Explanation

GDP deflator = $784 billion / $617 billion × 100 = 127.07. Annual rate of increase = $(127.07 / 100)^{1/6} - 1 = 0.0407$ = 4.07%.

References

Question From: Session 4 > Reading 16 > LOS c

Related Material:

- Key Concepts by LOS

Question #50 of 99

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 downward.
- ✗ **B)** biased upward.
- ✓ **C)** equal to it.

Explanation

GDP calculated under the two methods is the same.

References

Question From: Session 4 > Reading 16 > LOS b

Related Material:

- Key Concepts by LOS

Question #51 of 99

Question ID: 413799

When individuals are unemployed because they do not have perfect information concerning available jobs, this is:

- ✓ **A)** frictional unemployment.
- ✗ **B)** structural unemployment.
- ✗ **C)** natural unemployment.

Explanation

Frictional unemployment exists because workers and employers do not have perfect information and must expend time and resources on search activities.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #52 of 99

Question ID: 413761

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

- ✗ **A)** elastic because most input prices are variable in the long run.
- ✗ **B)** perfectly elastic because input prices are sticky in the long run.
- ✓ **C)** perfectly inelastic because input prices change proportionately with the price level in the long run.

Explanation

The long-run aggregate supply curve is perfectly inelastic because in the long run, wages and other input prices adjust to changes in the overall price level. Long-run aggregate supply equals potential GDP.

References

Question From: Session 4 > Reading 16 > LOS g

Related Material:

- Key Concepts by LOS

Question #53 of 99

Question ID: 413790

Firms' initial responses to an emerging economic contraction are *most likely* to be:

- ✗ **A)** laying off workers.
- ✓ **B)** reducing overtime hours.
- ✗ **C)** deferring maintenance of machinery.

Explanation

Early in an economic contraction, firms typically reduce output by using capital and labor less intensively than during an expansion (e.g., by reducing overtime). When they believe a contraction is likely to persist, firms decrease capacity by laying off workers and reducing their physical capital, often by deferring maintenance or not replacing worn-out equipment.

References

Question From: Session 4 > Reading 17 > LOS b

Related Material:

- Key Concepts by LOS

Question #54 of 99

Question ID: 413802

Which type of unemployment describes situations where qualified workers are not immediately matched with existing job openings?

- ✗ **A)** Cyclical.
- ✗ **B)** Structural.
- ✓ **C)** Frictional.

Explanation

Frictional unemployment will prevent qualified workers from being immediately matched with existing job openings. Two causes are imperfect information and the job search conducted by both employers and employees.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #55 of 99

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)** Foreign borrowing.
- ✓ **B)** Household expenditures.
- ✗ **C)** National savings.

Explanation

Total investment is one of the major components of GDP (the others are consumption, government spending, and net exports). Investment is defined as expenditures allocated to fixed assets and inventory. The sources of funds for investment are national savings, foreign borrowing, and government savings.

References

Question From: Session 4 > Reading 16 > LOS e

Related Material:

- Key Concepts by LOS

Question #56 of 99

Question ID: 413745

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.

Explanation

Real GDP = $562 billion / 1.19 = $472.27 billion.

References

Question From: Session 4 > Reading 16 > LOS c

Related Material:

- Key Concepts by LOS

Question #57 of 99

Question ID: 413824

Which of the following factors would *least likely* result in demand-pull inflation? An increase in:

- ✗ **A)** the quantity of money.
- ✓ **B)** energy prices.
- ✗ **C)** exports.

Explanation

Demand-pull inflation can result from any factor that increases aggregate demand, including increases in the money supply, increases in exports, and increases in government purchases. Increases in the prices of productive inputs would result in cost-push inflation as aggregate supply decreases.

References

Question From: Session 4 > Reading 17 > LOS h

Related Material:

- Key Concepts by LOS

Question #58 of 99

Question ID: 413743

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

- ✗ **A)** less than nominal GDP.
- ✗ **B)** equal to nominal GDP.
- ✓ **C)** greater than nominal GDP.

