Mega Quiz File (ECO403)

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Special Thanks

to
Attock VU Group
VU Study Masti

(*Please correct, if find any mistake*)
Question highlighted in Red are not sure or unsolved

1) Scarcity can best be defined as a situation in which:

There are no buyers willing to purchase what sellers have produced.
There is more than enough money to satisfy consumers' wants.
Resources are limited in quantity and can be used in different ways.
There are not enough goods to satisfy all of the buyers' demand.

2) In the circular flow diagram, firms _____ inputs and households _____ products.

Supply; Demand
Demand; supply
Supply; supply
Demand; demand

3) Gross domestic product measured in terms of the prices of a fixed, or base, year is:

Base GDP.
Current GDP.
Real GDP.
Nominal GDP.

4) The number of people unemployed equals:

The number of people employed minus the labor force.
The labor force plus the number of people employed.
The number of people employed divided by the labor force.
The labor force minus the number of people employed.

5) Keeping in mind the functions of money, which one of the following is not money?

Currency
Checks
Credit cards
Time deposits

6) Which of the following would not be included in M2?

Demand deposits
Checking accounts
Money market accounts
None of the given options

7) The relationship between consumer spending and income is known as the:

45-degree line.
Consumption function.
Investment function.
Consumer price index.

8) All of the following statements about the marginal product of capital MPK are true
EXCEPT:

MPK = f(k + 1) - f(k).

MPK tends to decline as k increases.

When there is only a little capital, MPK is very small.

MPK is equal to the slope of the production function y = f(k).

9) A rightward shift in the aggregate demand curve can be caused by:

An increase in government spending.

An increase in money supply.

A decrease in taxes.

All of the given options.

10) The aggregate supply curve in the short run is different from the aggregate supply curve in the long run due to:

The recurring nature of supply shocks.

The existence of sticky prices in the short run.

The wealth effect.

The crowding out effect.

11) Fiscal policy shifts the:

The short run aggregate supply curve.

The long run aggregate supply curve.

Full employment level of output.

The aggregate demand curve.

12) If wages are sticky downward, an increase in labor:

Demand increases the wage rate.

Demand decreases the wage rate.

Supply increases the wage rate.

None of the given options.

13) Which of the following would a macroeconomist consider as investment?

Julie buys a government bond.

Fred purchases 100 shares of stock in Microsoft.

Tom buys a new tractor for his farm.

Jane buys a new car**.**

14) The nominal interest rate is:

Unadjusted for the effects of inflation.
The interest rate quoted in financial markets.
Both unadjusted for the effects of inflation and the interest rate quoted in financial markets.
None of the given options.

15) If interest rates increase, people will most likely hold:

More bonds and less cash.
Less bonds and less cash.
More bonds and more cash.
Less bonds and more cash.

16) Intermediate goods are counted in the calculation of GDP.

True
False

17) Structural unemployment is the unemployment resulting from real wage rigidity and job rationing.

True
False

18) As income rises, average propensity to consume (APC) falls.

True
False

19) Adaptive expectation is an approach that assumes that people base their expectations on all available information, including information about current and prospective future policies.

True
False

20) The deposits that banks have received but have not lent out are called banks investments.

True
False

21) To compute the total value of different goods and services, the national income accounts use maket prices

22) Monetary policy is conducted by country's central bank.

23) IS Curve is a graph of all combinations of interest rate and income that results in goods market equilibrium.

24) Full-employment output does not depend on the price level, so the long run aggregate supply (LRAS) curve is veritcal.

25) Economists decompose the impact of an increase in the real interest rate on consumption into two effects: an income effect and a substitution effect.

26) The determinants of demand curve include:

Income, tastes, and the price of the good.
Income and tastes.
Tastes and the price of other goods.
Income, tastes, preferences and the price of other goods.

27) Which of the following is TRUE about the measurement of nominal Gross Domestic Product?

It is measured in current dollars.
It is measured in fixed dollars.
It is measured at a constant output level.
It is measured as the difference between the current year's GDP and last year's GDP.

28) Which of the following plays the most important role in increasing the rate of growth in real GDP per capita over time?

Increases in labor productivity
Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest

29) Refrigerators are examples of which of the following?

Transfer products
Non-durable goods
Services
Durable goods

30) Which of the following is NOT a factor of production?

Land
Labor
Capital
Investment

31) In a macroeconomic model without foreign trade or government spending, aggregate demand is the sum of:

Personal saving and private investment.
Personal saving and personal consumption.
Personal consumption and personal income.
Personal consumption and private investment.

32) Which of the following appears in M2 but NOT in M1?

Checking account balances
Currency
Travelers' checks
Money market mutual funds

33) If inflation falls from 6 percent to 4 percent and nothing else changes, then which of the following will happen according to the Fisher effect:

Both the nominal and the real interest rates fall by 2%.
Neither the nominal interest rate nor the real interest rate changes.
The nominal interest rate falls by 2% and the real interest rate remains constant.
The nominal interest rate does not change, but the real interest rate falls by 2%.
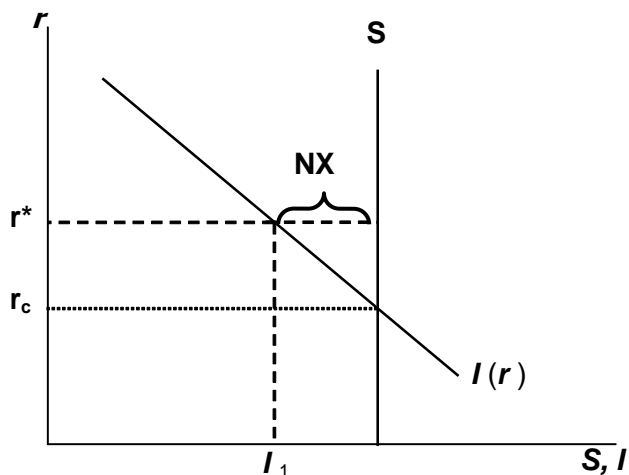
34) In terms of the demand for money, the interest rate represents:

The price of borrowing money.
The return on money that is saved for the future.
The rate at which current consumption can be exchanged for future consumption.
The opportunity cost of holding money.

35) Which of the following is TRUE about the above figure?

The exogenous world interest rate determines investment.
The difference between saving and investment determines net capital outflows.
The difference between saving and investment determines net exports.
All of the given options.

36) Increased levels of consumption:

Shift aggregate supply to the right.
Shift aggregate supply to the left.
Shift aggregate demand to the right.
Shift aggregate demand to the left.

37) The rate at which commercial banks borrow from the central bank is known as:

Inflation rate.
Interest rate.
Discount rate.
Reserve requirement rate.

38) The currency exchange rate causes a shift of the aggregate demand curve through a change in:
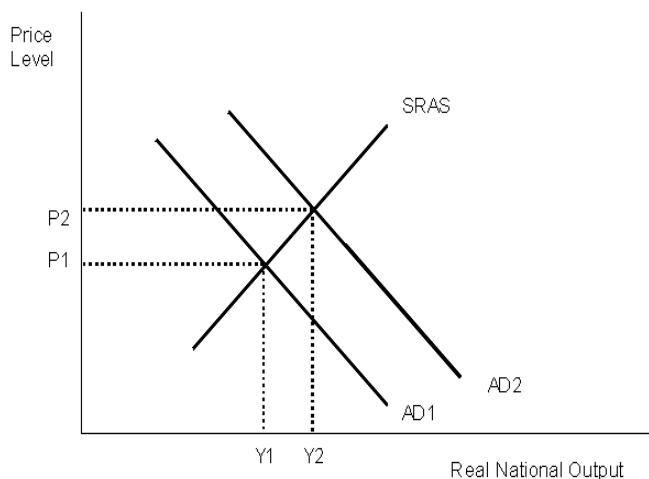
Consumption.
Investment.
Net exports.
Transfer payments.

39) The diagram below shows the aggregate demand and supply curves for an economy. The movement of the economy from equilibrium at Y1 to equilibrium at Y2 could be caused by an increase in:

The level of government spending.

The rate of inflation.
Interest rates.
Discount rates.

40) Which one of the following would cause a rightward shift in the long run aggregate supply curve?

An increase in the volume of goods exported.
An increase in the productivity of labor and capital.
An increase in the amount of cash in circulation.
An increase in the rate of inflation.

41) Dissaving occurs if:

Saving is negative.
National income is negative.
Personal income is negative.
The Marginal Propensity to Consume is negative.

42) In the Keynesian Cross model, the aggregate expenditure line has a slope of:

0.
1.
Less than 1.
Greater than 1.

43) IS* curve shows the negative relationship between which of the following?

Nominal exchange rate and price level.
Nominal exchange rate and output level.
Nominal exchange rate and interest rate.
Output and interest rate.

44) A classical aggregate supply curve shows which of the following relationship between the price level and output?

Aggregate supply is positively related to real output.
Aggregate supply is negatively related to real output.
Aggregate supply is unrelated to the price level.
Aggregate supply is horizontal.

45) IS curve shows the equilibrium in:

Money market.
Goods market.
Labor market.
Financial market.

46) Under a freely flexible exchange rate system, a deficit in a nation's balance of payments is corrected by:

A depreciation of the domestic currency.
None of the given options.
A depreciation of the foreign currency.
An appreciation of domestic currency.

47) In the Mundell-Fleming model, M/P = L (r*, Y) is the:

LM* equation.
AS equation.
None of the given options.
IS* equation.

48) If a consumer faces a borrowing constraint then:

He will be unable to consume anything in the second period.
He may or may not be less satisfied than if he was able to borrow.
Consumption in the first period must be less than consumption in the second period.
All of the given options.

49) According to Permanent Income hypothesis, when income < permanent income then:

Average Propensity to Consume rises.
Average Propensity to Consume falls.
Average Propensity to Consume remains constant.
Average Propensity to Consume first falls then rises.

50) The housing price determines the flow of which of the following?

Gross investment.
Residential investment.
Depreciation investment.
Inventory investment.

51) -------------------- is defined as the number of rupees held by the public.

Quantity of money.
Velocity of money.
Supply of money.
Demand for money.

52) In principle, a decrease in required-reserve ratios would:

Decrease deposits.
Increase the money supply.
Decrease excess reserves.
Increase required reserves.

53) The deposits that banks received but do not lent out are known as:

Reserves.
Excess reserves.
Required reserves.
All of the given options.

54) The three major controls of monetary policy are:

Reserve ratios, the discount rate, and moral suasion.
Reserve ratios, the discount rate, and open-market operations.
Margin regulations, the discount rate, and moral suasion.
Margin regulations, the discount rate, and open-market operations.

55) All of the following statements about the investment tax credit are true EXCEPT:

It stimulates investment.
It continues to be one of the most influential tax provisions in the United States tax code.
It reduces the after-tax cost of capital.
It operates as an indirect subsidy for investment.

56) In the Keynesian Cross model, the 45-degree line shows points at which:

Income and expenditures are equal.
Income is greater than expenditures.
The MPC is equal to 1.
The MPC is equal to 0.5.

57) According to Mundell–Fleming model, in a small open economy with a fixed exchange rate, expansionary monetary policy:

Increases income.
Decreases income.
Lowers the interest rate.
Is impossible.

58) Many economists favor floating exchange rates system because it:

Allows the government to use monetary policy as an output stabilizer.
Forces the central bank to restrict the money supply.
Reduces exchange rate uncertainty.
Allows the government to use trade restrictions to control the current account balance.

59) All the models of aggregate supply imply that if the price level equals the expected price level then:

Output will be above its natural level.
Nominal wages will rise.
Output will be below its natural level.
Output will equal its natural level.

60) The three major components of domestic debt are:

Permanent debt, floating debt and unfunded debts
Permanent debt, floating debt and funded debts
Government debt, floating debt and unfunded debts
External debt, floating debt and unfunded debts

61) The first economist who argued that the consumption function has a key role in macroeconomic analysis was:

John Maynard Keynes.
Franco Modigliani.
Milton Friedman.
Irving Fisher.

62) According to Keynes, income is primary determinant of:

Taxes.
Consumption.
Interest rate.
Investment.

Disposable Personal Income ($)	Consumption ($)
$100	$140

200	220
300	300
400	380
500	460

63) Refer to the information given in the above table, the marginal propensity to consume at each level is:

0.00
0.20
0.80
1.40

64) The life-cycle hypothesis states that consumption is a function of:

Current income only.
Current income and future income.
Current income and wealth.
Current income, future income, and wealth.

