Practice Multiple Choice Practice Questions for 310, Midterm 1
Multiple Choice Questions will only be a SMALL part of your Midterm Exam!

Name_____

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

1) An increase in energy prices is a likely cause of   1) _____
   A) Korean War inflation.   B) the Great Moderation.
   C) Great Depression.   D) the recession in 1973–1975.

2) Average labor productivity is defined as   2) _____
   A) per-capita nominal GDP divided by employment.
   B) real GDP divided by employment.
   C) nominal GDP divided by employment.
   D) per-capital real GDP divided by employment.

3) In the long run, the quantity of money   3) _____
   A) does not matter.   B) influences GDP.
   C) influences the business cycle.   D) influences unemployment.

4) Government debt is different from individual debt because   4) _____
   A) the government cannot declare bankruptcy.
   B) the government can decide the interest rate.
   C) the government can always tax to reduce it.
   D) the government does not need to pay interest.

5) A likely explanation for the 2008–2009 recession is   5) _____
   A) financial market problems.
   B) an increase in energy prices.
   C) an increase in taxes.
   D) a drastic reduction in government expenses.

6) Two plausible hypotheses to explain the productivity slowdown are   6) _____
   A) globalization of capital markets and reductions in tariffs.
   B) adjustments to new technologies and failures in the educational system.
   C) large government budget deficits and large balance of trade deficits.
   D) measurement problems and adjustments to new technologies.

7) Which of the following assertions is false?   7) _____
   A) Very rapid growth occurred during World War II.
   B) On average, the U.S. economy grows at a rate of 2.1%.
   C) The Great Depression was a typical business cycle.
   D) Real GDP per capita dipped about 30% during the Great Depression.

8) According to Keynesian coordination failure theory, the primary causes of business cycles are 8) _____
   A) monetary factors.
   B) shocks to aggregate demand.
   C) technology shocks.
   D) waves of self–fulfilling optimism and pessimism.

9) Real interest rates were negative during most of the   9) _____
   A) 1970s.   B) 1980s.   C) 1990s.   D) 1960s.

10) Which is a question of interest in this book?   10) _____
   A) What causes growth in the long term?
   B) How should a government be elected?
   C) How should a labor contract be structured?
   D) What is the impact of government provided health care?

For the following questions, suppose an economy produces only food and clothing, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Food	20	$6
Clothing	10	$8

Year 2

Good	Quantity	Price
Food	25	$10
Clothing	20	$7

11) Suppose that Year 2 is the base year. Year 1 real GDP is   11) _____
   A) $270.   B) $310.   C) $200.   D) $390.

12) The income components of GDP include all of the following **except**   12) _____
   A) net interest income.   B) after–tax profits.
   C) foreign income.   D) wage income.

13) Acme Steel Co. produces 1000 tons of steel. Steel sells for $30 per ton. Acme pays wages of $10,000.   13) _____
   Acme buys $15,000 worth of coal, which is needed to produce the steel. Acme pays $2,000 in taxes.
   Acme's profit is
   A) $2,000.   B) $3,000.   C) $0.   D) $15,000.

14) The GDP deflator is a broader measure of the price level than the CPI because   14) _____
   A) it covers investment.
   B) it factors out fluctuations in seasonal items.
   C) it covers sales tax.
   D) it covers rents.

15) National saving minus private saving is equal to   15) _____
   A) private disposable income.   B) interest on the government debt.
   C) the current account deficit.   D) the government surplus.

16) When there is positive inflation,   16) _____
   A) there can never be any growth in nominal GDP.
   B) growth in nominal GDP exceeds growth in real GDP.
   C) growth in real GDP exceeds growth in nominal GDP.
   D) growth in real GDP and nominal GDP are roughly equal.

17) Who among the following is considered to be in the labor force? 17) _____
    A) discouraged workers   B) full–time students
    C) unemployed workers   D) retirees

18) Macroeconomic forecasting is made easier due to the fact that 18) _____
    A) real GDP is variable about trend.
    B) deviations from trend in real GDP are persistent.
    C) turning points are easy to predict.
    D) the business cycle has a regular frequency.

19) If real GDP helps to predict the path of a particular macroeconomic variable, it is said to be a 19) _____
    A) coincident variable.   B) lagging variable.
    C) conventional variable.   D) leading variable.

20) One example of a Phillips Curve would be a 20) _____
    A) positive relationship between deviations from trend in the level of prices and the level of
       aggregate economic activity.
    B) positive relationship between deviations from trend in real and nominal interest rates.
    C) negative relationship between deviations from trend in the level of prices and the level of
       aggregate economic activity.
    D) negative relationship between deviations from trend in real and nominal interest rates.

