

Chapter: Practice Exam for Macro Indicators

Instruction:

Name: _____ Date: _____

Multiple Choice

1. GDP does *not* include
- A) vegetables grown and consumed by a nonfarm family.
 - B) the purchase of a new Porsche.
 - C) the sale of meat at the local grocery store.
 - D) the government purchase of an F-14 fighter plane.
 - E) the salary paid to a company CEO.

Ans: A

Difficulty: Medium

FQ: 1

SectionDef: 1-A

Test Bank Version: A

Topic: GDP

Type: Interpretative

2. Intermediate goods and services
- A) are not included in calculating GDP using the value-added method.
 - B) are goods and services produced in the last year but sold in this year.
 - C) are goods and services used as an input for the production of final goods and services.
 - D) are goods and services purchased for ultimate consumption.
 - E) are goods and services produced this year but not yet sold.

Ans: C

Difficulty: Easy

FQ: 1

SectionDef: 1-A

Test Bank Version: A

Topic: GDP
Type: Interpretative

3. When calculating GDP, inventory levels are important to economists because
- A) they measure the level of underemployment.
 - B) they provide information about workers' attitudes.
 - C) we need to know them to fully understand foreign competition.
 - D) GDP cannot be calculated unless we know that inventories were double-counted.
 - E) we need to know them to calculate the total value of goods produced but not sold in a year.

Ans: E
Difficulty: Medium
FQ: 1
SectionDef: 1-A
Test Bank Version: A
Topic: GDP
Type: Interpretative

4. What is the importance of not including intermediate goods when calculating GDP?
- A) Avoiding single product counting
 - B) Restricting GDP to important goods
 - C) Keeping the consumer price index constant
 - D) Avoiding double counting
 - E) Restricting GDP to goods that can be priced

Ans: D
Difficulty: Easy
FQ: 2
SectionDef: 1-A
Test Bank Version: A
Topic: GDP
Type: Interpretative

5. Inventory can be defined as
- A) the stock of capital outstanding.
 - B) the stock of unsold goods held by a firm.
 - C) the reservoir of inputs needed for production.

- D) the system of accounts that uses double counting.
- E) the characteristic that all successful inventions have.

Ans: B

Difficulty: Easy

FQ: 2

SectionDef: 1-A

Test Bank Version: A

Topic: Inventory

Type: Factual

6. Looking at the 2001 U.S. GDP statistics, the fact that net exports were negative means that
- A) imports were greater than exports in the 1990s.
 - B) exports were greater than imports up to 2001.
 - C) imports were greater than exports in 2001.
 - D) exports were greater than imports in 2001.
 - E) exports were greater than imports in the 1990s.

Ans: C

Difficulty: Easy

FQ: 2

SectionDef: 1-A

Test Bank Version: A

Topic: GDP

Type: Interpretative

7. Which of the following is true?

- A) $GDP = I + G + S + X$
- B) $GDP - X = C + I + S$
- C) $GDP = C + I + G - X$
- D) $GDP = I + C + G + X$
- E) $X + I = GDP - C + G$

Ans: D

Difficulty: Easy

FQ: 3

SectionDef: 1-A

Test Bank Version: A

Topic: Expenditures approach

Type: Factual

8. For a hypothetical economy in a given year, GDP equaled \$1,190, consumption equaled \$782, government spending equaled \$187, goods exported equaled \$98, and goods imported equaled \$157. What was investment equal to?

- A) \$148
- B) -\$34
- C) \$280
- D) \$910
- E) Cannot be determined from the information given.

Ans: C

Difficulty: Difficult

FQ: 3

SectionDef: 1-A

Test Bank Version: A

Topic: Expenditures approach

Type: Applied

Reference: Ref 6-2

GDP Expenditures	
Consumption Spending	\$1,640
Gross Investment	\$550
Government Purchases	\$320
Total Exports	\$280
GDP	\$2,630

9. Net exports for the economy described in the table above are

- A) -\$280.
- B) -\$160.
- C) +\$120.
- D) +\$160.
- E) Cannot be determined with the information given.

Ans: C

Refer To: Ref 6-2

Difficulty: Difficult
FQ: 3
SectionDef: 1-A
Test Bank Version: A
Topic: Expenditures approach
Type: Applied

10. Total imports for the economy described in the table above are
- A) \$0.
 - B) \$60.
 - C) \$120.
 - D) \$160.
 - E) Cannot be determined with the information given.