65) Suppose the Keynesian consumption function is C = $500 + 0.8Y. If Y = $1,000, what is the amount of consumption?

$300
$500
$1,000
$1,300

66) Suppose there is recession in the economy that is expected to be short in duration. The banking system, however, decides to curtail lending, so that the corporate sector faces binding financing constraints. This causes:

Tobin's q and investment both to fall only slightly.
Tobin's q and investment both to fall considerably.
Tobin's q to go down considerably, while investment is only slightly affected.
Tobin's q to be only slightly affected, while investment goes down considerably.

67) Consider the following balance sheet of a bank:

Assets	Liabilities
Reserves $1,000	Deposits $1,000

This bank is obviously engaged in:

Fractional reserve banking.
100-percent-reserve banking.
Central banking.
Financial intermediation.

68) Which of the following is TRUE about the measurement of Real Gross Domestic Product?

It is measured in the prices of a base year.
It is measured in current dollars.
It is measured at a constant output level but at current prices.
It is measured as the difference between the current year's GDP and last year's GDP.

69) Social security payments are examples of which of the following?

Services
Non-durable goods
Durable goods
Transfer payments

70) Which of the following would NOT be counted as a government purchase of a good or a service?

The purchase of a new stealth bomber.
Your grandmother's receipt of her monthly Social Security benefit.
The construction of a new dam by the U.S. Army Corps of Engineers.
The hiring of a new police officer by New York City.

71) Which of the following shows the slope of the consumption function?

The marginal propensity to consume.
The marginal propensity to save.

The autonomous consumption spending.
Marginal rate of substitution.

72) According to the Fisher effect, a higher inflation rate leads to which of the following?

Higher real money balances
A higher nominal interest rate
A higher real interest rate
All of the given options

73) If net exports are negative, this implies that the country has a:

Trade surplus.
Trade deficit.
Government budget surplus.
Government budget deficit.

74) Television sets are examples of:

Durable goods.
Services.
Non-durable goods.
Transfer products.

75) Which of the following would decrease aggregate demand?

Increased consumption.
Increased export revenue.
Increased taxation revenue.
Increased investment.

76) Which of the following events will lead to an increase in the demand for money?

An increase in the level of aggregate output.
A decrease in the price level.

An increase in the interest rate.
An increase in the supply of money.

77) If the exchange rate is above the equilibrium level:

There is excess demand and the exchange rate will fall.
There is excess supply and the exchange rate will fall.
There is excess demand and the exchange rate will rise.
There is excess supply and the exchange rate will rise.

78) Nominal exchange rate in terms of growth rate can be written as:

$\Delta\varepsilon/\varepsilon + \pi^* - \pi.$
$\Delta\varepsilon/\varepsilon - \pi^* + \pi.$
$\Delta\varepsilon/\varepsilon - \pi^* - \pi.$
$\Delta\varepsilon/\varepsilon + \pi^* + \pi.$

79) Labor productivity measures:

The output per worker.
The output per machine.
Total output.
Marginal output.

80) There is an increase in the economy's potential output when there is:

An increase in government spending.
A decrease in government spending.
An increase in the economy's capital stock.
An increase in the economy's depreciation rate.

81) The diagram below shows the aggregate demand and supply curves for an economy. The movement of the economy from equilibrium at Y1 to equilibrium at Y2 could be caused by an increase in:
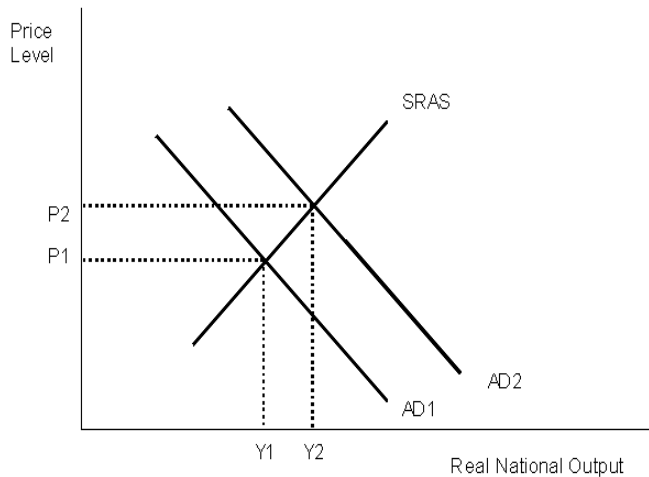
The level of government spending.
The rate of inflation.
Interest rates.
Discount rates.

82) As interest rate increases, fiscal policy crowds out:

Consumption.
Investment.
Taxes.
Net exports.

83) Trade policy is totally ineffective on output under:

Floating exchange rate.
Fixed exchange rate.
Nominal exchange rate.
Real exchange rate.

84) The factor that is sticky in the sticky-wage model is:

The real wage.
The nominal wage.
Output level.
Rate of inflation.

85) Most nations of the world are:

Closed economies.
Open economies.
Self sufficient.
None of the given options.

86) According to Fisher's model of consumption, all of the following statements about the intertemporal budget constraint are true EXCEPT:

If current consumption rises, the resources available for future consumption will fall.
Consumption in Period 1 must be less than or equal to consumption in Period 2.
In the first period, saving is equal to first-period income minus consumption.
Consumers take into account both current income and expected future income when making consumption choices.

87) A rise in the general level of interest rates is most likely to cause a fall in:

The exchange rate.
The rate of unemployment.
The saving ratio.
The level of planned capital investment.

88) Investment may be defined as:

Spending on goods and services by consumers.
Any addition to the capital stock of an economy.
That part of household spending which is not spent on consumption.
All types of spending by the government.

89) If consumers are forward looking then future taxes are equivalent to:

Current taxes.
Current budget.
Current consumption.
Current savings.

90) According to intertemporal budget constraint, if current consumption < current income then:

Consumer's saving is positive.
Consumer's saving is negative.
Consumer's saving is zero.
All of the given conditions are possible.

91) According to intertemporal budget constraint, if current consumption > current income then:

Consumer's saving is positive.
Consumer's saving is negative.
Consumer's saving is zero.
All of the given conditions are possible.

92) Who first derived the implications of rational expectations for consumption?

Keynes.
Friedman.
Robert Hall.
Adam Smith.

93) Modigliani presented the life cycle hypothesis in:

1950.
1957.
1960.
1966.

94) Revenue – cost = --------------------

Inflation rate.
Interest rate.

Discount rate.
Profit rate.

95) Which of the following measures the expected future profitability as well as the current profitability?

Tobin's q
Sacrifice ratio
Real cost of capital
Okun's Law

96) Inventory investment is proportional to the change in output. Which model describes this statement?

Multiplier model.
Accelerator model.
IS-LM model.
AD-AS model.

97) Which of the following assumes that the demand for real money balances is directly proportional to income?

Quantity theory of money.
Transaction theory of money.
Portfolio theory of money.
All of the given options.

98) What are the four sources of aggregate demand?

Consumption, investment, taxes, and expenditures
Consumption, investment, wage increases, and government expenditures
Consumption, investment, expenditures, and net exports
Consumption, investment, government purchases, and net exports

99) In the long run, a decrease in aggregate demand, all other things unchanged, will cause the price level to _____ and full employment level of output to _____.

Increase; increase
Decrease; decrease
Increase; remain stable
Decrease; remain stable

100) In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:

The aggregate demand, the short-run aggregate supply and the long-run aggregate supply curves.
The short-run aggregate supply and the long-run aggregate supply curves.
The aggregate demand and the short-run aggregate supply curves.
The aggregate demand and the long-run aggregate supply curves.

101) In the Keynesian Cross model, the equilibrium condition for an open economy is given by:

Y = C
Y = C + I
Y = C + I + G
Y = C + I + G + (X- M)

102) If the government increases government spending, then the aggregate demand curve will:

Shift to the right.
Shift to the left.
Become flatter.
Become steeper.

103) The use of central bank policies to influence the level of   economic activity is called:

Banking and finance policy.
Financial market policy.
Monetary policy.

Trade policy.

104) In a small open economy, the aggregate demand curve is downward-sloping because a decline in the price level raises real money balances and:

Lowers the interest rate, thereby expanding investment.
Raises wealth, thereby expanding consumer spending.
Lowers the exchange rate, thereby expanding net exports.
Increases the exchange rate, thereby expanding net exports.

105) The budget deficit is an example of:

Flow.
Index.
Capital account.
Stock.

106) Suppose a consumer works for 40 years and then spends 20 years in retirement. According to life-cycle hypothesis, during her working years, this consumer would:

Spend all of her income and borrow for extra spending.
Save all of her income.
Save some fraction of her income.
Spend all of her income.

107) The change in the capital stock, known as net investment, depends positively on the:

Inflation rate.
Profit rate.
Nominal interest rate.
Corporate tax rate.

Tobin's q and investment both to fall only slightly.
Tobin's q and investment both to fall considerably.
Tobin's q to go down considerably, while investment is only slightly affected.
Tobin's q to be only slightly affected, while investment goes down considerably.

109) The major difference between endogenous growth theory and Solow growth model is that:

Endogenous growth theory is a monetary theory whereas the Solow theory is a real theory.
Endogenous growth theory assumes diminishing returns to capital and the Solow theory assumes constant returns.
In endogenous growth theory, economies with the same technology and saving rate need not converge to the same steady state as in the Solow model.
All of the given options are correct.

110) The determinants of demand curve include:

Income, tastes, and the price of the good.
Income and tastes.
Tastes and the price of other goods.
Income, tastes, preferences and the price of other goods.

111) Which of the following plays the most important role in increasing the rate of growth in real GDP per capita over time?

Increases in labor productivity
Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest

112) The GDP deflator was 100 in the year 2000 and was 105 in year 2002. From this information, we can conclude that:

The price level increased by 5 percent from 2000 to 2002.

The price level increased by 205 percent from 2000 to 2002.
The price level increased by 105 percent from 2000 to 2002.
We cannot judge price increases from changes in the GDP deflator.

113) Which of the following would NOT be counted as a government purchase of a good or a service?

The purchase of a new stealth bomber.
Your grandmother's receipt of her monthly Social Security benefit.
The construction of a new dam by the U.S. Army Corps of Engineers.
The hiring of a new police officer by New York City.

114) Which of the following is NOT a cause of an increase in productivity?

Increases in labor supply.
Increases in human capital.
Increases in quality of capital.
Improvements in technology.

115) Which of the following shows the slope of the consumption function?

The marginal propensity to consume.
The marginal propensity to save.
The autonomous consumption spending.
Marginal rate of substitution.

116) Which of the following does the government NOT control directly?

Spending on health
Spending on defence
Firms' investment decisions
Spending on education

117) Television sets are examples of:

Durable goods.

Services.
Non-durable goods.
Transfer products.

118) Increased unemployment benefits and less incentive to work would:

Shift aggregate supply to the right.
Shift aggregate supply to the left.
Shift aggregate demand to the right.
Shift aggregate demand to the left.

119) Barter economies require:

The use of fiat money.
The use of commodity money.
A double coincidence of wants.
Money to serve as a store of value but not as a medium of exchange.

120) According to the law of one price:

The price of gold should differ between nations.
Interest rates across nations should be the same when adjusted for exchange rates.
Goods that are easily tradable across nations should sell for the same price expressed in a common currency.
A company can only charge one price for a product, no matter which nation the product is sold in.

121) Suppose real output in the economy increased. We would expect:

A decrease in unemployment.
A decrease in profit margins.
An increase in unemployment.
An increase in the natural rate of unemployment.

122) Macro-economic disequilibrium exists when:

Aggregate exports are equal to aggregate imports.
Aggregate supply is not equal to aggregate demand.
Aggregate imports are not equal to tax revenue.
Aggregate saving is not equal to aggregate exports.

123) Dissaving occurs if:

Saving is negative.
National income is negative.
Personal income is negative.
The Marginal Propensity to Consume is negative.

124) The IS curve will shift to the right if:

Consumer confidence in the economy improves.
Firms become more optimistic about the economy and decide to invest more at each interest rate.
The government increases transfer payments.
All of the given options.

125) In the short run equilibrium, if output is above the full employment level, then price level will:

Rise.
Fall.
Remain constant.
First rise then fall.