Explanation

The GDP deflator is calculated by dividing the value of nominal GDP by the value of real GDP. In most cases the GDP deflator is greater than 100; a value greater than 100 means prices have increased. A GDP deflator less than 100 shows that prices have decreased and the value of real GDP is greater than the value of nominal GDP.

References

Question From: Session 4 > Reading 16 > LOS c

Related Material:

- Key Concepts by LOS

Question #59 of 99

Question ID: 413738

A country's gross domestic product is:

- ✗ **A)** greater than the country's aggregate income.
- ✗ **B)** less than the country's aggregate income.
- ✓ **C)** equal to the country's aggregate income.

Explanation

Aggregate income and aggregate output (gross domestic product) must be equal for an economy as a whole.

References

Question From: Session 4 > Reading 16 > LOS a

Related Material:

- Key Concepts by LOS

Question #60 of 99

Question ID: 413739

Gross domestic product includes the value of all goods:

- ✗ **A)** purchased during the measurement period.
- ✓ **B)** produced during the measurement period.
- ✗ **C)** produced and purchased during the measurement period.

Explanation

Gross domestic product (GDP) is the sum of the market values of all goods and services produced during a measurement period. Goods purchased during the measurement period that were produced earlier are not included in GDP. Goods produced during the measurement period but not purchased, such as goods produced for inventory, are included in GDP.

References

Question From: Session 4 > Reading 16 > LOS a

Related Material:

- Key Concepts by LOS

Question #61 of 99

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.

Explanation

When price levels rise, real wealth decreases, and we would expect individuals to spend less. If the converse were also true-if price levels were to fall-real wealth should increase, and we would expect individuals to spend more, all else being equal.

References

Question From: Session 4 > Reading 16 > LOS f

Related Material:

- Key Concepts by LOS

Question #62 of 99

Question ID: 413810

Joe Lebow, an analyst, is discussing the difference between inflation and price level. Lebow states: "The higher the price level in the current year compared to the price level in the previous year, the higher is the inflation rate of a country. Any increase in the price level is evidence of positive inflation." Lebow's statement is:

- ✗ **A)** incorrect because it inaccurately describes the calculation of an inflation rate.
- ✓ **B)** incorrect because not all increases in the price level indicate inflation.
- ✗ **C)** correct.

Explanation

Lebow is incorrect because a one-time increase in the price level is not necessarily inflation. Inflation is an on-going process, not a one-time increase in the price level.

References

Question From: Session 4 > Reading 17 > LOS e

Related Material:

- Key Concepts by LOS

Question #63 of 99

Question ID: 413751

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)** (G − T) = (S − I) + (X − M).
- ✗ **C)** (X − M) = (S − I) + (G − T).

Explanation

The fundamental relationship of saving to investment, the fiscal balance, and the trade balance is S = I + (G − T) + (X − M), or (S − I) = (G − T) + (X − M). This relationship can be solved for the fiscal balance, (G − T) = (S − I) − (X − M), or for the trade balance, (X − M) = (S − I) − (G − T).

References

Question From: Session 4 > Reading 16 > LOS e

Related Material:

- Key Concepts by LOS

Question #64 of 99

Question ID: 413795

According to Keynesian school theory, business cycles are caused by:

- ✗ **A)** inappropriate variations in the growth of the money supply.
- ✓ **B)** excessive optimism or pessimism among business managers.
- ✗ **C)** changes in technology over time.

Explanation

In Keynesian business cycle theory, business cycles are caused primarily by changes in expectations about economic growth. Business managers overinvest when they are excessively optimistic and underinvest when they are excessively pessimistic.

References

Question From: Session 4 > Reading 17 > LOS c

Related Material:

- Key Concepts by LOS

Question #65 of 99

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.

