

Unit 1

38. Which of the following concepts can be illustrated using the production possibilities curve?

- I. Choice
- II. Scarcity
- III. Price level
- IV. Opportunity cost

Answer:

D

- (A) II only
- (B) I and III only
- (C) III and IV only
- (D) I, II, and IV only
- (E) II, III, and IV only

	<u>Computers</u>	or	<u>Steel</u>
Country A	100	or	100
Country B	20	or	80

46. The table above indicates the production alternatives of two countries, A and B, which produce computers and steel using equal amounts of resources. If both countries always produce at full employment, which of the following statements must be correct?

Answer: B

- (A) Mutually advantageous trade can occur between the two countries when 1 unit of steel from Country A is exchanged for 2 computers from Country B.
- (B) Mutually advantageous trade can occur between the two countries when 2 units of steel from Country B are exchanged for 1 computer from Country A.
- (C) Country A has an absolute and comparative advantage in the production of computers, and Country B has an absolute and comparative advantage in the production of steel.
- (D) Country B has an absolute advantage in the production of both commodities, but a comparative advantage in the production of steel.
- (E) Country A has an absolute advantage in the production of both commodities, but a comparative advantage in the production of steel.

13. If producing each additional unit of good X required giving up ever-increasing amounts of good Y, the production possibilities curve between X and Y would be

- (A) bowed outward
- (B) bowed inward
- (C) a straight line
- (D) horizontal
- (E) upward sloping

Answer: A

16. A change in which of the following can affect the long-run economic growth of a country?

- I. The quantity and quality of a country's labor force
- II. Technology
- III. Spending on capital goods

- (A) I only
- (B) III only
- (C) I and II only
- (D) II and III only
- (E) I, II, and III

Answer: E

2. Any point inside a production possibilities curve is

- (A) better than points on the production possibilities curve
- (B) allocatively efficient but technologically inefficient
- (C) associated with inefficient use or unemployment of some resources
- (D) associated with movements along the production possibilities curve
- (E) associated with constant opportunity costs

Answer: C

5. A country's infrastructure refers to its

- (A) natural resources
- (B) private financial institutions
- (C) proportion of population with postsecondary education
- (D) public capital goods such as highways
- (E) internal, as opposed to external, debt

Answer: D

8. If one-fourth of a nation's wheat crop is destroyed by a flood in a given season, then the price of wheat and the quantity sold will change in the short run in which of the following ways?

<u>Price</u>	<u>Quantity Sold</u>
(A) Decrease	No change
(B) Decrease	Increase
(C) Increase	Decrease
(D) Increase	Increase
(E) No change	Increase

Answer: C

26. The table below shows the production alternatives of Country A and Country B for producing computers and cars with equal amounts of resources that are fully and efficiently employed.

<u>Country</u>	<u>Computers</u>	<u>Cars</u>
A	24	0
B	45	0
	0	15

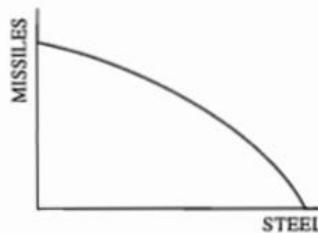
Answer: B

Which of the following is true according to the data in the table?

- (A) Country A has an absolute and comparative advantage in the production of computers.
- (B) Country B has an absolute and comparative advantage in the production of computers.
- (C) Country B should import computers and export cars.
- (D) Since Country B has an absolute advantage in the production of both goods, it will not trade with Country A.
- (E) Neither country can benefit from trade.

20. Which of the following describes a typical business cycle in the correct sequence?

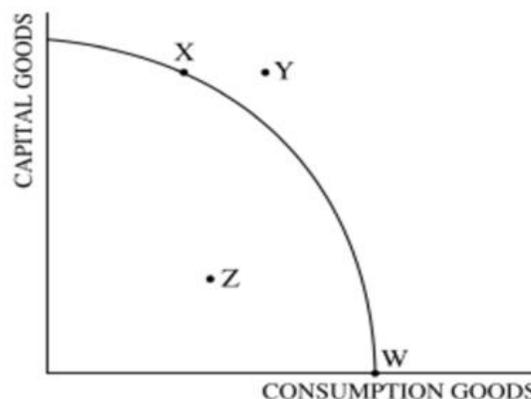
- (A) Peak, trough, recession, and expansion
 - (B) Peak, trough, expansion, and recession
 - (C) Peak, recession, trough, and expansion
 - (D) Peak, recession, expansion, and trough
 - (E) Peak, expansion, trough, and recession
- Answer: C



Answer: E

1. Which of the following would cause the production possibilities curve shown above to shift outward?

- (A) Reopening steel plants that had been closed
- (B) Rehiring laid-off steelworkers
- (C) Using machinery for missile production instead of steel production
- (D) Using machinery for steel production instead of missile production
- (E) Developing a more efficient steelmaking process



45. The diagram above shows the production possibilities curve for an economy that produces only consumption and capital goods. All of the following statements about this economy are true EXCEPT:

- (A) Producing at point Z results in the underutilization of resources.
- (B) The combination represented by point Y is unattainable, given the scarcity of resources.
- (C) Resources are fully utilized at points W and X.
- (D) Producing at point X will result in greater economic growth than will producing at point W.
- (E) Point X represents the most efficient combination of the two goods that can be produced by this economy.