126) Aggregate demand is inversely related to the price level because an increase in the price level:

Lowers the interest rate which results in a higher level of aggregate spending.
Has a negative effect upon wealth which results in increased aggregate spending.
Dampens exports and increases imports which results in a lower level of aggregate spending.
Causes government spending to decline which results in a lower level of aggregate spending.

127) Exogenous changes in the demand for goods and services are known as:

IS Shock.
LM Shock.
Demand Shock.
Supply Shock.

128) Floating debt is a type of:

Long term loans.
Short term loans.
Domestic loans.
Foreign loans.

129) The central bank tries to prevent the depreciation by reducing the money supply. This causes:

LM* curve to shift to the right.
LM* curve to shift to the left.
IS* curve to shift to the right.
IS* curve to shift to the left.

130) When consumers respond to the increased risk by holding more money then this causes:

LM* curve to shift to the right.
LM* curve to shift to the left.
AD curve to shift to the right.
IS* curve to shift to the left.

131) Consumer preferences regarding consumption in the two periods can be represented by:

Indifference curves.
Intertemporal budget constraint.
Consumption function.
LM Curve.

132) According to the Fisher model, the optimal level of consumption for a consumer occurs when the marginal rate of substitution:

Equals one.
Equals zero.
Equals the slope of the budget line.
Is maximized.

133) C = αY^p is the consumption equation of:

Keynesian consumption theory.
Franco Modigliani's consumption theory.
Simon Kuznet's consumption theory.
Milton Friedman's consumption theory.

134) A rise in the general level of interest rates is most likely to cause a fall in:

The exchange rate.
The rate of unemployment.
The saving ratio.
The level of planned capital investment.

135) Steady state is the condition where:

Capital stock is positive.
Capital stock is negative.
Capital stock is zero.
None of the given options.
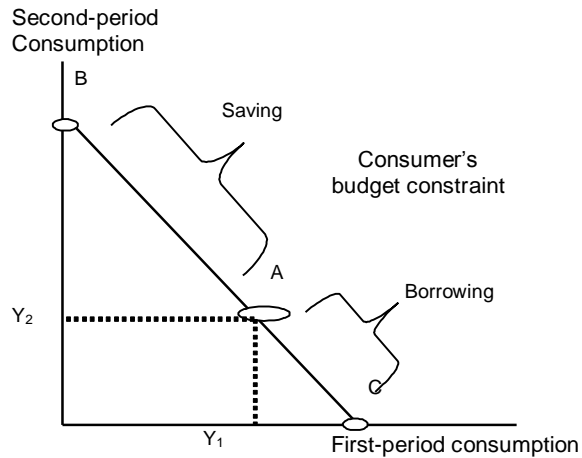
136) In the above figure, the vertical intercept is equal to:

$(1+r)Y_1 + Y_2$.
$Y_1 - Y_2 / (1+r)$.
$(1+r) / (Y_1 + Y_2)$.
$(Y_1 + Y_2) / (1+r)$.

137) ------------------------- = currency + demand deposits

Money supply.
Money demand.
Transactions demand for money.
High powered money.

138) ------------------- is defined as the number of rupees held by the public.

Quantity of money.
Velocity of money.
Supply of money.
Demand for money.

139) Demand for money is positively related with:

Interest rate.
Income.
Supply of money.
None of the given options.

140) Which of the following is known as the broader measure of money?

C.
M1.
M2.
M3.

141) A graph that depicts the relationship between the total quantity of goods and services demanded and the price level is the:

Aggregate demand curve.
Average price level.
Circular flow model.
GDP curve.
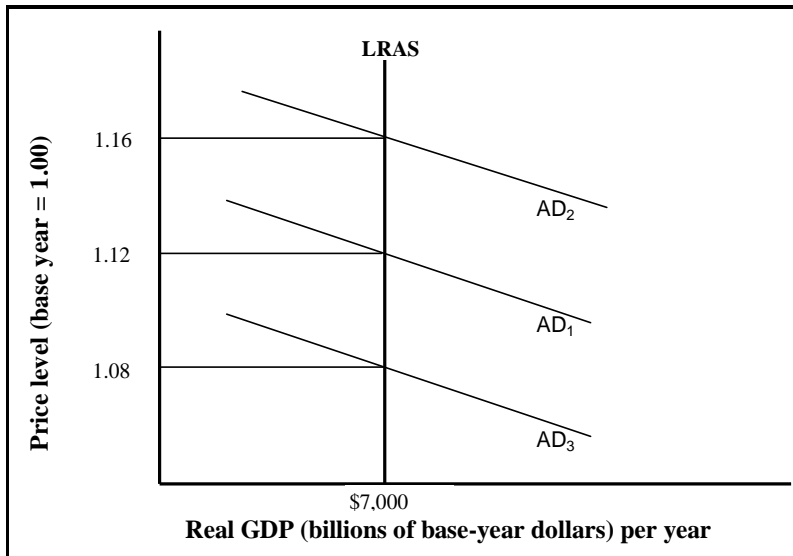
142) Refer to the above figure, the full employment level of output in this economy is:

$7,000 billion at a price level of 1.16.
$7,000 billion at a price level of 1.12.
$7,000 billion at a price level of 1.08.
Described correctly in all of the given options.

143) Which of the following will <u>not</u> cause a change in aggregate demand?

An increase in consumer wealth
An increase in the amount of investment demanded by firms at each price level
An increase in an economy's price level
An increase in the price level of a foreign economy

144) The use of central bank policies to influence the level of   economic activity is called:

Banking and finance policy.
Financial market policy.
Monetary policy.
Trade policy.

145) According to Mundell–Fleming model, in a system of fixed exchange rates, an import restriction on foreign goods would cause net exports and the level of income to:

Rise.
Rise in the same proportion as inflation.
Remain constant.
Fall.

146) The positive relationship between the amount of output and the price level shows that the aggregate supply curve is:

Horizontal.
Upward-sloping.
Vertical.
Downward-sloping.

147) Due to an increase in expected inflation, the Phillips curve:

Shifts upward.
Shifts downward.

Becomes steeper.
Becomes flatter.

148) Suppose a consumer works for 40 years and then spends 20 years in retirement. According to life-cycle hypothesis, during her working years, this consumer would:

Spend all of her income and borrow for extra spending.
Save all of her income.
Save some fraction of her income.
Spend all of her income.

149) Tobin's q is defined as the ratio of the:

Market value of installed capital to the replacement cost of installed capital.
Profits of capital to the rental rate of capital.
Rental rate of capital to the replacement cost of capital.
Profits of capital to the marginal product of capital.

150) If the currency-deposit ratio is 10 % and the total amount of deposits is Rs.100 billion, then the money supply is equal to:

Rs. 90 billion.
Rs. 110 billion.
Rs. 1,000 billion.
Rs.10 billion.

151) Which of the following variable is NOT emphasized to explain the demand for money using a portfolio theory?

The cost of going to the bank.
Wealth.
Returns on other assets.
Expected inflation.

152) If the U.S. real exchange rate increases, then U.S. --------------- will fall and U.S. -------------- will rise.

Imports; exports
Income; imports
Exports; income
Exports; imports

153) Demand curves are derived while holding constant:

Income, tastes, and the price of the good
Income and tastes
Tastes and the price of other goods
Income, tastes, and the price of other goods

154) The accumulation of all past annual deficits is known as:

Government debt.
Budget deficit.
Trade deficit.
Budget surplus.

155) The Golden Rule level of capital accumulation k*gold denotes the steady state with the highest:

Level of consumption per worker.
Level of output per worker.
Growth rate of consumption per worker.
Growth rate of output per worker.

156) Suppose that a country in a steady state implements policies to increase its saving rate. After the new steady state is reached:

Output per worker will grow more rapidly than before.
The level of output per worker will be higher than before.
The amount of capital per worker will be the same as before.
All of the given options.

157) During periods of inflation, the official measure of the budget deficit:

Overstates the change in the government's real indebtedness.
Understates the change in the government's real indebtedness.
Equals the change in the government's real indebtedness.
Should equal the expected rate of inflation.

158) Resources in an economy:

Are always fixed.
Can never decrease.
Always increase over time.
Are limited at any moment in time.

159) Which of the following is NOT the short run impact of an increase in money supply?

An increase in output level
An increase in price level
An increase in consumption
An increase in investment

160) Which of the following is NOT included in M1?

Deposits in checking accounts that pay interest
Deposits in checking accounts
Deposits in money market mutual funds
Currency held by the public

161) A common misperception about inflation is that it reduces real wages; this is:

True only in the short run.
True only in the Long run.
True only in Command economies.
None of the given options.

162) The standard of living is often measured by which of the following?

Real GDP per capita

Real GDP / depreciation
Real GDP × population
Real GDP plus depreciation

163) An item that is intrinsically worthless is:

Commodity money.
Precious metals.
Fiat money.
Barter items.

164) In the complete Keynesian cross model, the aggregate expenditures line is specified as:

AE = C + I + X
AE = C + I + G
AE = C + I + G + (X - M)
AE = C + (I - Y) + (T - G)

165) Structural unemployment occurs:

With economic fluctuations; it increases during bad times and decreases during good times.
Because of a mismatch between the jobs that are available in the economy and the skills of workers seeking jobs.
Naturally during the normal workings of an economy, as people change jobs, move across the country, etc.
Because the government labels some people who aren't really in the labor force as unemployed.

166) Inflation resulting from supply shocks is known as:

Demand pull inflation.
Cost push inflation.
Expected inflation.
Food inflation.

167) An example of an expansionary monetary policy is:

An increase in the required reserve ratio.
An increase in the discount rate.

A reduction in the taxes banks pay on their profits.
The central bank buying government securities in the open market.

168) ------------------------ depends on the difference between the Marginal Product of Capital and the cost of capital.

Net investment
Depreciation investment
Inventory investment
Gross investment

169) The narrowest definition of money supply is:

M1.
M2.
M3.
M4.

170) Let s denote the rate of job separation and f the rate of job finding. If the labor market is in a steady state, the natural rate of unemployment is equal to:

1/s
1/(s + f)
s/(s + f)
f/(s + f)

171) A rise in the general level of interest rates is most likely to cause a fall in:

The level of planned capital investment.
The exchange rate.
The rate of unemployment.
The savings ratio.

172) Barter economies require:

The use of fiat money.
The use of commodity money.
A double coincidence of wants.
Money to serve as a store of value but not as a medium of exchange.

173) Aggregate supply is the relation between real production and:

The price level.
Aggregate expenditures.
Foreign trade.
The exchange rate.

174) The rate at which the consumer is willing to substitute second period consumption for the first period consumption is known as:

Marginal rate of substitution.
Rate of discounting.
Rate of inflation.
Interest rate.

175) What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

The diminishing marginal utility effect
The ceteris paribus effect
The income effect
The substitution effect

176) Which of the following is the largest component of total expenditures?

Consumption
Investment
Government spending
Net exports

177) The GDP deflator can be used:

To reduce the overstatement of economic activity that would occur if we included intermediate production.
To correct nominal GDP for the contribution to domestic GDP made by foreign owned factors of production.
To decompose a change in nominal GDP into a change in real GDP and an average change in prices.
To obtain the factor income flows that result from the economic activity that has produced the GDP.

178) "Each factor of production is paid its marginal product". This is stated by which of the following theory?

Neoclassical theory of distribution
Keynesian theory of consumption
Real business cycle theory
Quantity theory of money

179) Which of the following is NOT a flow variable?

Disposable personal income
Consumption expenditures
Personal wealth
Gross domestic product

180) The standard of living is often measured by which of the following?

Real GDP per capita
Real GDP / depreciation
Real GDP × population
Real GDP plus depreciation

181) Your nominal capital gain in year 2005 is 20%. If inflation rate in this year is also 20% then what will be your real capital gain?

0%
10%
20%
40%

182) If State Bank of Pakistan wishes to pursue a "tight" monetary policy it would:

Increase the minimum reserve asset ratio.
Buy government securities on the open market.
Lower interest rates.
Sell government securities on the open market.

183) Fluctuations in economic activity can be caused by:

An increase in aggregate demand.
A decrease in aggregate demand.
A decrease in short run aggregate supply.
All of the given options.

184) The extra output that a firm can produce using an additional unit of labor is known as:

Average product of labor.
Marginal product of labor.
Total product.
Total cost.

185) Which of the following is a key problem resulting from inflation?