Explanation

National income is the sum of employee wages and benefits, corporate and government enterprise profits before tax, interest income, unincorporated business owners' income, rental income, and indirect business taxes less subsidies. Capital consumption allowance is an estimate of depreciation during the measurement period. Statistical discrepancy is an adjustment to GDP when measured using the income approach, which accounts for differences from the data used to calculate GDP using the expenditure approach.

References

Question From: Session 4 > Reading 16 > LOS d

Related Material:

- Key Concepts by LOS

Question #66 of 99

Question ID: 413798

Which of the following statements is *most* accurate regarding monetarists? Monetarists believe that:

✓ **A)** steady, predictable money growth is the best monetary policy.

✗ **B)** discretionary monetary policy is the best way to moderate fluctuations in prices and output.

✗ **C)** fiscal policy is the most powerful of all government tools used to affect prices and output.

Explanation

Monetarists believe that the Fed's tools are powerful and should *not* be used to moderate fluctuations in prices and outputs. Thus, steady, predictable growth is the best monetary policy. They believe in the power of the money supply, not fiscal policy, to affect prices and outputs.

References

Question From: Session 4 > Reading 17 > LOS c

Related Material:

- Key Concepts by LOS

Question #67 of 99

Question ID: 413809

Steve Walker, CFA, is attending an economics lecture, during which the lecturer makes the following two statements about consumer price inflation:

Statement 1: High-definition televisions are considerably more expensive than traditional models. This means consumers are spending more money per television unit, which represents a form of inflation.

Statement 2: Employment contracts with automatic increases based on the Consumer Price Index fail to increase wages in line with the cost of living because of biases in the price index.

Should Walker *agree* or *disagree* with these statements?

	Statement 1	Statement 2
✗ **A)**	Agree	Agree
✓ **B)**	Disagree	Disagree
✗ **C)**	Disagree	Agree

Explanation

Walker should disagree with both statements. Price changes resulting from increases in the quality of goods, do not represent inflation. However, the Consumer Price Index is affected by biases from product quality, as well as new goods and substitution, causing it to overstate the rate of inflation. As a result, increases in wages that are based on CPI will more than compensate for actual increases in the cost of living.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #68 of 99

Question ID: 413766

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

✓ **A)** The average rate of labor productivity increases.

✗ **B)** Wage rates increase.

✗ **C)** Aggregate demand decreases.

Explanation

Factors that shift the long-run aggregate supply curve (LAS) to the right include improvements in technology and productivity, increases in the supply of resources, and institutional changes that increase the efficiency of resource use. An increase in the productivity of the average worker is likely to shift the LAS curve to the right. Wage rate changes shift the short-run aggregate supply curve (SAS) but not the LAS curve. A decline in consumer demand would represent a move down the LAS curve but not a shift in LAS.

References

Question From: Session 4 > Reading 16 > LOS h

Related Material:

- Key Concepts by LOS

Question #69 of 99

Question ID: 413760

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.

Explanation

The long-run aggregate supply curve is perfectly inelastic because in the long run all input prices change in proportion to the price level. Therefore the price level has no effect on long-run aggregate supply, which represents the level of potential GDP.

References

Question From: Session 4 > Reading 16 > LOS g

Related Material:

- Key Concepts by LOS

Question #70 of 99

Question ID: 472410

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

- ✗ **A)** will decrease.
- ✗ **B)** may increase or decrease.
- ✓ **C)** will increase.

Explanation

Increases in AD and SRAS both cause real GDP to increase. An increase in AD increases the price level, but an increase in SRAS tends to decrease the price level, so their combined effect could be an increase or a decrease in the price level.

References

Question From: Session 4 > Reading 16 > LOS l

Related Material:

- Key Concepts by LOS

Question #71 of 99

Question ID: 413797

At a recent symposium, "The Great Economic Debate of the Decade" several panelists were asked to state their opinions on aggregate demand and aggregate supply.