Ans: D
Refer To: Ref 6-2
Difficulty: Difficult
FQ: 3
SectionDef: 1-A
Test Bank Version: A
Topic: Expenditures approach
Type: Applied

11. Real GDP measures
- A) personal income adjusted for taxes paid to the government.
 - B) national output adjusted for changes in the quality of products.
 - C) national output adjusted for price level changes.
 - D) nominal output adjusted for changes in national income because of economic booms.
 - E) national output adjusted for unemployment.

Ans: C
Difficulty: Easy
FQ: 5
SectionDef: 2-A
Test Bank Version: A
Topic: Real GDP
Type: Factual

12. What is a consumer price index?

- A) A measure of the price at which consumers sell their resources
- B) A measure of the average price level in an economy
- C) A measure of the highest price at which consumers sell their resources
- D) A measure of the average price at which consumers sell their resources
- E) A measure of the average price dispersion of all final goods

Ans: B

Difficulty: Easy

FQ: 6

SectionDef: 2-B

Test Bank Version: A

Topic: Price index

Type: Factual

13. The price index for the current year is 180. This means that, on average, prices in the current year are

- A) \$0.80 higher than prices in the base year.
- B) \$1.80 higher than prices in the base year.
- C) 80 percent of prices in the base year.
- D) 180 percent higher than prices in the base year.
- E) 80 percent higher than prices in the base year.

Ans: E

Difficulty: Medium

FQ: 6

SectionDef: 2-B

Test Bank Version: A

Topic: Price index

Type: Applied

Reference: Ref 6-6

Production Data				
Production	Prices per Unit		Output	
	1995	2003	1995	2003
Vegetables	\$2	\$4	250	300
Meat	\$8	\$12	500	550

14. Refer to the table above. What is nominal GDP for 1995?

- A) \$750
- B) \$500
- C) \$10
- D) \$4,500
- E) \$5,400

Ans: D

Refer To: Ref 6-6

Difficulty: Difficult

FQ: 6

SectionDef: 2-B

Test Bank Version: A

Topic: Nominal GDP

Type: Applied

15. Refer to the table above. What is nominal GDP for 2003?

- A) \$750
- B) \$7,800
- C) \$16
- D) \$4,500
- E) \$5,000

Ans: B

Refer To: Ref 6-6

Difficulty: Difficult

FQ: 6

SectionDef: 2-B

Test Bank Version: A

Topic: Nominal GDP

Type: Applied

16. Refer to the table above. What is the real GDP growth from 1995 to 2003 using 1995 as the base year?

- A) 11.1 percent
- B) 11.4 percent

- C) 13.6 percent
- D) 73.3 percent
- E) 55.5 percent

Ans: A

Refer To: Ref 6-6

Difficulty: Medium

FQ: 6

SectionDef: 2-B

Test Bank Version: A

Topic: Price index

Type: Applied

17. Refer to the table above. What is the real GDP growth from 1995 to 2003 using 2003 as the base year?

- A) 11.0 percent
- B) 11.4 percent
- C) 13.6 percent
- D) 73.3 percent
- E) 55.5 percent

Ans: B

Refer To: Ref 6-6

Difficulty: Difficult

FQ: 6

SectionDef: 2-B

Test Bank Version: A

Topic: Price index

Type: Applied

18. Nominal GDP

- A) is real GDP divided by the price level.
- B) measures output in constant prices.
- C) decreases when the price level increases.
- D) measures output in terms of its current dollar value.
- E) is real GDP divided by the consumer price index.

Ans: D

Difficulty: Easy

FQ: 5

SectionDef: STUDY GUIDE

Test Bank Version: A

Topic: GDP

Type: Factual

19. Which of the following is counted in the GDP?
- A) The value of homemaker services
 - B) Estimated illegal drug transactions
 - C) The value of NFL players' help to the community
 - D) The wages earned while working overtime
 - E) The sale of a used automatic dishwasher

Ans: D

Difficulty: Medium

FQ: 1

SectionDef: STUDY GUIDE

Test Bank Version: A

Topic: GDP

Type: Factual

20. A business cycle consists of
- A) fluctuations in the level of corporate profits.
 - B) seasonal unemployment patterns.
 - C) the ups and downs of real GDP.
 - D) changes in the long-term growth pattern of the CPI.
 - E) fluctuations in the general price level.