Prices are stable
Certainty of future prices
A haphazard redistribution of income
An increase in the value of money

186) If national output Y = 1,000 and domestic spending on all domestic and foreign goods and services equals 900, then net exports NX will be equal to:

100
-100
1,900
0

187) According to Fisher's model of consumption, all of the following statements about the intertemporal budget constraint are true EXCEPT:

If current consumption rises, the resources available for future consumption will fall.
Consumption in Period 1 must be less than or equal to consumption in Period 2.
In the first period, saving is equal to first-period income minus consumption.
Consumers take into account both current income and expected future income when making consumption choices.

188) According to the loanable funds interpretation of the IS curve:

Firms want to invest more as their income rises.
Banks want to lend more as the interest rate rises.
An increase in income raises saving and lowers the interest rate that equilibrates the supply of and demand for loanable funds.
All of the given options.

189) Which of the following is NOT included in M1?

Deposits in checking accounts that pay interest
Deposits in checking accounts
Deposits in money market mutual funds
Currency held by the public

190) Development is impossible without:

Incentive to profit.
Foreign aid.
Domestic savings.
Inflation.

191) The difference between exports and imports in determining the GDP is known as the:

Net exports.
Import tariffs.
Net imports.
Net income.

192) The short-run is the time period in which:

Firms can purchase new capital.
Potential output is fixed.
Price does not change very much.
Government spending fixed.

193) The relationship between the level of prices and inflation is:

The higher the price level, the lower the rate of inflation.
The higher the rate of increase in the price level, the higher the rate of inflation.
The higher the rate of increase in the price level, the lower the rate of inflation.
The higher the price level, the higher the rate of inflation.

194) Compared to the aggregate market model, the multiplier effect in the Keynesian cross model is:

Larger.
Smaller.
Exactly the same.
Often larger, but sometimes smaller.

195) Which of the following statements about net exports is correct?

The term C + I + G understate domestic production of goods and services because it leaves out exports, which must be subtracted out of GDP to obtain the correct figure.
The term C + I + G overstates domestic production of goods and services because it contains imports, which must be subtracted out of GDP to obtain the correct figure.
The difference between exports and imports is negative when the country is a net exporter.
Before 1976, the United States was generally a net importer. Only after 1976, exports began to exceed imports.

196) M1:

Is the narrowest definition of the money supply.
Includes the most liquid forms of money.
Includes travelers' checks.
All of the given options

197) The relationship between the level of prices and inflation is:

The higher the price level, the lower the rate of inflation.
The higher the rate of increase in the price level, the higher the rate of inflation.
The higher the rate of increase in the price level, the lower the rate of inflation.
The higher the price level, the higher the rate of inflation.

198) The term investment refers to:

Only the creation of capital goods undertaken by private firms or the government.
Only large projects, such as building a new factory, undertaken by private firms.
Any action today that has costs today but provides benefits in the future.
Any action today that has costs today and provides benefits today.

199) A trade deficit occurs when:

A country sells more abroad than it purchases from abroad.
Foreign firms open more stores in a country than the country opens in foreign countries.
A country's firms open more stores abroad than foreign firms open in the country.
A country purchases more from abroad than other countries purchase from it.

200) Which of the following is NOT a flow variable?

Disposable personal income
Consumption expenditures
Personal wealth
Gross domestic product

201) The difficulties of comparing growth of different countries are:

Lack of empirical data.
Choice of a common denominator.
Assigning weighs to the various items of output.
All of the given options.

202) In the sticky-price model:

All firms adjust prices instantly in response to changes in demand.
No firms adjust prices instantly in response to changes in demand.
Some firms adjust prices instantly in response to changes in demand while others do not.
Output is constant.

203) Aggregate supply is the relation between real production and:

The price level.
Aggregate expenditures.
Foreign trade.
The exchange rate.

204) An increase of 10% in nominal GDP indicates that:

Real output has increased by 10%.

The aggregate price level has increased by 10%.
Real output and the aggregate price level have increased by 5% each.
It is possible that all of the increase was caused by an increase in the aggregate price level.

205) The accumulation of all past annual deficits is known as:

Government debt.
Budget deficit.
Trade deficit.
Budget surplus.

206) Technological progress is encouraged by:

The patent system.
Tax incentives for research and development.
Government subsidies for research.
All of the given options.

207) The currency exchange rate is most likely to change and cause a shift of the aggregate demand curve through a change in:

Consumption.
Investment.
Net exports.
Transfer payments.

208) Which one of the following is likely to result in a rightward shift of the short run aggregate supply curve?

An increase in indirect taxation on producers.
A decrease in government spending.
An increase in planned capital investment spending by businesses.
A decrease in wage rates.

209) Going to the dentist would be counted in GDP as:

A service.
Crowns and fillings.
Insurance utilization.
Investment.

210) Country risk premium is negatively related with:

Investment.
Consumption.
Income.
Government purchases.

211) Gross National Product minus net factor income from abroad yields:

Net national product.
Disposable personal income.
National income.
Gross domestic product.

212) Which of the following is NOT a flow variable?

Disposable personal income
Consumption expenditures
Personal wealth
Gross domestic product

213) The difference between exports and imports in determining the GDP is known as the:

Net exports.
Import tariffs.
Net imports.
Net income.

214) The relative price of domestic goods in terms of foreign goods is known as:

Real exchange rate.
Nominal exchange rate.
Discount rate.
Inflation rate.

215) Television sets are examples of:

Durable goods.

Services.
Non-durable goods.
Transfer products.

216) Macro-economic disequilibrium exists when:

Aggregate exports are not equal to aggregate imports.
Aggregate supply is not equal to aggregate demand.
Aggregate expenditure is not equal to tax revenue.
Aggregate saving is not equal to aggregate investment.

217) The money supply increases when:

There is an increase in government purchases.
The Central bank buys Treasury bonds from the public.
A private citizen buys a bond issued by General Motors.
IBM sells stock to the public and uses the proceeds to finance the construction of a new factory.

218) When the GDP is measured using "adjustments for price changes" it is known as the:

Real GDP.
Nominal GNP.
Nominal GDP.
Real GNP.

219) Trade policy is totally ineffective on output under:

Floating exchange rate.
Fixed exchange rate.
Nominal exchange rate.
Real exchange rate.

220) Which one of the following is likely to decrease aggregate supply in the economy?

Improvements in technology.
A reduction in the rate of corporation tax and income tax.
Increased occupational and geographical labor mobility.
A rise in the price of raw materials and components.

221) An item that is intrinsically worthless is:

Commodity money.
Precious metals.
Fiat money.
Barter items.

222) Which of the following is the closest definition of the term "investment"?

Investment is the purchase of financial assets, such as stocks and bonds
Investment is the value of newly produced capital goods
Investment is the purchase of goods for present consumption
Investment is the accumulation of previous capital

223) Which one is NOT a factor of production?

Land
Labor
Capital
Investment

224) Inflation resulting from demand shocks is known as:

Demand pull inflation.
Cost push inflation.
Expected inflation.
Food inflation.

225) The level of output produced when the labor market is in equilibrium is called:

Target output.
Product market equilibrium output.
Full-employment output.
Natural output.

226) Final goods and services" are those that are:

Double counted in the calculation of GDP.
Sold to ultimate or final purchasers.

Produced outside the country.
Used in the production of other goods and services.

227) The demand for money represents the idea that there is:

A positive relationship between the interest rate and the quantity of money demanded.
A negative relationship between the level of aggregate output and the quantity of money demanded.
A negative relationship between the interest rate and the quantity of money demanded.
A negative relationship between the price level and the quantity of money demanded.

228) An item that is intrinsically worthless is:

Commodity money.
Precious metals.
Fiat money.
Barter items.

229) Monetary policy is totally ineffective on output under:

Floating exchange rate.
Fixed exchange rate.
Nominal exchange rate.
Real exchange rate.

230) In the sticky-price model:

All firms adjust prices instantly in response to changes in demand.
No firms adjust prices instantly in response to changes in demand.
Some firms adjust prices instantly in response to changes in demand while others do not.
Output is constant.

231) When prices --------------at an extraordinary fast rate, it is called------------

Decrease; Deflation
Rise; Inflation
Rise; Disinflation
Rise; Hyperinflation

232) In a given year, a country's exports total Rs39 million & imports are Rs17 million. Its net exports are:

Rs.56 million.
Rs. 39 million.
Rs. +22 million.
Rs. - 2 million.

233) If central bank of Pakistan (SBP) wishes to follow tight monetary policy it would---------

Increase the minimum reserve asset ratio.
Buy government securities on the open market.
Lower interest rates.
Sell government securities by the open market operation.

234) Which of the following is NOT the component of aggregate demand?

Consumption.
Investment.
Government purchases.
Capital.

235) When the GDP is measured using "adjustments for price changes" it is known as the:

Real GDP.
Nominal Deflator
Nominal GDP.
Real Deflator

236) If the real interest rate is 1% and the inflation rate is 2%, then the nominal interest rate is-----------------percent.

0.5
1
2
3

237) Which of the following equations is correct?

Nominal interest rate = real interest rate - inflation
Real interest rate = nominal interest rate + inflation
Real interest rate = nominal interest rate × inflation
Real interest rate = nominal interest rate - inflation

238) Price equilibrium is the condition:

When the demand curve intersects the quantity axis.
When the demand curve intersects the price axis.
When quantity demanded equals quantity supplied.
When the supply curve intersects the price axis.

239) Which of the following best describes the definition of money?

The stock of assets used for transactions
The number of dollars in the hands of the public
A store of value, a unit of account, and a medium of exchange
All of the given options

240) If the nominal interest rate is 7 percent & the inflation rate is 4 percent, the real interest rate is-----------------percent.

3
11
28
110

241) Nominal gross domestic product is measured in ---------------prices while real gross domestic product is measured in ------------prices.

Current; Constant
Constant; Current
Final; Intermediate price
Retail; Whole sale

242) If an economy has population of 200 million people, 100 million unemployed and 70 million employed, what is the labor force.

370 million.
170 million.
130 million.

100 million.

243) Which of the following is included in M2?

Commercial paper
Stocks
U.S. Treasury bonds
Savings accounts

244) Disposable Personal income is equal to personal income minus------------

Personal taxes
Indirect business taxes
Capital consumption allowance
Income earned but not received

245) Suppose the population of South Korea is 200 million people, 100 million unemployed and 70 million employed, what is the rate of employment in this economy:

70/170 *100
200/70*100
100/170*100
200/170*100

246) The _____ rate is equal to the number of _____ divided by the _____multiply by 100.

Unemployment; unemployed; labor force
Unemployment; employed; labor force
Employment; unemployed; labor force
Labor force participation; Adult population; labor force

247) Suppose in an economy, money is growing at 7% per year and output is growing at 5 % per year then the inflation rate in that economy would be----------.

2%
-2%
12%
35%

Increases in labor supply
Increases in human capital
Increases in quality of capital
Improvements in technology

249) The number of people unemployed equals:

The number of people employed minus the labor force.
The labor force plus the number of people employed.
The number of people employed divided by the labor force.
The labor force minus the number of people employed.

250) Which of the following is counted in Gross Domestic Product?

The sale of a used computer.
The sale of an old house.
The sale of new car.
The sale of bonds.

251) Which of the following would be a macroeconomic question?

How have prices of specific commodities increased over time?
How has output in specific markets changed over time?
How have personal incomes in general increased over time?
How have the incomes in a particular occupation changed over time?

252) Which of the following is NOT included in M1?

Deposits in checking accounts
Deposits in checking accounts that pay interest
Currency held by the public
None of the given options

253) Which of the following is true?

$MPL = F(K, L+1) - F(K, L)$

MPL = F (K, L -1) – F (K, L-1)
MPL = F (K, L +1) – F (K, L+1)
MPL = F (K+1, L +1) – F (K, L)

254) Disposable Personal income is equal to personal income minus------------

Personal taxes
Indirect business taxes
Capital consumption allowance
Income earned but not received

255) If the production function Y = F(K, L) has -------then---------

Constant returns to scale; F(zK, zL) = zY.
Increasing returns to scale; F(zK, zL) = zY.
Constant returns to scale; F(Y/L, zL) = zY.
Decreasing returns to scale; F(zK, zL) = y.

256) The production function is a function that:

Relates factor prices to the amounts of inputs demanded.
Relates marginal products of factors of production to factor prices.
Relates factors of production to the amount of output produced.
Always have constant returns to scale.

257) Economic growth occurs when there is a(n)----------------rate.