Panelist 1 stated that he believed shifts in both aggregate demand and aggregate supply were driven primarily by changes in technology over time.

Panelist 2 stated that she believed the focus of economic policy should be to directly increase aggregate demand by increasing the money supply or through fiscal policy.

The views of Panelist 1 and Panelist 2 would *best* be described as which economic school of thought?

		Panelist 1	Panelist 2
✓	**A)**	Neoclassical	Keynesian
✗	**B)**	Keynesian	New Keynesian
✗	**C)**	New Classical	Monetarist

Explanation

The neoclassical economists believe that shifts in both aggregate demand and aggregate supply are primarily driven by changes in technology over time. Keynesian economists believe that aggregate demand can be increased through monetary policy (increasing the money supply) or through fiscal policy (increasing government spending, decreasing taxes, or both). They do not focus on aggregate supply. Monetarists believe that the main factor leading to business cycles and deviations from full-employment equilibrium is monetary policy.

References

Question From: Session 4 > Reading 17 > LOS c

Related Material:

- Key Concepts by LOS

Question #72 of 99

Question ID: 413746

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.

Explanation

The GDP deflator is the percentage difference between nominal GDP and real GDP, reflecting inflation since the base period.

References

Question From: Session 4 > Reading 16 > LOS c

Related Material:

- Key Concepts by LOS

Question #73 of 99

Question ID: 413778

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

- ✗ **A)** private and government spending.
- ✓ **B)** the labor force and productivity.
- ✗ **C)** consumption and investment.

Explanation

The sustainable rate of economic growth can be estimated as the sum of the growth rate of the labor force and the growth rate of labor productivity.

References

Question From: Session 4 > Reading 16 > LOS m

Related Material:

- Key Concepts by LOS

Question #74 of 99

Question ID: 413815

The current annual inflation rate, as measured by using the Consumer Price Index (CPI), is *best* defined as:

- ✓ **A)** percentage change in the CPI from a year ago.
- ✗ **B)** increase in the CPI from a year ago.
- ✗ **C)** percentage change in the CPI from its base period.

Explanation

The inflation rate is the percentage change in the price index from a year earlier.

References

Question From: Session 4 > Reading 17 > LOS f

Related Material:

- Key Concepts by LOS

Question #75 of 99

Question ID: 413740

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

✓ **A)** Net imports.

✗ **B)** Investment.

✗ **C)** Consumption.

Explanation

The components of GDP are consumption, investment, government spending, and net exports, which is exports minus imports.

References

Question From: Session 4 > Reading 16 > LOS a

Related Material:

- Key Concepts by LOS

Question #76 of 99

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)**	Decrease	Decrease	Decrease
✗ **B)**	Increase	Increase	Increase
✗ **C)**	Decrease	Increase	Increase

Explanation

At higher price levels, consumption, investment, and net exports all decrease. A rising price level decreases consumers' real wealth, so they consume less. The higher price level will increase interest rates, which causes business investment to decrease. Rising domestic prices will also reduce foreign purchases of the country's goods, decreasing net exports.

References

Question From: Session 4 > Reading 16 > LOS i

Related Material:

- Key Concepts by LOS

Question #77 of 99

Question ID: 413773

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

✗ **A)** recession.

✓ **B)** inflation.

✗ **C)** underemployment.

Explanation

The economy is in an inflationary phase if actual real GDP is greater than potential real GDP. When actual real GDP equals potential real GDP, the economy is said to be at full employment. The economy is in a recessionary phase if real GDP is less than potential GDP.

References

Question From: Session 4 > Reading 16 > LOS j

Related Material:

- Key Concepts by LOS

Question #78 of 99

Question ID: 413818

Which of the following types of price index is *most likely* to include a sub-index for raw materials?

✗ **A)** GDP deflator.

✓ **B)** Wholesale price index.

✗ **C)** Consumer price index.