Ans: C

Difficulty: Easy

FQ: 1

SectionDef: 1-A

Test Bank Version: A

Topic: Business cycle

Type: Factual

21. The period between a recession and an expansion is known as a(n)
- A) boom.

- B) recovery.
- C) expansion.
- D) trough.
- E) contraction.

Ans: D

Difficulty: Easy

FQ: 1

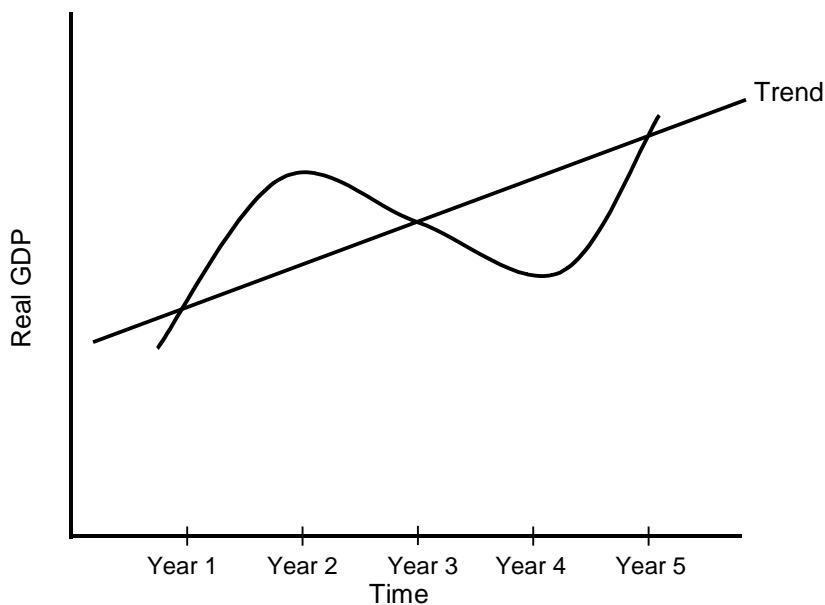
SectionDef: 1-A

Test Bank Version: A

Topic: Recession

Type: Factual

Reference: Ref 8-1



22. Refer to the figure above. In year 4,
- A) a recession is starting.
 - B) the economy is entering a contractionary phase.
 - C) a peak has been reached.
 - D) the economy is expanding at its long-run growth rate.
 - E) a new expansion begins.

Ans: E

Refer To: Ref 8-1
Difficulty: Easy
FQ: 1
SectionDef: 1-A
Test Bank Version: A
Topic: Business cycle
Type: Applied

23. In the figure above, a new contraction begins in
- A) year 1.
 - B) year 2.
 - C) year 3.
 - D) year 4.
 - E) year 5.

Ans: B
Refer To: Ref 8-1
Difficulty: Medium
FQ: 1
SectionDef: 1-A
Test Bank Version: A
Topic: Business cycle
Type: Applied

24. Refer to the figure above. The contraction phase of the business cycle occurs from
- A) year 2 until year 3.
 - B) year 3 until year 5.
 - C) year 2 until year 4.
 - D) year 1 until year 4.
 - E) year 3 until year 4.

Ans: C
Refer To: Ref 8-1
Difficulty: Medium
FQ: 1
SectionDef: 1-A
Test Bank Version: A
Topic: Business cycle
Type: Applied

25. Refer to the figure above. In year 2,
- A) a peak has been reached.
 - B) a new expansion begins.
 - C) the economy is expanding above its long-run growth rate.
 - D) the economy is entering an expansionary phase.
 - E) the economy is in a recession.

Ans: A

Refer To: Ref 8-1

Difficulty: Easy

FQ: 1

SectionDef: 1-A

Test Bank Version: A

Topic: Business cycle

Type: Applied

26. A lagging indicator
- A) changes before a recession starts.
 - B) goes down before a recession starts.
 - C) changes during a recession.
 - D) changes after an expansion occurs.
 - E) does not change with fluctuations in economic activity.