Increase in tax
Increase in the death
Decrease in birth
Increase in the economy's productive

**258) In the Solow growth model with technological growth,Y/L =y * E shows----------
per worker.**

Output
labor
capital
technology

259) In 1997; you bought stock of a company at Rs.10, 000 and sold it after one year at Rs.14, 000. Your --------------gain is------------.

Nominal capital; 40%
Nominal capital; 0.04%
Real capital; 40%
Capital; 0.4%

260) Which of the following is NOT a flow variable?

Disposable personal income
Consumption expenditures
Personal wealth
Gross domestic product

261) An item that is intrinsically valueless is-------------.

Commodity money.
Precious metals.
Fiat money.
Barter items.

262) _____that deals with the economy as whole.

Micro economics.
Macro economics.
Development economics.
Mathematical economics.

263) Which of the following is the formula of unemployment rate?

Labor Force/Population
Unemployed / Employed + Unemployed
Employed + Unemployed
Labor Force + Not in Labor Force

264) If 10% of employed workers lose their jobs (s= 0.1) and 10% of unemployed worker find new jobs (f=0.1),the natural rate of unemployment will be--------------

1
0.5

0.2
0.1

265) In the solow model there is -------type of capital.

One
Two
Three
Four

A change in debt.
A change in direct taxes.
A change in money supply.
A change in government expenditure.

Shift demand outwards
Shift demand inwards
Shift supply outwards
Shift supply inwards

268) Trade policy is --------on output under-----------exchange rate.

More effective; real
More effective; floating
More effective; real
Totally ineffective; floating

269) The ---------refers to the separation of ------and ----------- variables

Classical dichotomy; real; nominal
Keynes dichotomy; dependent; independent
Classical dichotomy; exogenous; endogenous
Classical dichotomy; real wages; real

270) Your nominal capital gain in year 2007 is 7%. If inflation rate in this year is also 7% then what will be your real capital gain?

0%
1%
100%
1

271) Which one of the following is likely to decrease aggregate supply in the economy?

Improvements in technology.
A reduction in the rate of corporation tax and income tax.
Increased occupational and geographical labor mobility.
A rise in the price of raw materials and components.

272) In a macroeconomic model without foreign trade or government spending, aggregate demand is the sum of:

Personal saving and private investment.
Personal saving and personal consumption.
Personal consumption and personal income.
Personal consumption and private investment.

273) Macroeconomics is concerned with which of the following?

Only changes in the overall price level
Only long-run trends in economic activity
Both long-run and short-run fluctuations in the economy
Only short-run fluctuations in the business cycle

274) Which of the following equations is correct?

Nominal interest rate = real interest rate - inflation
Real interest rate = nominal interest rate + inflation
Real interest rate = nominal interest rate × inflation
Real interest rate = nominal interest rate - inflation

275) The IS curve will shift to the right if:

Consumer confidence in the economy improves.
Firms become more optimistic about the economy and decide to invest more at each interest rate.

The government increases transfer payments.
All of the given options.

276) The Average Propensity to Consume (APC) is:

Consumption divided by disposable income.
Saving divided by consumption.
The slope of the consumption function (or line).
The proportion of disposable income used for production

277) Suppose that your income increases from $100,000 to $150,000 and your consumption increases from $80,000 to $120,000. Your Marginal Propensity to Consume is:

0.2
0.4
0.6
0.8

278) The currency exchange rate is most likely to change and cause a shift of the aggregate demand curve through a change in:

Consumption.
Investment.
Net exports.
Transfer payments.

279) The idea that government spending causes a reduction in private investment is called:

Fiscal drag.
Crowding-out.
Investment blight.
Accelerator effect.

280) With no population growth, the steady-state level of capital per worker will increase whenever:

The amount of investment per worker decreases.
The depreciation rate increases.
The saving rate increases.

All of the given options.

281) An increase of $1 in government purchases will:

Shift the planned expenditure curve upward by $1.
Shift the IS curve to the right by $1/ (1 - MPC).
Not shift the LM curve.
All of the given options.

282) Suppose in an economy, money is growing at 8% per year and output is growing at 5 % per year then the inflation rate in that economy would be:

3%
5%
10%
13%

283) In the Solow growth model with technological growth rate, L × E shows:

Capital per effective worker.
Output per effective worker.
Output per worker.
The number of effective workers.

284) A common misperception about inflation is that it reduces real wages; this is:

True only in the short run.
True only in the Long run.
True only in Command economies.
None of the given options.

285) Which plays the most important role in increasing the rate of growth in real GDP per capita over time?

Increases in labor productivity
Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest4

286) Which of the following equations is correct?

Real exchange rate = (exchange rate + domestic price level) / foreign price level
Exchange rate = (real exchange rate × domestic price level) / foreign price level
Real exchange rate = (nominal exchange rate × domestic price level) × foreign price level
Real exchange rate = (nominal exchange rate × domestic price level) / foreign price level

287) The difference between exports and imports in determining the GDP is known as the:

Net exports
Import tariffs.
Net imports.
Net income

288) Unemployment that naturally occurs during the normal workings of an economy as people change jobs and move across the country is called

Structural unemployment.
Frictional unemployment.
Natural unemployment.
Cyclical unemployment.

289) The demand for labor curve shows:

An inverse relationship between the real wage and the number of workers who are willing to work.
That real wages are constant.
An inverse relationship between the real wage and the amount of labor hired.
A positive relationship

290) Which of the following statements about net exports is correct?

The term C + I + G understate domestic production of goods and services because it leaves out
exports, which must be subtracted out of GDP to obtain the correct figure.
The term C + I + G overstates domestic production of goods and services because it contains imports, which must be subtracted out of GDP to obtain the correct figure.
The difference between exports and imports is negative when the country is a net exporter.
Before 1976,

291) Which of the following equations is correct?

Nominal interest rate = real interest rate − inflation
Real interest rate = nominal interest rate + inflation
Real interest rate = nominal interest rate × inflation
Real interest rate = nominal

292) If the U.S. real exchange rate increases, then U.S. ------------------ will fall and U.S. ---------------- will rise.

Imports; exports
Income; imports
Exports; income
Exports; imports

293) Which one of the following could explain a shift to the right of the supply curve for a good?

The imposition of a tax on the good
A new supplier entering the market
A rise in firms' wage costs
A rise in the price of the good

294) Which of the following is NOT included in M1?

Deposits in checking accounts
Deposits in checking accounts that pay interest
Currency held by the public
None of the given options

295) The circular flow is used to make the point that:

Households are both earners and spenders.
Production generates income.
Unemployment only occurs during a recession.
Rising prices never occur during times of unemployment

296) Currency held by the public is included in:

Neither M1 nor M2.
M2 only.
M1 only.
Both M1 & M2

297) If Umar does not have a job and is not currently looking for work but has looked in the past, he is considered:

Not in the labor force.
Unemployed and in the labor force.
Unemployed.
Unemployed and not in the labor force.

298) An asset that is included in M3 but not in M2 is:

Currency.
Checkable deposits.
Small-denomination certificates of deposit.
Large-denomination

299) Is the narrowest definition of the money supply?

Includes the most liquid forms of money.
Includes travelers' checks.
All of the given options
M!
M1

300) Which of the following is TRUE regarding Constant returns to scale?

Output doubles when the amounts of all factor inputs double
Output remains constant over time
The marginal productivity of labor equals the marginal productivity of capital
The marginal products of capital and labor do not change

301) Trade restrictions have no effect on income under floating exchange rates because:

Net exports increase but investment decreases.
The exchange rate rises to offset the initial increase in net exports.
The fall in imports equals the rise in exports.

All of the given options.

302) Gross National Product minus net factor income from abroad yields:

Net national product.
Disposable personal income.
National income.
Gross domestic product.

303) If people suddenly wish to hold more money at each interest rate:

The money demand curve will shift to the right.
The LM curve will shift upward (to the left).
Real income will fall.
All of the given options.

304) In the short run equilibrium, if output is above the full employment level, then prices will:

Rise.
Fall.
Remain constant.
First rise then fall.

305) Stock market boom or crash is an example of which of the following?

IS Shock
LM Shock
Demand Shock
Supply Shock

306) Which of the following events is NOT expected to decrease aggregate demand?

A decrease in government purchases
An increase in real interest rates
A decrease in foreign incomes
A decrease in the price level

307) Which of the following events is NOT expected to decrease aggregate demand?

A decrease in government purchases
An increase in real interest rates
A decrease in foreign incomes
A decrease in the price level

308) In a small open economy with a floating exchange rate, fiscal policy will be ineffective because:

Monetary policy will completely offset it.
The exchange rate will remain constant.
A fall in net exports will offset any increases in government purchases or consumption.
The exchange rate will rise by the same amount as the interest rate.

309) The cost of capital is determined by all of the following EXCEPT the:

Rate of depreciation.
Corporate profit rate.
Interest rate.
Price of capital and its rate of change.

310) Which of the following best defines Net national product?

GDP less depreciation
GNP plus income generated from foreign firms in the domestic country
GNP less depreciation
GNP less income generated from foreign firms in the domestic country

311) The deviation of the actual rate of unemployment from the natural rate is known as:

Cyclical unemployment.
Structural unemployment.
Frictional unemployment.
Seasonal unemployment.

312) An increase in government purchases will shift the:

IS curve to the left and decrease both the interest rate and the level of income.
IS curve to the right and increase both the interest rate and the level of income.
IS curve to the right and increase the level of income but decrease the interest rate.
LM curve downward (to the right) and increase the level of income but decrease the interest rate.

313) In monopolistic competition, firms set their own prices. This is an example of:

The sticky-wage model.
The imperfect information model.
The sticky-price model.
IS-LM model.

314) If a consumer wishes to consume more than his current income in Period 1:

He will be unable to consume anything in Period 2.
The real interest rate must be greater than one.
The decision to consume more must satisfy both his budget constraint and his borrowing constraint.
None of the given options.

314) If labor productivity per week is 200 units and there are 5 employees what is the total output?

40 units.
95 units.
1000 units.
200 units.

315) Which one of the following is most likely to cause firms to decrease the amount of investment they undertake?

A rise in expected consumer demand.
A fall in business confidence.
A fall in company taxation.
A fall in interest rates.

316) Final goods and services" are those that are:

Double counted in the calculation of GDP.

Sold to ultimate or final purchasers.
Produced outside the country.
Used in the production of other goods and services.

317) Flexible exchange rates have the benefit of:

Changing as the price levels and interest rates between countries change.
Being under the full control of the government.
Making international transactions easier and cheaper.
None of the given options.

318) A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to:

Boost the money supply by relaxing credit controls.
Cut interest rates.
Increase the size of the budget deficit.
Encourage a depreciation of the exchange rate.

319) The short run consumption function has:

Rising Average Propensity to Consume.
Falling Average Propensity to Consume.
Constant Average Propensity to Consume.
First rising then falling Average Propensity to Consume.

320) All models of aggregate supply predict:

An upward-sloping SRAS curve.
A vertical LRAS curve.
That the actual level of output is equal to its natural rate in the long run.
All of the given options.

321) Okun's law states a relationship between the GDP gap and the:

Trade deficit.
Government budget deficit.
Actual and expected inflation rate.
Actual unemployment rate and the natural rate of unemployment.

322) A common misperception about inflation is that it reduces real wages; this is:

True only in the short run.
True only in the Long run.
True only in Command economies.
None of the given options.

323) Which of the following is TRUE regarding Constant returns to scale?

Output doubles when the amounts of all factor inputs double
Output remains constant over time
The marginal productivity of labor equals the marginal productivity of capital
The marginal products of capital and labor do not change

324) In a poor country:

The supply of capital is low.
The demand for capital is low.
Both the supply of and demand for capital are low.
None of the given options.

325) Trade restrictions have no effect on income under floating exchange rates because:

Net exports increase but investment decreases.
The exchange rate rises to offset the initial increase in net exports.
The fall in imports equals the rise in exports.
All of the given options.

326) The relationship between the level of prices and inflation is:

The higher the price level, the lower the rate of inflation.
The higher the rate of increase in the price level, the higher the rate of inflation.
The higher the rate of increase in the price level, the lower the rate of inflation.
The higher the price level, the higher the rate of inflation.

327) Which of the following is included in M2?

Commercial paper.
Stocks.
U.S. Treasury bonds.
Savings accounts.

