Chapter 5

1) The main subject of macroeconomics deals with:
a. The sum of individual decisions, or the aggregate behavior of consumers, firms, and the economy as a whole.
b. The factors that influence the production of particular products, and the behavior of individual industries.
c. Household income and the determination of individual prices.
d. The reasons behind the flexibility of prices, or the inherent the tendency of prices to adjust toward equilibrium—where quantity supplied equals quantity demanded.
e. All of the above.

2) Which of the following statements is correct?
a. Both macroeconomics and microeconomics are concerned with the decisions of households and firms.
b. Microeconomists look for macroeconomic foundations to explain why most markets arrive at equilibrium.
c. Macroeconomics examines the behavior of individual industries.
d. All of the above.

3) The period of severe economic contraction and high unemployment known as the Great Depression took place in this decade:
a)The 1970s.
b)The 1920s.
c)The 1940s.
d)The 1930s.

4) *Classical models* of the economy are also known as:
a. Models that explain precisely how aggregate demand for goods and services determines the level of employment.
b. The general theory of employment, interest, and money.
c. Models of government intervention to stimulate aggregate demand.
d. Market clearing models.

5) The prolonged period of unemployment that existed during the Great Depression gave rise to the following thinking in the economics discipline:
a) The Marxist Revolution.
b) The monetarist revolution.
c) The Keynesian Revolution.
d) The classical revolution.

6) Fine tuning was the phrase used by Walter Heller to refer to:
a) A high level of confidence in the ability of government to preserve economic stability.
b) The ability of government officials to identify economic problems and find quick solutions before they become larger problems.
c) The government's role in regulating inflation and unemployment.

d) The efforts of classical economists to explain the self correcting mechanism that brings an economy out of recession.

7) Which of the following ideas was central in Keynesian theory?

a) Government intervention can be used to affect the level of output and employment in the economy.

b) The invisible hand. The forces of supply and demand ensure that a market will quickly adjust to deviations from equilibrium.

c) Monetary policy can bring the economy out of a recession, or a depression.

d) Self-correcting prices and wages determine the level of output and employment in the economy.

8) The use of Keynesian policies to *fine tune* the economy in the 1960s led to:

a) A convergence of views of macroeconomists about how the macroeconomy works.

b) Superb rates of growth in output, accompanied by low inflation in the next decade, the 1970s.

c) The Great Depression.

d) Disillusionment in the 1970s and early 1980s.

9) What is *stagflation*?

a) Stagflation means high inflation accompanied by low unemployment.

b) Stagflation means high inflation accompanied by high unemployment.

c) Stagflation is the regulation by government of inflation and unemployment.

d) Stagflation means low inflation accompanied by high unemployment.

e) Stagflation means low inflation accompanied by low unemployment.

10. A period of very rapid increases in the overall price level is known as:

a) A recession.

b) Stagflation.

c) Inflation.

d) Hyperinflation.

11. The cycle of short-term ups and downs in the economy is called:

a) The business cycle.

b) Recession.

c) Deflation.

d) Depression.

12. For economists, the main measure of how an economy is doing is:

a) The aggregate price level.

b) Aggregate employment.

c) Aggregate output.

d) The growth rate of the population.

13. Which of the following is the definition of the *unemployment rate*?

a) The ratio of the labor force to the total population.

b) The percentage of the population who are not in the labor force.

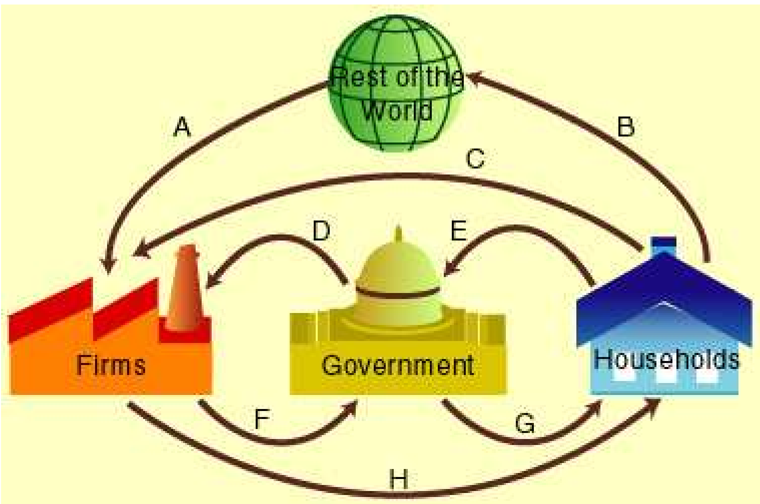
c) The rate at which employment turns into unemployment.
d) The percentage of the labor force that is unemployed.