Answer: E

Unit 2

39. The consumer price index (CPI) measures the
- (A) value of current gross domestic product in base-year dollars
 - (B) prices of all consumer goods and services produced in the economy
 - (C) prices of selected raw materials purchased by firms **Answer: D**
 - (D) prices of a specific group of goods and services purchased by consumers
 - (E) prices of imports, but not exports
25. When an economy is in equilibrium at potential gross domestic product, the actual unemployment rate is **Answer: D**
- (A) equal to the cyclical rate
 - (B) greater than the natural rate
 - (C) less than the natural rate
 - (D) equal to the natural rate
 - (E) equal to zero
23. The value of which of the following would be included in the United States gross domestic product?
- (A) Time spent volunteering at a local hospital
 - (B) A United States savings bond received as a birthday gift
 - (C) A movie ticket purchased at a local theater
 - (D) A new handbag made in Italy by a United States firm
 - (E) A used car sold at the same price paid for it **Answer: C**
26. Structural unemployment is best described as unemployment arising from
- (A) the elimination of jobs as a result of technological change
 - (B) an increase in the number of workers searching for better-paying jobs
 - (C) an increase in the number of jobs demanding unskilled labor
 - (D) the temporary reduction of jobs during a downturn in the business cycle
 - (E) the reduction in jobs due to seasonal changes in demand **Answer: A**
28. Which of the following would directly increase the capital stock of an economy?
- (A) An individual purchases shares of corporate stock.
 - (B) An individual purchases high-risk corporate bonds.
 - (C) A business firm expands its production facilities. **Answer: C**
 - (D) A bank uses cash reserves to purchase short- and long-term government securities.
 - (E) The government implements a spending program to cover prescription drugs for Medicare recipients.

29. The recent popularity of job search Web sites that enable job seekers and potential employers to more efficiently contact each other is most likely to cause

Answer: C

- (A) a reduction in the labor force participation rate
- (B) a reduction in structural, but not in frictional, unemployment rates
- (C) a reduction in the frictional unemployment rate
- (D) an increase in the overall unemployment rate
- (E) a reduction in cyclical, but not in frictional, unemployment rates

Period	Real Gross Domestic Product	Nominal Gross Domestic Product
Year 1	\$100 billion	\$70 billion
Year 2	\$120 billion	\$120 billion
Year 3	\$130 billion	\$150 billion

36. Which of the following can be concluded from the data above? Answer: D

- (A) The base year for the price index was year 1.
- (B) The base year for the price index was year 3.
- (C) The economy was producing higher-quality goods and services in years 2 and 3 than in year 1.
- (D) The economy was experiencing inflation during years 2 and 3.
- (E) The economy was experiencing deflation during years 1, 2, and 3.

4. An increase in which of the following would most likely cause the gross domestic product of a country to decrease in the short run?

- (A) Government spending
- (B) Imports
- (C) Money supply Answer: B
- (D) Consumption spending by households
- (E) Investment spending by domestic firms

2. If in a specified year nominal gross domestic product grew by 11 percent and real gross domestic product grew by 4 percent, inflation for this year would be

- (A) -7%
- (B) 7%
- (C) 8%
- (D) 11%
- (E) 15%

Answer: B

3. Which of the following is an example of structural unemployment?

- (A) A computer programmer who leaves her job to move to Florida
- (B) A worker who loses his job during a recession
- (C) An autoworker who is replaced by a robot
- (D) A construction worker who is always unemployed during the winter months
- (E) A worker who is engaged in unproductive work

14. The unemployment rate is calculated as

- (A) the number of people not working divided by the population
- (B) the number of people not working divided by the number of people working both full-time and part-time
- (C) the number of people working part-time but actively seeking full-time employment divided by the number of people in the labor force
- (D) the number of people not working but actively seeking employment divided by the number of people in the labor force
- (E) the number of people in the labor force divided by the population Answer: D

27. Which of the following individuals is considered officially unemployed?

- (A) Chris, who has not worked for more than three years and has given up looking for work
- (B) Kim, who is going to school full-time and is waiting until graduation before looking for a job
- (C) Pat, who recently left a job to look for a different job in another town
- (D) Leslie, who retired after turning 65 only five months ago
- (E) Lee, who is working 20 hours per week and is seeking full-time employment

Answer: C

32. The consumer price index measures which of the following?

Answer: A

- (A) The change over time of the weighted prices of a particular group of goods and services
- (B) The change over time of the weighted wholesale price index
- (C) The change over time of the difference between the gross domestic product deflator and the wholesale price index
- (D) Inflation corrected for changes in the real gross domestic product
- (E) Inflation corrected for changes in the wholesale price index