Explanation

Wholesale or producer price indexes typically include sub-indexes for finished goods, intermediate goods, and raw materials or crude goods.

References

Question From: Session 4 > Reading 17 > LOS f

Related Material:

- Key Concepts by LOS

Question #79 of 99

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)** Inflation increases from 4% to 7%.

✗ **C)** A labor stoppage causes the price of steel to rise.

Explanation

Changes in the price level represent movement along the short-run aggregate supply curve. The other items listed are events that are likely to shift the short-run aggregate supply curve to the left (decrease SRAS).

References

Question From: Session 4 > Reading 16 > LOS h

Related Material:

- Key Concepts by LOS

Question #80 of 99

Question ID: 413796

Which of the following *most* accurately describes the Monetarist school of macroeconomic thought in relation to aggregate demand and aggregate supply? Monetarists believe that the money supply should be:

- ✓ **A)** increased by a predictable rate annually.
- ✗ **B)** reduced during inflationary periods and increased during recessionary periods.
- ✗ **C)** increased during inflationary periods and reduced during recessionary periods.

Explanation

Monetarists believe that to keep aggregate demand stable and growing, the central bank should follow a policy of steady and predictable increases in the money supply. Furthermore, monetarists believe that recessions are caused by inappropriate decreases in the money supply and that recessions can be persistent because money wage rates are downward sticky.

References

Question From: Session 4 > Reading 17 > LOS c

Related Material:

- Key Concepts by LOS

Question #81 of 99

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)** increases in industrial production.
- ✗ **C)** shifts in the aggregate supply curve.

Explanation

The production function approach relates a country's economic output to its inputs of capital and labor and its levels of productivity.

References

Question From: Session 4 > Reading 16 > LOS n

Related Material:

- Key Concepts by LOS

Question #82 of 99

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 interest rates in the domestic economy will tend to increase.

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

Explanation

When incomes in foreign countries increase, it is unlikely to have a direct effect on interest rates in the domestic economy. However, an increase in foreign incomes is likely to result in greater foreign purchases of goods exported from the domestic country, which increases the domestic country's net exports and aggregate demand.

References

Question From: Session 4 > Reading 16 > LOS h

Related Material:

- Key Concepts by LOS

Question #83 of 99

Question ID: 413750

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

✓ **A)** a fiscal surplus.

✗ **B)** a fiscal deficit.

✗ **C)** no fiscal surplus or deficit.

Explanation

The fundamental relationship among saving, investment, the fiscal balance, and the trade balance is stated as: (G - T) = (S - I) - (X - M). If S = I, this equation becomes (G - T) = - (X - M), or (T - G) = (X - M). In this case, if the trade balance is in surplus (exports are greater than imports), the fiscal balance must also be in surplus (taxes are greater than government spending).

References

Question From: Session 4 > Reading 16 > LOS e

Related Material:

- Key Concepts by LOS

Question #84 of 99

Question ID: 413807

When economists are speaking of the labor-force participation rate, they are referring to which of the following? The labor-force participation rate is the percentage of the:

- ✗ **A)** labor force who are new entrants (less than one year of work experience).
- ✓ **B)** working-age population who are either working or actively looking for work.
- ✗ **C)** working-age population who are working.

Explanation

The labor-force participation rate is the percentage of the working-age population who are employed or actively seeking employment. The labor-force participation rate can be calculated as: (the labor force / working-age population) × 100.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #85 of 99

Question ID: 413828

Average weekly initial claims for unemployment insurance are classified as a:

- ✗ **A)** lagging indicator.
- ✓ **B)** leading indicator.
- ✗ **C)** coincident indicator.

Explanation

Initial claims for unemployment insurance are considered a leading indicator.

References

Question From: Session 4 > Reading 17 > LOS i

Related Material:

- Key Concepts by LOS

Question #86 of 99

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)** higher real GDP.
- ✗ **B)** a lower price level.
- ✓ **C)** a higher price level.