Ans: D

Difficulty: Medium

FQ: 1

SectionDef: 1-C

Test Bank Version: A

Topic: Indicators

Type: Interpretative

27. If stock market prices are a leading indicator, then economic activity goes up
- A) before stock market prices increase.
 - B) at the same time that stock market prices increase.
 - C) after stock market prices increase.
 - D) before stock market prices decrease.
 - E) after stock market prices decrease.

Ans: C
Difficulty: Medium
FQ: 1
SectionDef: 1-C
Test Bank Version: A
Topic: Indicators
Type: Applied

28. The official unemployment rate is
- A) the number of unemployed people divided by the number of employed people.
 - B) the number of unemployed people divided by the total size of the population.
 - C) the number of unemployed people divided by the size of the non-institutionalized population.
 - D) the number of unemployed people divided by the size of the labor force.
 - E) the number of unemployed people divided by the size of the non-institutionalized population, age 16 or older.

Ans: D
Difficulty: Medium
FQ: 2
SectionDef: 2-A
Test Bank Version: A
Topic: Unemployment rate
Type: Factual

29. The Bureau of Labor Statistics defines a person as unemployed if he or she does not
- A) work full time.
 - B) have a job but is actively seeking one.
 - C) earn a wage above the minimum wage rate.
 - D) earn enough income to be above the poverty level.
 - E) work as much as he or she desires.

Ans: B
Difficulty: Easy
FQ: 2
SectionDef: 2-A
Test Bank Version: A
Topic: Unemployment rate
Type: Factual

30. Which of the following persons would be considered unemployed?
- A) A house wife/husband
 - B) A 15-year-old looking for summer employment
 - C) A person who worked more than 20 hours in a family-owned business
 - D) A recent college graduate looking for her first job
 - E) A full-time student

Ans: D

Difficulty: Medium

FQ: 2

SectionDef: 2-A

Test Bank Version: A

Topic: Unemployment rate

Type: Interpretative

31. Which of the following would be considered a member of the U.S. labor force?
- A) A carpenter who hasn't looked for work during the past year
 - B) An inmate in a state prison who makes license plates
 - C) A person in a mental institution
 - D) A 14-year-old boy who mows lawns for money on the weekends
 - E) An anthropologist whose search for a job has been unsuccessful

Ans: E

Difficulty: Medium

FQ: 2

SectionDef: 2-A

Test Bank Version: A

Topic: Unemployment rate

Type: Interpretative

Reference: Ref 8-2

Scenario 1

An independent firm recently predicted that in the year 2020, the total number of residents in the United States will be 315.5 million, the number of residents under 16 years of age will be 85 million, the number of institutionalized adults will be 17 million, the number of adults not

actively looking for work will be 39 million, and the number of unemployed will be 21.5 million.

32. Refer to the data in Scenario 1. What will be the size of the labor force in the United States in the year 2020?

- A) 153 million
- B) 294 million
- C) 174.5 million
- D) 198 million
- E) 315.5 million

Ans: C

Refer To: Ref 8-2

Difficulty: Difficult

FQ: 2

SectionDef: 2-A

Test Bank Version: A

Topic: Unemployment rate

Type: Applied

33. Refer to the data in Scenario 1. What is the predicted unemployment rate in the United States for the year 2020?

- A) 6.8 percent
- B) 8.3 percent
- C) 11.5 percent
- D) 12.3 percent
- E) 16.5 percent

Ans: D

Refer To: Ref 8-2

Difficulty: Difficult

FQ: 2

SectionDef: 2-A

Test Bank Version: A

Topic: Unemployment rate

Type: Applied

34. _____ and _____ cause the official unemployment rate to underestimate true

unemployment, whereas _____ causes the official rate to overestimate the true rate of unemployment.

- A) Frictional unemployment; discouraged workers; the underground economy
- B) Discouraged workers; underemployment; the underground economy
- C) The underground economy; discouraged workers; underemployment
- D) Underemployment; discouraged workers; structural unemployment
- E) Frictional unemployment; structural unemployment; the underground economy

Ans: B

Difficulty: Medium

FQ: 2

SectionDef: 2-B

Test Bank Version: A

Topic: Hidden unemployment

Type: Factual

35. Including discouraged workers in the labor market statistics would

- A) reduce the labor force and increase the unemployment rate.
- B) increase the labor force and increase the unemployment rate.
- C) increase the labor force and reduce the unemployment rate.
- D) reduce the labor force and decrease the unemployment rate.
- E) affect neither the size of the labor force nor the unemployment rate.