14. In microeconomic theory, which of the following happens as the labor market eliminates unemployment and restores its equilibrium?
a) The equilibrium wage rises above the wage that prevailed when there was unemployment.
b) The market turns a shortage of labor into a surplus of labor.
c) Supply and demand shift, but equilibrium price (or the wage rate) remains the same in the end.
d) As it moves toward equilibrium, the market experiences an increase in the quantity of labor demanded and a decrease in the quantity supplied.

15. *Fiscal policy* refers to:
a) Changing the quantity of money supplied in order to affect the price level, interest rates, and exchange rates.
b) Government policies concerning taxes and expenditures (spending).
c) All of the above.
d) Government attempts to stimulate aggregate supply and promote economic growth.

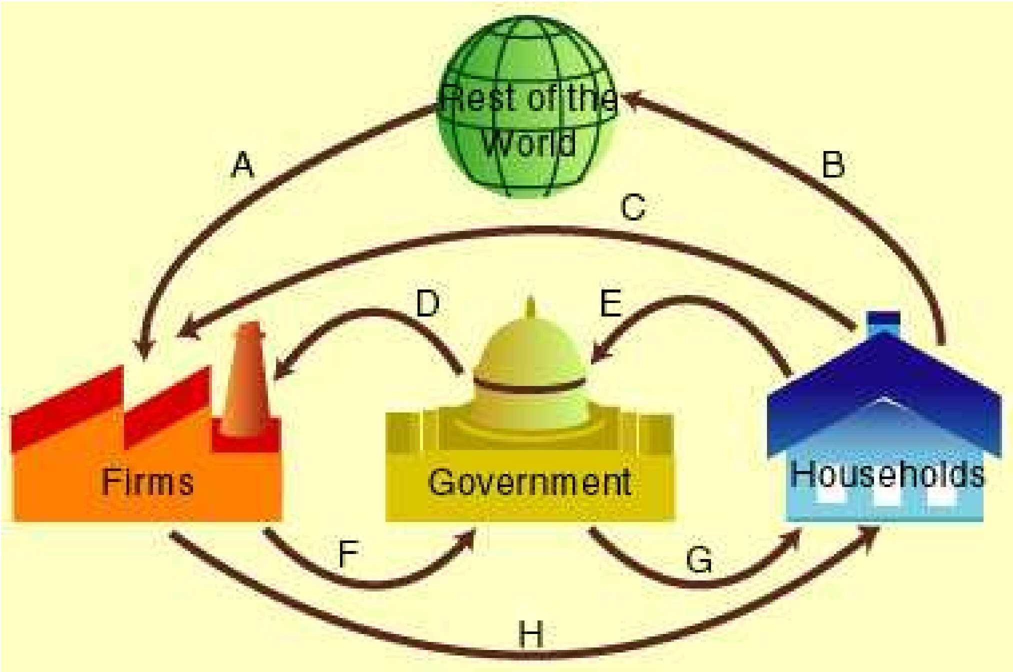
16. Which of the following refers to the tools used by the Federal Reserve to control the quantity of money in the economy?
a) Monetary policy.
b) Stabilization policy.
c) Supply-side policy.
d) Fiscal policy.