328) The demand for money represents the idea that there is:

A positive relationship between the interest rate and the quantity of money demanded.
A negative relationship between the level of aggregate output and the quantity of money demanded.
A negative relationship between the interest rate and the quantity of money demanded.
A negative relationship between the price level and the quantity of money demanded.

329) Different firms change their prices at different times; this leads to:

Menu cost of inflation.
Shoe leather cost of inflation.
General inconvenience.
Relative price distortions.

330) If S-I and NX are exactly equal to zero i-e the value of imports equals the value of exports then:

We have trade surplus.
We have trade deficit.
We have balanced trade.
We have no trade at all.

331) Which of the following causes microeconomic inefficiencies in the allocation of resources?

Menu cost of inflation.
Shoe leather cost of inflation.
General inconvenience.
Relative price distortions.

332) The difference between a country's merchandise exports and its merchandise imports is the:

Balance of trade.
Balance of payments.
Capital account.
None of the given options.

333) If the U.S. real exchange rate increases, then U.S. ------------------ will fall and U.S. ---------------- will rise.

Imports; exports.
Income; imports.
Exports; income.
Exports; imports.

334) If Omar does not have a job and is not currently looking for work but has looked in the past, he is considered:

Not in the labor force.
Unemployed and in the labor force.
Unemployed.
Unemployed and not in the labor force.

335) A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to:

Boost the money supply by relaxing credit controls.
Cut interest rates.
Increase the size of the budget deficit.
Encourage a depreciation of the exchange rate.

336)Which of the following is included in M2?
Select correct option:

Commercial paper
Stocks
U.S. Treasury bonds
Savings accounts

337)The rate of inflation measures which of the following?

The rate of increase in the overall level of prices pg 4

The rate of increase in the price of a particular good The
rate of increase in nominal GDP
The rate of change in nominal interest rates

338) The cost of changing prices is known as the:

Menu cost of inflation pg 35
Shoe leather cost of inflation
General inconvenience
Relative price distortions

339) In macroeconomic model without foreign trade or government spending, aggregate demand is the sum of:

Personal saving and private investment.
Personal saving and personal consumption.
Personal consumption and personal income.
Personal consumption and private investment.

340) Real GDP (Gross Domestic Product) is measured:

In the prices of a base year.
In current dollars.
At a constant output level but at current prices.
As the difference between the current year's GDP and last year's GDP.

341) Real interest rates are the:

Nominal interest rates plus the inflation rate.
Interest rates quoted in the market.
Interest rates quoted in the market minus the inflation rate.
Interest rates quoted in the market plus the expected inflation rate.

342) The number of people unemployed equals:

The number of people employed minus the labor force.
The labor force plus the number of people employed.
The number of people employed divided by the labor force.
The labor force minus the number of people employed.

343) Economists define the labor force to

Only people who are working full-time.
People who are not working but are actively looking for a job and people who are working.
People who are working.
None of the given options.

344) To arrive at GDP, the Bureau of Economic Analysis (BEA) counts:

The value of total sales.
The value of final sales.
The value of intermediate goods and final goods.
Total value added plus the value of sales at the retail level.

**345) example of an expansionary monetary policy
is:**

An increase in the required reserve ratio.
An increase in the discount rate.
A reduction in the taxes banks pay on their profits.
The central bank buying government securities in the open market.

346) Which of the following best defines Net national product

GDP less depreciation
GNP plus income generated from foreign firms in the domestic country
GNP less depreciation
GNP less income generated from foreign firms in the domestic country

**347) change in the price level is merely a change in the units of measurement." This
is the:**

Classical view of inflation
Keynesian view of inflation
Ricardian view of inflation Neo
classical view of inflation

348) The cost of next best alternative forgone is best described by the:

Principle of diminishing returns.

Marginal principle.
Principle of opportunity cost.
Reality principle.

349) Which of the following events will lead to an increase in the demand for money?

An increase in the level of aggregate output
A decrease in the price level
An increase in the interest rate
An increase in the supply of money

350) Which of the following expressions is the unemployment rate?

Labor Force/Population
Unemployed / Employed + Unemployed
Employed + Unemployed
Labor Force + Not in Labor Force

351) Which of the following statements best describes the definition of scarcity?

There are no buyers willing to purchase what sellers have produced
There is more than enough money to satisfy consumers' wants
Resources are limited in quantity and can be used in different ways
There are not enough goods to satisfy all of the buyers' demand

352) The difference between exports and imports in determining the GDP is known as the:

Net exports.
Import tariffs.
Net imports.
Net income.

353) If you buy a pizza from a restaurant rather than making the identical product at home, then which of the following would happen?

GDP increases
GDP decreases
GDP remains unchanged
Society's well-being decreases

354) An item that is intrinsically worthless is:

Commodity money.
Precious metals.
Fiat money.
Barter items.

355) The production function is a function that:

Relates factor prices to the amounts of inputs demanded.
Relates marginal products of factors of production to factor prices.
Relates factors of production to the amount of output produced.
Always have constant returns to scale.

356) If the U.S. real exchange rate increases, then U.S. -----------------will fall and U.S. -------------- will rise.

Imports; exports
Income; imports
Exports; income
Exports; imports

357) Which of the following is NOT included in M1?

Deposits in checking accounts that pay interest
Deposits in checking accounts
Deposits in money market mutual funds
Currency held by the public

358) Which of the following equations is correct?

Real exchange rate = (exchange rate + domestic price level) / foreign price level
Exchange
rate = (real exchange rate × domestic price level) / foreign price level
Real exchange rate = (nominal exchange rate × domestic price level) × foreign price level
Real exchange rate = (nominal exchange rate × domestic price level) / foreign price level

359) Which of the following is a key problem resulting from inflation?

Prices are stable
Certainty of future prices
A haphazard redistribution of income
An increase in the value of money

360) If Umar does not have a job and is not currently looking for work but has looked in the past, he is considered:

Not in the labor force.
Unemployed and in the labor force.
Unemployed.
Unemployed and not in the labor force.

361) A common misperception about inflation is that it reduces real wages; this is:

True only in the short run.
True only in the Long run.
True only in Command economies.
None of the given options.

362) Aggregate demand is the total demand for all goods and services in an economy from:

The household sector.
All sectors except the rest of the world. The household and government sectors.
All sectors including the rest of the world.

363) The basic economic function of the household sector is:

Undertaking consumption.
Undertaking production.
Exchanging goods.
Exchanging resources.

364) Resources in an economy:

Are always fixed.
Can never decrease.
Always increase over time.
Are limited at any moment in time.

365) S-I and NX are exactly equal to zero i-e the value of imports equals the value of exports then:

We have trade surplus. We have trade deficit.
We have balanced trade.
We have no trade at all.

366) The extra output that a firm can produce using an additional unit of labor is known as:

Average product of labor.
Marginal product of labor.
Total product.
Total cost.

367) Disposable income can be calculated by subtracting which of the following from personal income?

Personal taxes
Indirect business taxes
Capital consumption allowance Income earned but not received

368) The narrowest definition of money supply is:

M1.
M2.
M3.
M4.

369) If national output Y = 1,000 and domestic spending on all domestic and foreign goods and services equals 900, then net exports NX will be equal to:

100
-100
1,900
0

370) Which of the following best describes the definition of endogenous variables?

Variables which are fixed at the moment they enter the model

Variables which are determined within the model
Variables which does not change in any time

371) Television sets are examples of:

Durable goods.
Services.
Non-durable goods.

372) The standard of living is often measured by which of the following?

Real GDP per capita
Real GDP / depreciation
Real GDP × population
Real GDP plus depreciation

373) Different firms change their prices at different times; this leads to:

Menu cost of inflation.
Shoe leather cost of inflation.
General inconvenience.
Relative price distortions.

374) The demand for money represents the idea that there is:

A positive relationship between the interest rate and the quantity of money demanded.
A negative relationship between the level of aggregate output and the quantity of money demanded.
A negative relationship between the interest rate and the quantity of money demanded. A negative relationship between the price level and the quantity of money demanded.

375) The demand for labor curve shows:

An inverse relationship between the real wage and the number of workers who are willing to work.
That real wages are constant.
An inverse relationship between the real wage and the amount of labor hired.
A positive relationship between the real wage and the number of workers who are willing to work.

376) The free market involves:

The free provision of products.
The subsidizing of products by the government.
Market forces of supply and demand.
All trade via barter.

377) The index most widely used by the government and the private sector to measure changes in the cost of living is the:

Consumer price index.
Producer price index.
The GDP deflator.
The chain-type price index.

378) Your nominal capital gain in year 2005 is 20%. If inflation rate in this year is also 20% then what will be your real capital gain?

0%
10%
20%
40%

379) An economy with international trade is known as:

Crowded out.
An open economy.
A closed economy.
A Keynesian economy.

380) The rate of inflation measures which of the following?

The rate of increase in the overall level of prices
The rate of increase in the price of a particular good
The rate of increase in nominal GDP
The rate of change in nominal interest rates

381) In a command (planned) economy:

The price mechanism acts as an incentive.
Resources are allocated by market forces.

Individual firms make decisions for themselves.
The public sector is large.

382) Macroeconomics is concerned with which of the following?

Only changes in the overall price level
Only long-run trends in economic activity
Both long-run and short-run fluctuations in the economy
Only short-run fluctuations in the business cycle

383) If the nominal interest rate is 8% and the inflation rate is 5%, then the real rate of interest is:

-3%
5%
13%
3%

384) When money is used to express the value of goods and services, it is functioning as a:

Unit of account.
Store of purchasing power.
Store of value.
Medium of exchange.

385) An increase of 10% in nominal GDP indicates that:

Real output has increased by 10%.
The aggregate price level has increased by 10%.
Real output and the aggregate price level have increased by 5% each.
It is possible that all of the increase was caused by an increase in the aggregate price level.

386) The short-run is the time period in which:

Firms can purchase new capital.
Potential output is fixed.
Price does not change very much.
Government spending fixed.

387) The money supply increases when:

There is an increase in government purchases.
The Central bank buys Treasury bonds from the public.
A private citizen buys a bond issued by General Motors.
IBM sells stock to the public and uses the proceeds to finance the construction of a new factory.

388) The GDP deflator can be used:

To reduce the overstatement of economic activity that would occur if we included intermediate production.
To correct nominal GDP for the contribution to domestic GDP made by foreign owned factors of production.
To decompose a change in nominal GDP into a change in real GDP and an average change in prices.
To obtain the factor income flows that result from the economic activity that has produced the GDP.

389) The level of output produced when the labor market is in equilibrium is called:

Target output.
Product market equilibrium output.
Full-employment output.
Natural output.

390) The short-run is the time period in which:

Firms can purchase new capital.
Potential output is fixed.
Price does not change very much.
Government spending fixed.

391) if State Bank of Pakistan wishes to pursue a "tight" monetary policy it would:

Increase the minimum reserve asset ratio.
Buy government securities on the open market.
Lower interest rates.
Sell government securities on the open market.

392) When the GDP is measured using "adjustments for price changes" it is known as the:

Real GDP.
Nominal GNP.
Nominal GDP.
Real GNP.

393) Which of the following is the largest component of total expenditures?

Consumption
Investment
Government spending
Net exports

394) Which plays the most important role in increasing the rate of growth in real GDP per capita over time?

Increases in labor productivity
Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest

395) Which of the following events is NOT expected to decrease aggregate demand?

A decrease in government purchases
An increase in real interest rates A
decrease in foreign incomes A
decrease in the price level

396) Which of the following would be a macroeconomic question?

How have prices of specific commodities increased over time?
How has output in specific markets changed over time?
How have personal incomes in general increased over time?
How have the incomes in a particular occupation changed over time?

397) Which one of the following could explain a shift to the right of the supply curve for a good?

The imposition of a tax on the good

A new supplier entering the market
A rise in firms' wage costs
A rise in the price of the good

398) Which of the following events is NOT expected to decrease aggregate demand?

A decrease in government purchases
An increase in real interest rates
A decrease in foreign incomes
A decrease in the price level

399) Exports ------------ GDP and imports -----------------GDP.

Increase; decrease
Increase; increase
Decrease; decrease
Decrease; increase

400) If the government of a small open economy increases personal income taxes, then that country's:

Net exports increases.
Investment increases.
Equilibrium real exchange rate rises.
Consumption rises.

401) The supply of labor curve shows:

A positive relationship between the real wage and the number of workers who are willing to work.
An inverse relationship between the real wage and the amount of labor hired.
An inverse relationship between the real wage and the number of workers who are willing to work.
That real wages are constant.