Ans: B

Difficulty: Difficult

FQ: 2

SectionDef: 2-B

Test Bank Version: A

Topic: Hidden unemployment

Type: Interpretative

36. This type of unemployment arises as one of the worst effects of a recession.

- A) Seasonal unemployment
- B) Static unemployment
- C) Cyclical unemployment
- D) Frictional unemployment
- E) Structural unemployment

Ans: C

Difficulty: Easy

FQ: 2
SectionDef: 2-C
Test Bank Version: A
Topic: Types of unemployment
Type: Factual

37. When Karen Baker finished college, it was three months before she found a good job. During this time between graduation and her first working day, she was considered
- A) cyclically unemployed.
 - B) frictionally unemployed.
 - C) frequently unemployed.
 - D) structurally unemployed.
 - E) still employed.

Ans: B
Difficulty: Medium
FQ: 2
SectionDef: 2-C
Test Bank Version: A
Topic: Frictional unemployment
Type: Applied

38. Structural unemployment is the result of
- A) business cycle fluctuations.
 - B) recurring changes in the hiring needs of certain industries.
 - C) short-term movement of workers between jobs.
 - D) job search for first-time job seekers.
 - E) technological change or permanent changes in industry demand.

Ans: E
Difficulty: Medium
FQ: 2
SectionDef: 2-C
Test Bank Version: A
Topic: Structural unemployment
Type: Factual

39. The natural rate of unemployment is the unemployment rate that would exist in the absence of
- A) structural unemployment.
 - B) underemployment.
 - C) cyclical unemployment.
 - D) frictional unemployment.
 - E) seasonal unemployment.

Ans: C

Difficulty: Easy

FQ: 3

SectionDef: 2-D

Test Bank Version: A

Topic: Natural unemployment rate

Type: Factual

40. The real interest rate equals
- A) the nominal interest rate plus the rate of expected inflation.
 - B) the nominal interest rate divided by the rate of expected inflation.
 - C) the rate of expected inflation minus the nominal interest rate.
 - D) the nominal interest rate minus the rate of unexpected inflation.
 - E) the nominal interest rate minus the rate of expected inflation.

Ans: E

Difficulty: Easy

FQ: 5

SectionDef: 3-B

Test Bank Version: A

Topic: Real interest rate

Type: Factual

41. If the nominal interest rate is less than the rate of inflation, the real interest rate
- A) will be less than zero.
 - B) does not change.
 - C) will equal zero.
 - D) will be greater than zero.
 - E) this can never happen.

Ans: A

Difficulty: Easy

FQ: 5

SectionDef: 3-B

Test Bank Version: A

Topic: Real interest rate

Type: Interpretative

42. The nominal interest rate

- A) is not observed in the real world.
- B) equals the inflation rate minus the real interest rate.
- C) equals the amount of expected inflation plus the real interest rate.
- D) determines the real return on an investment.
- E) determines how high the actual inflation rate will be.

Ans: C

Difficulty: Medium

FQ: 5

SectionDef: 3-B

Test Bank Version: A

Topic: Nominal interest rate

Type: Factual

43. If the nominal interest rate is 12 percent and the real interest rate is 8 percent, then the expected inflation rate must equal

- A) +1.5 percent.
- B) +3 percent.
- C) +4 percent.
- D) +8 percent.
- E) +12 percent.

Ans: C

Difficulty: Medium

FQ: 5

SectionDef: 3-B

Test Bank Version: A

Topic: Real interest rate

Type: Applied

44. Inflation benefits people who
- A) lend at fixed interest rates.
 - B) receive fixed incomes.
 - C) save at fixed interest rates.
 - D) borrow at fixed interest rates.
 - E) borrow at variable interest rates.

Ans: D

Difficulty: Easy

FQ: 5

SectionDef: 3-B

Test Bank Version: A

Topic: Real interest rate

Type: Interpretative

45. Cost-push inflation is caused by
- A) full employment of resources in the economy.
 - B) excessive government spending.
 - C) excess raw materials.
 - D) the demand side of the market.
 - E) the supply side of the market.