21) Seasonal adjustment 21) _____
    A) is a common characteristic of macroeconomic time series in wide use.
    B) should never be used.
    C) is not used by modern macroeconomists.
    D) is rarely used.

22) For the period 1947–2012, employment in the United States was 22) _____
    A) procyclical and lagging.   B) procyclical and leading.
    C) countercyclical and leading.   D) countercyclical and lagging.

23) When consumption and leisure are both normal goods, after an increase in real dividend income 23) _____
minus taxation, the rational consumer
    A) increases consumption and increases leisure.
    B) reduces consumption and increases leisure.
    C) increases consumption and reduces leisure.
    D) reduces consumption and reduces leisure.

24) When the representative firm maximizes profits, 24) _____
    A) business taxes must be zero.
    B) the wage equals marginal labor productivity.
    C) the wage equals average labor productivity.
    D) it sells as much as possible.

25) An increase in total factor productivity could be the result of 25) _____
    A) the addition of new machinery.
    B) new hires.
    C) the introduction of new manufacturing methods.
    D) adverse weather.

26) The fact that indifference curves are bowed in toward the origin   26) _____
    A) follows from the property that consumption and leisure are normal goods.
    B) is not true.
    C) follows from the property that the consumer likes diversity in his or her consumption bundle.
    D) follows from the fact that more is preferred to less.

27) When we say the U.S. economy has grown on average at 2.1%, we mean   27) _____
    A) the inflation rate.
    B) the growth rate of per-capita real GDP.
    C) the growth rate of nominal GDP.
    D) the growth rate of per-capita nominal GDP.

28) When a country has a current account deficit, the country   28) _____
    A) is lending abroad.   B) must have a government budget surplus.
    C) is borrowing from abroad.   D) must have a government budget deficit.

29) For the study of economic growth, it is most helpful to examine movements in _____; for the   29) _____
study of business cycles, it is most helpful to examine movements in _____.
    A) trend GNP; deviations from trend in GNP
    B) trend GNP; trend GNP
    C) deviations from trend in GNP; deviations from trend in GNP
    D) deviations from trend in GNP; trend GNP

30) The product approach to measuring GDP values government production at   30) _____
    A) its estimated value to society.   B) the total amount of taxes it collects.
    C) its cost of production.   D) market prices.

31) In recent years, which of the following has comprised less than 5% of GDP?   31) _____
    A) exports   B) net exports
    C) imports   D) none of the above

32) If the correlation between GDP and y is 0.55, we say y is   32) _____
    A) countercyclical.   B) procyclical.   C) tricyclical.   D) acyclical.

33) Forecasting the future path of real GDP by exploiting past statistical relationships   33) _____
    A) can be accomplished by the construction and use of an index of leading variables.
    B) can be accomplished by the construction and use of an index of coincident variables.
    C) can be accomplished by the construction and use of an index of lagging variables.
    D) is never very reliable.

34) The consumer's work–leisure choice problem focuses on how a consumer's work–leisure decision   34) _____
is affected by the consumer's
    A) productivity and psychology.   B) preferences and constraints.
    C) preferences and productivity.   D) psychology and preferences.

35) Business cycles are   35) _____
    A) similar, but they can have many causes.
    B) similar, and they all have a single cause.
    C) each unique and they can have many causes.
    D) each unique, but all have a single cause.

36) Suppose we know the following about a lawn repair business: wages $15,000, profits $4,000, tax $ 3,000, parts $ 9,000. What is the contribution to GDP of this business using the product approach?

   A) $22,000.   B) $27,000.   C) $31,000.   D) $26,000.

36) _____

37) A lagging variable can be recognized by the fact that
   A) its persistence is larger than that of GDP.
   B) its turning points happen before the turning points of GDP.
   C) the turning points of GDP happen before its turning points.
   D) its persistence is smaller than that of GDP.

37) _____

38) In a one–period economy
   A) savings is always positive.
   B) consumption equals disposable income.
   C) consumption equals disposable income plus the value of non–market work.
   D) consumers may increase their consumption by borrowing.

38) _____

39) An intermediate good is a good that is
   A) is tangible good that includes substantial services.
   B) a stand–in for all goods.
   C) neither normal nor inferior.
   D) used as an input.

39) _____

1) D
2) B
3) A
4) C
5) A
6) D
7) C
8) D
9) A
10) A
11) A
12) C
13) B
14) A
15) D
16) B
17) C
18) B
19) B
20) A
21) A
22) A
23) A
24) B
25) C
26) C
27) B
28) C
29) A
30) C
31) B
32) B
33) A
34) B
35) A
36) A
37) C
38) B
39) D