402) Which of the following is NOT a function of money?

A medium of exchange
A unit of account
A shelter against inflation
A store of value

403) The money supply increases when:

There is an increase in government purchases.
The Central bank buys Treasury bonds from the public.
A private citizen buys a bond issued by General Motors.
IBM sells stock to the public and uses the proceeds to finance the construction of a new factory.

404) The difference between a country's merchandise exports and its merchandise imports is the:

Balance of trade.
Balance of payments.
Capital account.
Current account.

405) Barter economies require:

The use of fiat money.
The use of commodity money.
A double coincidence of wants.
Money to serve as a store of value but not as a medium of exchange.

406) Causes of market failure include:

Externalities and market power.
Market power and incorrect forecasts of consumer demand.
Externalities and foreign competition.
Incorrect forecasts of consumer demand and foreign competition.

407) Which plays the most important role in increasing the rate of growth in real GDP per capita over time?

Increases in labor productivity
Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest

408) Which one of the following could explain a shift to the right of the supply curve for a good?

The imposition of a tax on the good
A new supplier entering the market A
rise in firms' wage costs
A rise in the price of the good

409) Which of the following is NOT an example of consumption expenditure?

Television sets
Military airplanes
Clothing
Restaurant meals

410) Economists believe that wage rigidity can be caused by:

Unions.
Minimum wage laws.
Efficiency wages.
All of the given options.

411) A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to:

Boost the money supply by relaxing credit controls.
Cut interest rates.
Increase the size of the budget deficit.
Encourage a depreciation of the exchange rate.

412) The relationship between the level of prices and inflation is:

The higher the price level, the lower the rate of inflation.
The higher the rate of increase in the price level, the higher the rate of inflation.
The higher the rate of increase in the price level, the lower the rate of inflation.
The higher the price level, the higher the rate of inflation.

413) The GDP deflator can be used:

To reduce the overstatement of economic activity that would occur if we included intermediate production.

To correct nominal GDP for the contribution to domestic GDP made by foreign owned factors of production.
To decompose a change in nominal GDP into a change in real GDP and an average change in prices.
To obtain the factor income flows that result from the economic activity that has produced the GDP.

414) f S-I and NX are exactly equal to zero i-e the value of imports equals the value of exports then:

We have trade surplus. We have trade deficit.
We have balanced trade.
We have no trade at all.

415) During periods of poor economic performance, real GDP:

Declines but unemployment typically does not change.
Declines and unemployment rises sharply.
Is unchanged but unemployment rises sharply.
Declines and unemployment rises moderately.

416) Which of the following would be counted as investment in the calculation of GDP?

The profit earned from the sale of bonds
The purchase of a share of Microsoft stock
The construction of a new home
The tuition paid by a university student

417) Demand for a normal product may shift outwards if:

Price decreases
The price of a substitute falls The
price of a complement rises
Income falls

418) Which of the following is a key problem resulting from inflation?

Prices are stable
Certainty of future prices
A haphazard redistribution of income

419) The relationship between consumer spending and income is known as the:

45-degree line.
Consumption function.
Investment function.
Consumer price index.

420) An increase of 10% in nominal GDP indicates that:

Real output has increased by 10%.
The aggregate price level has increased by 10%.
Real output and the aggregate price level have increased by 5% each.
It is possible that all of the increase was caused by an increase in the aggregate price level.

421) When money is accepted as payment for a good or service, it is being used as a:

Store of value.
Medium of exchange.
Unit of account.
A mechanism for transforming current purchases into future purchases.

422)The index most widely used by the government and the private sector to measure changes in the cost of living is the:

Consumer price index.
Producer price index.
The GDP deflator.
The chain-type price index.

423) Demand curves are derived while holding constant:

Income, tastes, and the price of the good
Income and tastes
Tastes and the price of other goods
Income, tastes, and the price of other goods

424) The relative price of domestic currency in terms of foreign currency is known as:

Real exchange rate.
Nominal exchange rate.
Discount rate.
Inflation rate.

425) A government policy that will increase frictional unemployment is a (n):

Extension of job training programs.
Increase in unemployment insurance benefits.
Reduction in the minimum wage.
Dissemination of information about job vacancies.

426) An increase in the costs of production will:

Shift demand outwards
Shift demand inwards
Shift supply outwards
Shift supply inwards

427) If the U.S. real exchange rate increases, then U.S. ---------------- will fall and U.S. -------------- will rise.

Imports; exports
Income; imports
Exports; income
Exports; imports

428) Demand curves are derived while holding constant:

Income, tastes, and the price of the good
Income and tastes
Tastes and the price of other goods
Income, tastes, and the price of other goods

429) The accumulation of all past annual deficits is known as:

Government debt.
Budget deficit.

Trade deficit.
Budget surplus.

430) The Golden Rule level of capital accumulation k*gold denotes the steady state with the highest:

Level of consumption per worker.
Level of output per worker.
Growth rate of consumption per worker.
Growth rate of output per worker.

431) Suppose that a country in a steady state implements policies to increase its saving rate. After the new steady state is reached:

Output per worker will grow more rapidly than before.
The level of output per worker will be higher than before.
The amount of capital per worker will be the same as before.
All of the given options.

432) During periods of inflation, the official measure of the budget deficit:

Overstates the change in the government's real indebtedness.
Understates the change in the government's real indebtedness.
Equals the change in the government's real indebtedness.
Should equal the expected rate of inflation.

433) Resources in an economy:

Are always fixed.
Can never decrease.
Always increase over time.
Are limited at any moment in time.

434) Which of the following is NOT the short run impact of an increase in money supply?

An increase in output level
An increase in price level
An increase in consumption
An increase in investment

435) Which of the following is NOT included in M1?

Deposits in checking accounts that pay interest
Deposits in checking accounts
Deposits in money market mutual funds
Currency held by the public

436) A common misperception about inflation is that it reduces real wages; this is:

True only in the short run.
True only in the Long run.
True only in Command economies.
None of the given options.

437) The standard of living is often measured by which of the following?

Real GDP per capita
Real GDP / depreciation
Real GDP × population
Real GDP plus depreciation

438) An item that is intrinsically worthless is:

Commodity money.
Precious metals.
Fiat money.
Barter items.

439) In the complete Keynesian cross model, the aggregate expenditures line is specified as:

AE = C + I + X
AE = C + I + G
AE = C + I + G + (X - M)
AE = C + (I - Y) + (T - G)

440) Structural unemployment occurs:

With economic fluctuations; it increases during bad times and decreases during good times.
Because of a mismatch between the jobs that are available in the economy and the skills of workers seeking jobs.
Naturally during the normal workings of an economy, as people change jobs, move across the country, etc.
Because the government labels some people who aren't really in the labor force as unemployed.

441) Inflation resulting from supply shocks is known as:

Demand pull inflation.
Cost push inflation.
Expected inflation.
Food inflation.

442) An example of an expansionary monetary policy is:

An increase in the required reserve ratio.
An increase in the discount rate.
A reduction in the taxes banks pay on their profits.
The central bank buying government securities in the open market.

443) ------------------------ depends on the difference between the Marginal Product of Capital and the cost of capital.

Net investment
Depreciation investment
Inventory investment
Gross investment

444)The narrowest definition of money supply is:

M1.
M2.
M3.
M4.

445) Let s denote the rate of job separation and f the rate of job finding. If the labor

market is in a steady state, the natural rate of unemployment is equal to:

1/s
1/(s + f)
s/(s + f)
f/(s + f)

446) A rise in the general level of interest rates is most likely to cause a fall in:

The level of planned capital investment.
The exchange rate.
The rate of unemployment.
The savings ratio.

447) Barter economies require:

The use of fiat money.
The use of commodity money.
A double coincidence of wants.
Money to serve as a store of value but not as a medium of exchange.

448) Aggregate supply is the relation between real production and:

The price level.
Aggregate expenditures.
Foreign trade.
The exchange rate.

449) The rate at which the consumer is willing to substitute second period consumption for the first period consumption is known as:

Marginal rate of substitution.
Rate of discounting.
Rate of inflation.
Interest rate.

450) What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?

The diminishing marginal utility effect

The ceteris paribus effect
The income effect
The substitution effect

451) Which of the following is the largest component of total expenditures?

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Investment
Government spending
Net exports

452) The GDP deflator can be used:

To reduce the overstatement of economic activity that would occur if we included intermediate production.
To correct nominal GDP for the contribution to domestic GDP made by foreign owned factors of production.
To decompose a change in nominal GDP into a change in real GDP and an average change in prices.
To obtain the factor income flows that result from the economic activity that has produced the GDP.

453) "Each factor of production is paid its marginal product". This is stated by which of the following theory?

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Keynesian theory of consumption
Real business cycle theory
Quantity theory of money

454) Which of the following is NOT a flow variable?

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Consumption expenditures
Personal wealth
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Real GDP × population
Real GDP plus depreciation

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0%
10%
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Increase the minimum reserve asset ratio.
Buy government securities on the open market.
Lower interest rates.
Sell government securities on the open market.

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A decrease in aggregate demand.
A decrease in short run aggregate supply.
All of the given options.

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Total product.
Total cost.

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Prices are stable
Certainty of future prices
A haphazard redistribution of income
An increase in the value of money

461) If national output Y = 1,000 and domestic spending on all domestic and foreign goods and services equals 900, then net exports NX will be equal to:

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If current consumption rises, the resources available for future consumption will fall.
Consumption in Period 1 must be less than or equal to consumption in Period 2.
In the first period, saving is equal to first-period income minus consumption.
Consumers take into account both current income and expected future income when making consumption choices.

463) According to the loanable funds interpretation of the IS curve:

Firms want to invest more as their income rises.
Banks want to lend more as the interest rate rises.
An increase in income raises saving and lowers the interest rate that equilibrates the supply of and demand for loanable funds.
All of the given options.

464) Which of the following is NOT included in M1?

Deposits in checking accounts that pay interest
Deposits in checking accounts
Deposits in money market mutual funds
Currency held by the public

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Incentive to profit.
Foreign aid.
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Inflation.

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Net exports.
Import tariffs.
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Potential output is fixed.
Price does not change very much.
Government spending fixed.

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Smaller.
Exactly the same.
Often larger, but sometimes smaller.

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The term C + I + G understate domestic production of goods and services because it leaves out exports, which must be subtracted out of GDP to obtain the correct figure.
The term C + I + G overstates domestic production of goods and services because it contains imports, which must be subtracted out of GDP to obtain the correct figure.
The difference between exports and imports is negative when the country is a net exporter.
Before 1976, the United States was generally a net importer. Only after 1976, exports began to exceed imports.

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Is the narrowest definition of the money supply.
Includes the most liquid forms of money.
Includes travelers' checks.
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Any action today that has costs today but provides benefits in the future.
Any action today that has costs today and provides benefits today.

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Foreign firms open more stores in a country than the country opens in foreign countries.
A country's firms open more stores abroad than foreign firms open in the country.
A country purchases more from abroad than other countries purchase from it.

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Disposable personal income
Consumption expenditures
Personal wealth
Gross domestic product

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Choice of a common denominator.
Assigning weighs to the various items of output.
All of the given options.

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All firms adjust prices instantly in response to changes in demand.
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Some firms adjust prices instantly in response to changes in demand while others do not.
Output is constant.

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Aggregate expenditures.
Foreign trade.
The exchange rate.

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Real output has increased by 10%.
The aggregate price level has increased by 10%.
Real output and the aggregate price level have increased by 5% each.
It is possible that all of the increase was caused by an increase in the aggregate price level.

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Government debt.
Budget deficit.
Trade deficit.
Budget surplus.

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Tax incentives for research and development.
Government subsidies for research.
All of the given options.

482) The currency exchange rate is most likely to change and cause a shift of the aggregate demand curve through a change in:

Consumption.
Investment.
Net exports.
Transfer payments.

483) Which one of the following is likely to result in a rightward shift of the short run aggregate supply curve?

An increase in indirect taxation on producers.
A decrease in government spending.
An increase in planned capital investment spending by businesses.
A decrease in wage rates.

484) Going to the dentist would be counted in GDP as:

A service.
Crowns and fillings.
Insurance utilization.
Investment.

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Investment.
Consumption.
Income.
Government purchases.

486) Gross National Product minus net factor income from abroad yields:

Net national product.
Disposable personal income.
National income.
Gross domestic product.