17. Refer to the figure below. Which of the following money flows corresponds to the letter *G*?



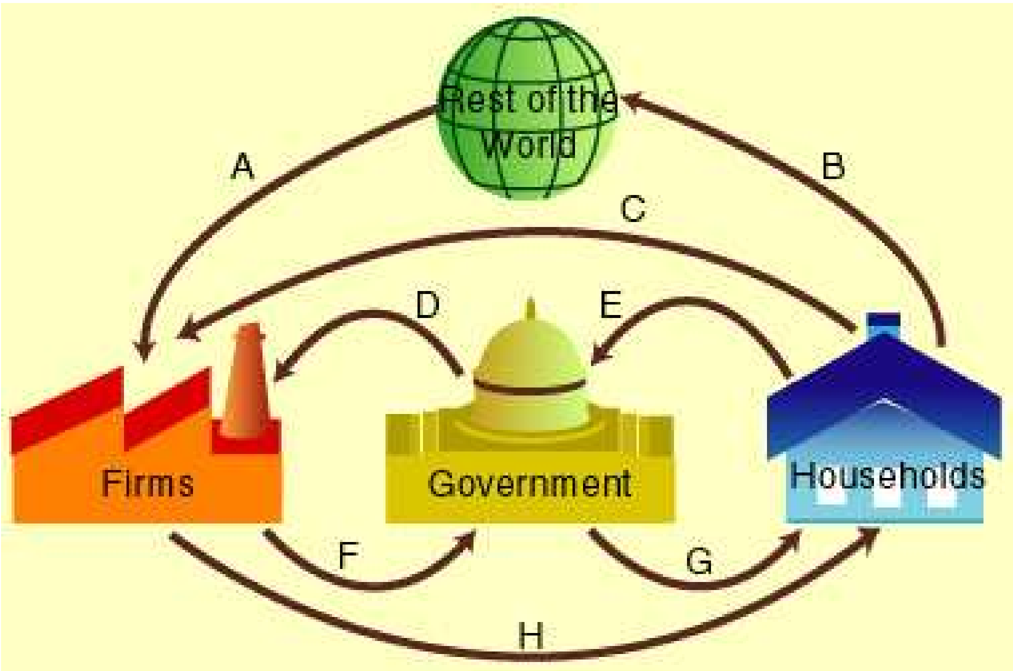
a) Purchases of goods and services.
b) Taxes.
c) Dividends, profits, and rent.
d) Wages, interest, and transfers payments.

18. Refer to the figure below. Which of the flows (or arrows) shown represents taxes?



a)*E* only.
b)*D* and *E*.
c)*G* only.
d)*E* and *F*.
e)*F* and *G*.

19. Refer to the figure below. Which arrow(s) represent(s) purchases of foreign-made goods and services, or imports?



a) Both *A* and *B*.
b) *B* only.
c) *A* only.
d) *C* only.

20. The three market arenas where households, firms, the government, and the rest of the world interact are:
a) Capital markets, procurement markets, and inputs markets.
b) Goods and services, labor, and money markets.
c) Aggregate supply, aggregate demand, and international trade.
d) The markets for corporate stocks, bonds, and treasury securities.

21. All of the following are *debt instruments*, or promissory notes issued by a borrower, except one. Which one?
a) Corporate bonds.
b) Treasury bills.
c) Corporate Stocks.
d) Treasury notes.
e) Treasury bonds.

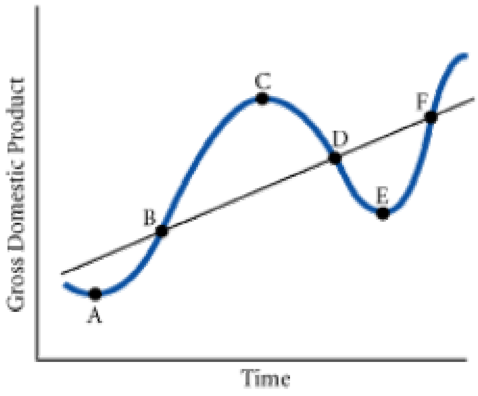
22. The logic behind the aggregate supply and aggregate demand curves is:
a) Irrational because it is impossible to sum all microeconomic decisions.
b) More abstract than the logic of individual supply and demand curves.
c) Less abstract and complex than the logic of market supply and demand.
d) More complex than the logic of market supply and demand.
e) Identical to the market supply and market demand curves.

23. Part of the reason why the *aggregate demand curve* slopes downward has to do with:
a) The law of demand.
b) The income effect of a price change.
c) What goes on in the money market.
d) The substitution effect of a price change.

24. The *aggregate supply curve* is drawn on the assumption that:
a) Prices are changing.
b) The aggregate price level remains constant.
c) Input prices are fixed.
d) A change in the overall price level must result in a change in relative prices.