Explanation

Both an increase in aggregate demand and a decrease in short-run aggregate supply increase the price level. Their combined effect on real GDP depends on the magnitudes of the changes in AD and SRAS.

References

Question From: Session 4 > Reading 16 > LOS l

Related Material:

- Key Concepts by LOS

Question #87 of 99

Question ID: 413748

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

- ✗ **A)** wages and benefits, corporate profits, interest income, unincorporated business owners' income, rent, and indirect business taxes less subsidies.
- ✓ **B)** consumption spending, gross private domestic investment, government spending, and net exports.
- ✗ **C)** national income and transfer payments to households, less corporate and indirect business taxes and undistributed corporate profits.

Explanation

Under the expenditure approach, GDP is the sum of consumption, investment, government spending, and net exports. National income is the sum of wages and benefits, corporate profits, interest income, unincorporated business owners' income, rent, and indirect business taxes less subsidies. Personal income is the sum of national income and transfer payments to households, less corporate and indirect business taxes and undistributed corporate profits.

References

Question From: Session 4 > Reading 16 > LOS d

Related Material:

- Key Concepts by LOS

Question #88 of 99

Question ID: 413755

The IS curve illustrates the:

- ✗ **A)** inverse relationship between income and the price level.

- ✗ **B)** direct relationship between investment and savings.
- ✓ **C)** inverse relationship between real interest rates and income.

Explanation

The IS curve slopes downward and shows an inverse relationship between real interest rates and income equilibria.

References

Question From: Session 4 > Reading 16 > LOS f

Related Material:

- Key Concepts by LOS

Question #89 of 99

Question ID: 413811

Which of the following statements regarding inflation is *most* accurate?

- ✗ **A)** Inflation occurs when there is a steady increase in the relative prices of key commodities.
- ✓ **B)** An economy experiences inflation when there is a persistent increase in the prices of almost all goods and services.
- ✗ **C)** Inflation is present if the prices of some goods and services are increasing.

Explanation

Inflation is a persistent increase in the price level over time. Inflation occurs when there is a sustained increase in the prices of almost *all* goods and services. Inflation indicates a decline in the purchasing power of a currency.

References

Question From: Session 4 > Reading 17 > LOS e

Related Material:

- Key Concepts by LOS

Question #90 of 99

Question ID: 413800

Which of the following is the *most* accurate definition of the labor force?

- ✗ **A)** Those people of working age who are not retired or in prison.
- ✓ **B)** Those people of working age who are either employed or seeking employment.
- ✗ **C)** All people of working age.

Explanation

The labor force includes people of working age (16+) who are either employed or seeking employment. People who are not employed or seeking employment (e.g., homemakers, full-time students, "discouraged" workers) are not counted as part of the labor force.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS

Question #91 of 99

Question ID: 413816

Which of the following statements *most* accurately describes the difference between headline inflation and core inflation?

- ✓ **A)** Core inflation does not include food and energy prices.
- ✗ **B)** Headline inflation is a better measure of the underlying trend in prices.
- ✗ **C)** Core inflation refers to producer prices.

Explanation

Core inflation excludes food and energy and is thus a better measure of the underlying trend in prices.

References

Question From: Session 4 > Reading 17 > LOS f

Related Material:

- Key Concepts by LOS

Question #92 of 99

Question ID: 413787

During an economic contraction:

- ✗ **A)** real GDP growth is greater than its sustainable long-term rate.
- ✓ **B)** inflation pressures are typically decreasing.
- ✗ **C)** the unemployment rate typically decreases.

Explanation

An economic contraction (recession) is typically characterized by decreasing inflationary pressures, increasing unemployment, and low or negative real GDP growth.