47. Which of the following groups of people would benefit from unanticipated inflation?

- I. Savers
- II. Borrowers
- III. Lenders

- (A) I only
- (B) II only
- (C) III only
- (D) I and II only
- (E) I and III only

27. Which of the following individuals is considered officially unemployed?

Answer: C

- (A) Chris, who has not worked for more than three years and has given up looking for work
- (B) Kim, who is going to school full-time and is waiting until graduation before looking for a job
- (C) Pat, who recently left a job to look for a different job in another town
- (D) Leslie, who retired after turning 65 only five months ago
- (E) Lee, who is working 20 hours per week and is seeking full-time employment

National Economic
Figures
(billions of dollars)

Consumption	\$ 3,000
Government purchases of goods and services	1,000
Gross private domestic investment	700
Depreciation	300
Exports	300
Imports	500
Indirect business taxes	0

32. Based on the economic figures in the table above, what is the value of gross domestic product, in billions of dollars?

- (A) \$4,500
- (B) \$4,700
- (C) \$4,900
- (D) \$5,150
- (E) \$5,950

33. Which of the following is true if the economy is producing at the full-employment level of output?

Answer: C

- (A) The unemployment rate is zero.
- (B) No person is receiving unemployment compensation from the government.
- (C) There is frictional unemployment.
- (D) The government's budget is balanced.
- (E) The balance of trade is in equilibrium.

Answer: D

34. Which of the following statements is true of unanticipated inflation?
- (A) It decreases the economic well-being of all members of society proportionately.
 - (B) It decreases the economic well-being of all members of society equally.
 - (C) It increases the economic well-being of net creditors.
 - (D) It increases the economic well-being of net debtors.
 - (E) It increases the economic well-being of workers with long-term labor contracts.

41. The consumer price index (CPI) is designed to measure changes in the **Answer: E**

- (A) spending patterns of urban consumers only
- (B) spending patterns of all consumers
- (C) wholesale price of manufactured goods
- (D) prices of all goods and services produced in an economy
- (E) cost of a select market basket of goods and services

9. The official unemployment rate understates the unemployment level in the economy because the official unemployment rate

- (A) ignores the duration of unemployment
- (B) ignores underemployed and discouraged workers
- (C) includes jobs created by the underground economy **Answer: B**
- (D) excludes all unemployed teenagers
- (E) excludes frictionally unemployed workers

13. For an economy consisting of households and businesses only, which of the following is consistent with the circular flow of income and production? **Answer: C**

- (A) Households are producers of goods and services and consumers of resources.
- (B) Households are users of resources, and businesses are sources of saving.
- (C) Households are suppliers of resources and consumers of goods and services.
- (D) Businesses are users of taxes, and households are sources of taxes.
- (E) Businesses are suppliers of resources and consumers of goods and services.

18. Which of the following changes in the supply of and the demand for a good will definitely result in a decrease in both the equilibrium price and quantity of the good? **Answer: C**

<u>Supply</u>	<u>Demand</u>
(A) Increase	Increase
(B) Increase	No change
(C) No change	Decrease
(D) Decrease	Increase
(E) Decrease	Decrease

Unit 3

Answer: E

40. An increase in which of the following likely to cause the short-run aggregate curve to shift to the left?

- (A) Consumers' incomes
- (B) The money supply
- (C) Government spending
- (D) The optimism of business firms
- (E) The per unit cost of production

52. Assume that the economy is in long-run equilibrium. A shift in the aggregate demand curve will change

Answer: Skip, covers things we have not covered.

- (A) only the price level in the long run
- (B) only the output level in the long run
- (C) both the price level and the output level in the long run
- (D) neither the price level nor the output level in the short run
- (E) only the price level in the short run and only the output level in the long run

56. If the aggregate supply curve is horizontal an increase in government spending will result in which of the following?

	<u>Real Output</u>	<u>Price Level</u>
(A)	Increase	Increase
(B)	Increase	No change
(C)	Increase	Decrease
(D)	No change	Increase
(E)	No change	No change

Answer: B

60. Which of the following will shift the aggregate demand curve to the right?

- (A) A report that corporate earnings were lower than expected
- (B) An increase in interest rates caused by a tightening of monetary policy
- (C) Increased imports caused by appreciation of the dollar Answer: D
- (D) Increased spending by businesses on computers
- (E) An increase in the government's budget surplus

17. An increase in which of the following would cause the aggregate demand curve to shift to the left?

- (A) Consumer optimism
- (B) Population
- (C) Cost of resources
- (D) Income taxes Answer: D
- (E) Net exports

52. One explanation for the downward slope of the aggregate demand curve is that when the price level increases, which of the following will decrease?

- (A) Real value of assets
- (B) Prices of foreign goods
- (C) Prices of substitute goods
- (D) Expectations of future prices
- (E) Government deficit

Answer: A