Ans: E

Difficulty: Easy

FQ: 5

SectionDef: 3-C

Test Bank Version: A

Topic: Cost-push inflation

Type: Factual

46. Which of the following could contribute to cost-push inflation?
- A) Greater demand for exports
 - B) Lower income taxes
 - C) An increase in consumption demand
 - D) Higher government spending
 - E) Higher wage demands by trade unions

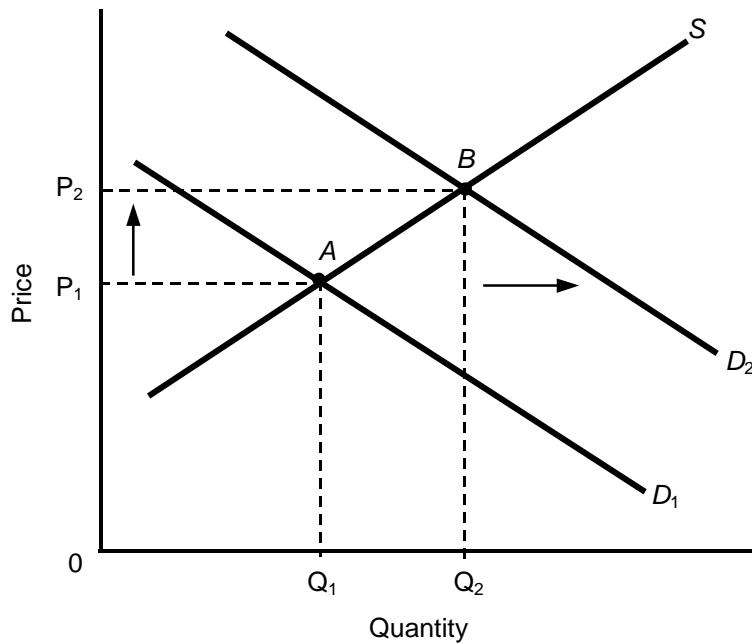
Ans: E

Difficulty: Medium

FQ: 5

SectionDef: 3-C
Test Bank Version: A
Topic: Cost-push inflation
Type: Factual

Reference: Ref 8-4



47. In the figure above, the increase in equilibrium prices could represent
- A) cost-push inflation.
 - B) wage-push inflation.
 - C) demand-pull inflation.
 - D) decreased supply.
 - E) decreased demand.

Ans: C
Refer To: Ref 8-4
Difficulty: Medium
FQ: 5
SectionDef: 3-C
Test Bank Version: A
Topic: Demand-pull inflation
Type: Applied

48. Hyperinflation

- A) causes the value of a currency to deteriorate so quickly that people become reluctant to hold that currency.
- B) is a situation in which people hoard currency.
- C) is a simultaneous increase in inflation and decrease in the quality of products.
- D) occurred in the United States in the 1970s.
- E) is a synonym for cost-push inflation.

Ans: A

Difficulty: Easy

FQ: 5

SectionDef: 3-D

Test Bank Version: A

Topic: Hyperinflation

Type: Factual

49. Which of the following could be a cause of demand-pull inflation?

- A) War in the Middle East, which can increase oil prices
- B) Drought in the Midwest, which can cause crop failures
- C) Suppliers who increase their profit margins by raising prices faster than their costs increase
- D) Increased government spending in the absence of increased taxes
- E) Labor unions, which can force wage increases that are not justified by increases in productivity

Ans: D

Difficulty: Medium

FQ: 5

SectionDef: STUDY GUIDE

Test Bank Version: A

Topic: Inflation

Type: Interpretative

50. Which of the following groups benefits from unanticipated inflation?

- A) Creditors
- B) Retirees on fixed incomes
- C) Debtors

- D) Workers whose salaries are tied to the CPI
- E) Suppliers who have contracted to supply a fixed amount of their product for a fixed price

Ans: C

Difficulty: Easy

FQ: 5

SectionDef: STUDY GUIDE

Test Bank Version: A

Topic: Unexpected inflation

Type: Interpretative

51. If a college professor's income has increased by 20 percent at the same time that prices have risen by 15 percent, the professor's real income has

- A) decreased by approximately 5 percent.
- B) increased by approximately 20 percent.
- C) increased by approximately 5 percent.
- D) decreased by approximately 20 percent.
- E) not changed.

Ans: C

Difficulty: Medium

FQ: 5

SectionDef: STUDY GUIDE

Test Bank Version: A

Topic: Purchasing power

Type: Applied