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Net exports.
Import tariffs.
Net imports.
Net income.

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Nominal exchange rate.
Discount rate.
Inflation rate.

490) Television sets are examples of:

Durable goods.
Services.
Non-durable goods.
Transfer products.

491) Macro-economic disequilibrium exists when:

Aggregate exports are not equal to aggregate imports.
Aggregate supply is not equal to aggregate demand.
Aggregate expenditure is not equal to tax revenue.
Aggregate saving is not equal to aggregate investment.

492) The money supply increases when:

There is an increase in government purchases.
The Central bank buys Treasury bonds from the public.
A private citizen buys a bond issued by General Motors.
IBM sells stock to the public and uses the proceeds to finance the construction of a new factory.

493) When the GDP is measured using "adjustments for price changes" it is known as the:

Real GDP.
Nominal GNP.
Nominal GDP.
Real GNP.

494) Trade policy is totally ineffective on output under:

Floating exchange rate.
Fixed exchange rate.
Nominal exchange rate.
Real exchange rate.

495) Which one of the following is likely to decrease aggregate supply in the economy?

Improvements in technology.
A reduction in the rate of corporation tax and income tax.
Increased occupational and geographical labor mobility.
A rise in the price of raw materials and components.

496) An item that is intrinsically worthless is:

Commodity money.
Precious metals.
Fiat money.
Barter items.

497) Which of the following is the closest definition of the term "investment"?

Investment is the purchase of financial assets, such as stocks and bonds
Investment is the value of newly produced capital goods
Investment is the purchase of goods for present consumption
Investment is the accumulation of previous capital

498) Which one is NOT a factor of production?

Land

Labor
Capital
Investment

499) Inflation resulting from demand shocks is known as:

Demand pull inflation.
Cost push inflation.
Expected inflation.
Food inflation.

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Demand pull inflation.
Cost push inflation.
Expected inflation.
Food inflation.

501) The level of output produced when the labor market is in equilibrium is called:

Target output.
Product market equilibrium output.
Full-employment output.
Natural output.

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Natural output.

503) Final goods and services" are those that are:

Double counted in the calculation of GDP.
Sold to ultimate or final purchasers.
Produced outside the country.

Used in the production of other goods and services.

504) The demand for money represents the idea that there is:

A positive relationship between the interest rate and the quantity of money demanded.
A negative relationship between the level of aggregate output and the quantity of money demanded.
A negative relationship between the interest rate and the quantity of money demanded.
A negative relationship between the price level and the quantity of money demanded.

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Real exchange rate.

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Some firms adjust prices instantly in response to changes in demand while others do not.
Output is constant.

508) If the U.S. real exchange rate increases, then U.S. ---------------- will fall and U.S. ------------- will rise.

Imports; exports
Income; imports
Exports; income
Exports; imports

509) Demand curves are derived while holding constant:

Income, tastes, and the price of the good
Income and tastes
Tastes and the price of other goods
Income, tastes, and the price of other goods

510) The accumulation of all past annual deficits is known as:

Government debt.
Budget deficit.
Trade deficit.
Budget surplus.

511) The Golden Rule level of capital accumulation k*gold denotes the steady state with the highest:

Level of consumption per worker.
Level of output per worker.
Growth rate of consumption per worker.
Growth rate of output per worker.

512) Suppose that a country in a steady state implements policies to increase its saving rate. After the new steady state is reached:

Output per worker will grow more rapidly than before.
The level of output per worker will be higher than before.
The amount of capital per worker will be the same as before.
All of the given options.

513) During periods of inflation, the official measure of the budget deficit:

Overstates the change in the government's real indebtedness.
Understates the change in the government's real indebtedness.
Equals the change in the government's real indebtedness.
Should equal the expected rate of inflation.

514) Resources in an economy:

Are always fixed.
Can never decrease.
Always increase over time.
Are limited at any moment in time.

515) Which of the following is NOT the short run impact of an increase in money supply?

An increase in output level
An increase in price level
An increase in consumption
An increase in investment

516) Which of the following is NOT included in M1?

Deposits in checking accounts that pay interest
Deposits in checking accounts
Deposits in money market mutual funds
Currency held by the public

517) A common misperception about inflation is that it reduces real wages; this is:

True only in the short run.
True only in the Long run.
True only in Command economies.
None of the given options.

518)The standard of living is often measured by which of the following?

Real GDP per capita
Real GDP / depreciation
Real GDP × population
Real GDP plus depreciation

519)An item that is intrinsically worthless is:

Commodity money.
Precious metals.
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520) In the complete Keynesian cross model, the aggregate expenditures line is specified as:

AE = C + I + X
AE = C + I + G
AE = C + I + G + (X - M)
AE = C + (I - Y) + (T - G)

521) Structural unemployment occurs:

With economic fluctuations; it increases during bad times and decreases during good times.
Because of a mismatch between the jobs that are available in the economy and the skills of workers seeking jobs.
Naturally during the normal workings of an economy, as people change jobs, move across the country, etc.
Because the government labels some people who aren't really in the labor force as unemployed.

522) Inflation resulting from supply shocks is known as:

Demand pull inflation.
Cost push inflation.
Expected inflation.
Food inflation.

523) An example of an expansionary monetary policy is:

An increase in the required reserve ratio.
An increase in the discount rate.
A reduction in the taxes banks pay on their profits.
The central bank buying government securities in the open market.

524) ------------------------ depends on the difference between the Marginal Product of Capital and the cost of capital.

Net investment
Depreciation investment

Inventory investment
Gross investment

525) The narrowest definition of money supply is:

M1.
M2.
M3.
M4.

526) Let s denote the rate of job separation and f the rate of job finding. If the labor market is in a steady state, the natural rate of unemployment is equal to:

1/s
1/(s + f)
s/(s + f)
f/(s + f)

527) A rise in the general level of interest rates is most likely to cause a fall in:

The level of planned capital investment.
The exchange rate.
The rate of unemployment.
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Real exchange rate.

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A reduction in the rate of corporation tax and income tax.
Increased occupational and geographical labor mobility.
A rise in the price of raw materials and components.

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Precious metals.
Fiat money.
Barter items.

578) Which of the following is the closest definition of the term "investment"?

Investment is the purchase of financial assets, such as stocks and bonds
Investment is the value of newly produced capital goods
Investment is the purchase of goods for present consumption
Investment is the accumulation of previous capital

579) Which one is NOT a factor of production?

Land
Labor
Capital
Investment (100 % correct)

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Demand pull inflation.
Cost push inflation.
Expected inflation.
Food inflation.

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Food inflation.

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Product market equilibrium output.
Full-employment output.
Natural output.

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A negative relationship between the level of aggregate output and the quantity of money demanded.
A negative relationship between the interest rate and the quantity of money demanded.
A negative relationship between the price level and the quantity of money demanded.

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Output is constant.

589) Which of the following is NOT included in M1?

Deposits in checking accounts that pay interest
Deposits in checking accounts
Deposits in money market mutual funds
Currency held by the public

590) If the U.S. real exchange rate decreases, U.S. ---------------- will fall and U.S. ----------------- will rise.

Exports; income
Exports; imports
Income; imports
Imports; exports

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Investment is the value of newly produced capital goods
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Investment is the accumulation of previous capital

592) The difficulties of comparing growth of different countries are:

Lack of empirical data.
Choice of a common denominator.
Assigning weighs to the various items of output.
All of the given options.

593) Which of the following events is NOT expected to decrease aggregate demand?

A decrease in government purchases
An increase in real interest rates
A decrease in foreign incomes
A decrease in the price level

594) The rate at which commercial banks borrow from the central bank is known as:

Inflation rate.
Interest rate.
Discount rate.

Reserve requirement rate.

595) In the short run equilibrium, if output is at the full employment level, then prices will:

Rise.
Fall.
Remain constant.
First rise then fall.

596) If the U.S. real exchange rate increases, then U.S. ------------------ will fall and U.S. ---------------- will rise.

Imports; exports
Income; imports
Exports; income
Exports; imports

597) Which of the following is NOT included in M1?

Deposits in checking accounts
Deposits in checking accounts that pay interest
Currency held by the public
None of the given options

598) The Solow model implies that, all other things being equal, countries with rapidly growing population will tend to:

Be poorer than countries with lower population growth.
Grow slower than countries with lower population growth.
Have lower marginal products of capital than countries with lower population growth.
All of the given options.

599) IS* curve shows the negative relationship between which of the following?

Nominal exchange rate and price level
Nominal exchange rate and output level
Nominal exchange rate and interest rate
Output and interest rate

600) In the Solow growth model, nk reflects:

The break-even investment.
The replacement of depreciating capital.
The provision of capital for new workers.
The provision of capital for the new "effective" workers.

601) In the Solow growth model, persistent increases in standards of living are due to:

Technological progress, which leads to sustained growth in output per worker.
A high saving rate, which leads to sustained high rates of growth.
A high rate of population growth, which leads to a larger labor force.
All of the given options.

602) In the steady state for the Solow model of economic growth with depreciation (ð), positive labor force growth (n) and technological change (a), we would expect Y/L to grow:

At the rate $(a + n + ð)$.
At the rate $(a + n - ð)$.
At the rate $(a + n)$.
At the rate a.

603) A decrease in taxes causes the aggregate demand curve:

To shift upward.
To shift downward.
To remain unchanged.
All of the above are possible.

604) Keynes's liquidity preference theory of ---------suggests that interest rate is determined by money supply and money demand.

Interest
Supply
Demand
Investment

605) The policy actions aimed to reduce the severity of --------- economic fluctuations is known as-------------

Long run; Monetary policy.
Short run; Fiscal policy.
Long run; Trade policy.
Short run; Stabilization policy.

606) Suppose the population of South Korea is 200 million people, 100 million unemployed and 70 million employed, what is the rate of employment in this economy:

70/170 *100
200/70*100
100/170*100
200/170*100

607) If the nominal interest rate is 17% and the inflation rate is 10%, then the real rate of interest is--------------------.

7%
17%
27%
170%

608) Your nominal capital gain in year 2007 is 7%. If inflation rate in this year is also 7% then what will be your real capital gain?

0%
1%
100%
1

609) If a producer buys leather for Rs.100 and thread for Rs.50 and uses them to produce and sell Rs500 worth of bag to consumer, the contribution to GDP is:

Rs.150
Rs.500
Rs.550
Rs.650

610) The major difficulty for underdeveloped country to measure the economic growth is:

Lack of skilled manpower.
Lack of supply of empirical data.
Preoccupation with other more important problems.
All of the given options.

611) In endogenous growth model permanent growth depends upon----------- rate.

Saving.
Birth.
Production.
Depreciation.

612) The important determinant of the steady state ratio of capital to labor is--------

Saving rate.
Output.
Foreign aid.
Labor force.

613) Which of the following would be a macroeconomic question?

How have prices of specific commodities increased over time?
How has output in specific markets changed over time?
How have personal incomes in general increased over time?
How have the incomes in a particular occupation changed over time?

614) "Change in consumer confidence" is an example of which of the following?
Select correct option:

IS Shock
LM Shock
Production Shock
Supply Shock

615) The term "Investment" can best be defined as:

Investment is the purchase of financial assets, such as stocks and bonds
Investment is the value of newly produced capital goods
Investment is the purchase of goods for present consumption
Investment is the accumulation of previous capital

616) Use the following table to answer question Worker 1 2 3 4 Output 100 107 110 113 What is the marginal product of the third worker?

217
110
7
3

617) Government budget deficit is equal to change in debt -----------

Minus change in assets.
Plus change in assets.
Multiply by change in assets.
Divided by change in assets.

618) When the GDP is measured using "adjustments for price changes" it is known as the:

Real GDP.
Nominal Deflator
Nominal GDP.
Real Deflator

619) When real exchange rate rises, exports will--------and imports will -----------

Decrease; increase.
Increase; decrease.
Increase; Increase.
Decrease; decrease.

620) Trade policy is --------on output under-----------exchange rate.

More effective; real
More effective; floating
More effective; real
Totally ineffective; floating

621) Which would NOT tend to be a cause of an increase in productivity?

Increases in labor supply
Increases in human capital
Increases in quality of capital
Improvements in technology

**622) If the private saving is 700 and public saving is 400, the National saving is-------
--------:**

300
400
700
1100

623) Which of the following deals with the study of economic behavior of individual firms and units?

Micro economics.
Macro economics.
Mathematical economics.
Development economics.