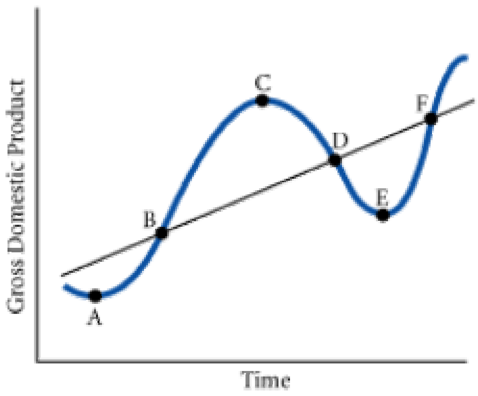
25. Which of the following terms applies to the characteristics of the typical business cycle?
a) Periods of expansion that are equal in length to the periods of contraction.
b) Regular, recurrent, symmetric.
c) Irregular, recurrent, asymmetric.
d) Irregular, recurrent, symmetric.

26. Refer to the figure below. During which period of time is the economy in a recession in this business cycle?



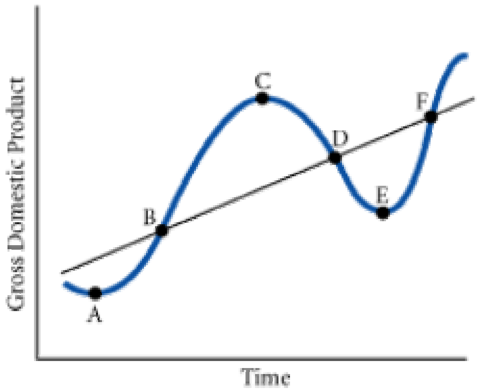
a)The period from *C* to *E*.
b)From *D* to *F*.
c)The period from *D* to *E*.
d)The period from *A* to *B*.
e)The period from *C* to *D*.

27. Refer to the figure below. The period from *A* to *B* is part of:



a)A contraction.
b)A depression.
c)A recession, or slump.
d)An expansion.

28. Refer to the figure below. The relationship between output and unemployment is as follows:



a) Aggregate output and (un)employment don't appear to be related at all, thus it is difficult to establish the direction of unemployment as aggregate output changes.
b) As output rises from *A* to *B*, unemployment rises.
c) As output rises from *E* to *F*, unemployment falls.
d) As output falls from *C* to *D*, unemployment falls.

29. Since 1970, which of the following economic periods was characterized by high inflation?
a) 1973 IV – 1975 IV and 1979I – 1981 IV.
b) 1997 IV was the period with the highest inflation rate since 1970.
c) During the entire period since 1983 until today.
d) There are no periods of inflation after 1970.

30. Since 1983, which of the following rates has been low relative to the standards of the 1970s?
a) The inflation rate.
b) The rate of interest.
c) The unemployment rate.
d) The exchange rate.

31. Macroeconomics is concerned with the sum, or aggregate, of individual decisions.
a) True
b) False

32. Macroeconomics was born out of an effort to explain the Great Depression of the 1930s.
a) True
b) False

33. The topics of primary concern in macroeconomics include the determination of prices, interest rates, and exchange rates.
a) True
b) False

34. Fiscal policy refers to using the money supply to influence the rate of economic activity.

a) True
b) False

35. Supply-side policies are policies that focus on increasing the growth rate of long-run output.
a) True
b) False

36. Exports represent an outflow of income.
a) True
b) False

37. Everybody's expenditure is someone else's receipt.
a) True
b) False

38. We cannot possibly understand aggregate behavior without knowledge of individual behavior.
a) True
b) False

39. The logic underlying the aggregate supply and demand curves is more complex than the logic behind individual market supply and demand curves.
a) True
b) False

40. Since the 1970s, the U.S. economy has seen large fluctuations in the rate of inflation.
a) True
b) False

41. Compare the ideas of classical economists with the ideas of John Maynard Keynes, and explain what kind of revolution was the Keynesian revolution.

42. Define and describe the basic characteristics of the typical business cycle.

43. There are two ways of describing the relationships between households, firms, and the government in the macroeconomy: the circular flow of income, and the interaction between these sectors in three major markets. Briefly describe each.

44. Market demand is not the same as aggregate demand. Compare and contrast.