References

Question From: Session 4 > Reading 17 > LOS a

Related Material:

- Key Concepts by LOS

Question #93 of 99

Question ID: 413758

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

- ✗ **A)** The wealth effect causes consumers to spend less when the price level rises.
- ✗ **B)** Business investment declines as a rising price level increases interest rates.
- ✓ **C)** Because entitlements are adjusted for inflation, a rising price level forces government spending to increase.

Explanation

The aggregate demand curve plots real GDP against the price level. Rising entitlement payments that result from an increasing price level affect nominal GDP, but not real GDP. Both remaining choices describe reasons why the consumption and investment components of real GDP decrease when the price level increases.

References

Question From: Session 4 > Reading 16 > LOS f

Related Material:

- Key Concepts by LOS

Question #94 of 99

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)** aggregate demand has decreased.
- ✗ **C)** long-run aggregate supply has decreased.

Explanation

A decrease in aggregate demand can reduce output below its full-employment level. A decline in long-run aggregate supply would mean the full-employment output level itself has decreased. Wage rates are assumed to be fixed in the short run, but the long-run effect of decreases in wage rates would be to increase (shift) short-run aggregate supply, leading to an increase in output.

References

Question From: Session 4 > Reading 16 > LOS k

Related Material:

- Key Concepts by LOS

Question #95 of 99

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)** Size of the labor force.
- ✗ **C)** Amount of capital available.

Explanation

Economic output can be stated as a production function of the form $Y = A \times f(L, K)$, where Y is economic output, L is the size of the labor force, K is the amount of capital available, and A is total factor productivity.

References

Question From: Session 4 > Reading 16 > LOS n

Related Material:

- Key Concepts by LOS

Question #96 of 99

Question ID: 413812

Which of the following statements regarding inflation is *most* accurate?

- ✗ **A)** The purchasing power of money increases as a result of inflation.
- ✓ **B)** Inflation is a persistent increase in the general price level of goods and services.
- ✗ **C)** As a result of inflation, all borrowers gain at the expense of lenders.

Explanation

Inflation is defined as a persistent increase in the price level over time. Inflation indicates that there has been a general decline in the purchasing power of a currency. Fixed-rate borrowers gain at the expense of lenders when inflation is greater than expected.

References

Question From: Session 4 > Reading 17 > LOS e

Related Material:

- Key Concepts by LOS

Question #97 of 99

Question ID: 413793

An economy has been producing at its full-employment level of output and the price level has been stable. Businesses then begin experiencing unintended decreases in their inventory levels. What does this *most likely* imply about the short-run outlook for economic growth and inflation?

	Economic growth	Inflation

✗ **A)** Increasing Decreasing

✓ **B)** Increasing Increasing

✗ **C)** Decreasing Increasing

Explanation

Starting from conditions of long-run equilibrium, unintended decreases in inventory levels suggest that aggregate demand has increased. Producers will respond in the short run by increasing output and prices, so economic growth and inflation will increase.

References

Question From: Session 4 > Reading 17 > LOS b

Related Material:

- Key Concepts by LOS

Question #98 of 99

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 positive.

✗ **B)** is negative.

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

Explanation

Growth in potential GDP = growth in labor force + growth in labor productivity. In this example, -2% + 3% = 1% growth in potential GDP.

References

Question From: Session 4 > Reading 16 > LOS m

Related Material:

- Key Concepts by LOS

Question #99 of 99

Question ID: 413803

Which of the following is the *least likely* one of the types of unemployment?

✗ **A)** Frictional.

✓ **B)** Temporal.

✗ **C)** Structural.

Explanation

There are three types of unemployment: frictional, cyclical, and structural.

- Frictional unemployment is due to constant changes in the economy that prevent qualified workers from being immediately matched with existing job openings.
- Cyclical unemployment is when the economy is operating at less than full capacity.
- Structural unemployment is due to structural changes in the economy that eliminate some jobs while generating job openings for which unemployed workers are not qualified.

References

Question From: Session 4 > Reading 17 > LOS d

Related Material:

- Key Concepts by LOS