

Eco403
Lec 1 to 39

Question # 1 of 15 (Start time: 07:51:19 PM) Total Marks: 1

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:

Select correct option:

- $1/s$
- $1/(s + f)$
- $s/(s + f)$
- $f/(s + f)$

Question # 6 of 15 (Start time: 07:54:12 PM) Total Marks: 1 An

economy with international trade is known as:

Select correct option:

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

In monopolistic competition, firms set their own prices. This is an example of: Select correct option:

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

Question # 2 of 15 (Start time: 07:23:50 PM) Total Marks: 1

Monetary policy is totally ineffective on output under:

Select correct option:

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

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:

Select correct option:

- 0.2
- 0.4

0.6

0.8

----- = Change in debt - Change in assets

Select correct option:

Government budget deficit

Government budget surplus

Trade deficit

Trade surplus

Question # 6 of 15 (Start time: 07:28:30 PM) Total Marks: 1

----- = Nominal price of the good / Overall price level

Select correct option:

Absolute piece level

Relative price level

Flexible prices

Sticky prices

Question # 9 of 15 (Start time: 04:32:24 PM) Total Marks: 1

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

Select correct option:

Rise.

Fall.

Remain constant.

First rise then fall.

Question # 7 of 15 (Start time: 04:49:55 PM) Total Marks: 1

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

Select correct option:

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.

Question # 8 of 15 (Start time: 04:50:34 PM) Total Marks: 1

The term investment refers to:

Select correct option:

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.

Question # 15 of 15 (Start time: 04:58:21 PM) Total Marks: 1

According to the Keynesian theory of consumption, when individuals experience an increase in their income their:

Select correct option:

- Consumption will rise by the total amount of the increase in income.
- Consumption will rise by less than the increase in income.
- Average propensity to consume will increase.
- Marginal propensity to consume will increase.**

Which of the following is NOT a flow variable?

Select correct option:

- Disposable personal income
- Consumption expenditures
- Personal wealth**
- Gross domestic product

in time).

Flow: A variable or measurement that is defined for a period of time (as opposed to an instant in time). A flow can only be measured over a period. For example, GDP is the flow of production during a given year. Income is another flow measures important to the study of

economics. More examples include a person's saving, number of new college graduates and the govt. budget deficit.

When the GDP is measured using "adjustments for price changes" it is known as the: Select correct option:

Real GDP.

Nominal GNP.

Nominal GDP.

Real GNP.

Nominal GDP is the value of final goods and services measured at current prices. It can change over time either because there is a change in the amount (real value) of goods and services or a change in the prices of those goods and services. Hence, nominal GDP $Y = P \times$

y, Where **P** is the price level & **y** is real output.

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

Select correct option:

Neoclassical theory of distribution

Keynesian theory of consumption

Real business cycle theory

Quantity theory of money

The major difficulty in measuring economic growth in underdeveloped countries is: Select correct option:

Lack of skilled manpower.

Lack of supply of empirical data.

Preoccupation with other more important problems. All of the given options.

The short-run is the time period in which:

Select correct option:

Firms can purchase new capital.

Potential output is fixed.

Price does not change very much.

Government spending fixed.

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

Select correct option:

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.

The cost of next best alternative forgone is best described by the: Select correct option:

Principle of diminishing returns.

Marginal principle.

Principle of opportunity cost.

Reality principle.

The level of output produced when the labor market is in equilibrium is called:
Select correct option:

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

Which of the following best describes the definition of money?
Select correct option:

- 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

If a consumer wishes to consume more than his current income in Period 1:
Select correct option:

- 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.

Question # 1 of 15 (Start time: 04:23:05 PM) Total Marks: 1

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

- Select correct option:
- 3%
 - 5%
 - 13%
 - 3%**

Question # 2 of 15 (Start time: 04:23:28 PM) Total Marks: 1 The

Solow residual measures:

Select correct option:

The average growth rate of productive inputs less an adjustment for technological progress.

The part of the growth of output not attributable to the growth of inputs. The share of net product that constitutes real capital income.

The dynamic efficiency of an economy.

Question # 3 of 15 (Start time: 04:24:54 PM) Total Marks: 1

Economic growth occurs when there is an increase in:

Select correct option:

Wage rates.

The inflation rate.

Aggregate demand.

The economy's productive capacity.

Question # 5 of 15 (Start time: 04:25:55 PM) Total Marks: 1

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:

Select correct option:

3%

5%

10%

13%

Question # 10 of 15 (Start time: 04:28:15 PM) Total Marks: 1

As risk premium ? increases, interest rate increases, money demand decreases and LM* curve:

Select correct option:

Shifts leftward.

Shifts rightward.

Does not change.

All of the above are possible.

Question # 12 of 15 (Start time: 04:31:08 PM) Total Marks: 1

A lower average money holding means more frequent trips to the bank to withdraw smaller amounts of cash. This causes:

Select correct option:

Menu cost of inflation.

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

Question # 14 of 15 (Start time: 04:32:57 PM) Total Marks: 1

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

Select correct option:

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

Question # 15 of 15 (Start time: 04:34:29 PM) Total Marks: 1

In the Solow growth model with population growth and technological progress, the steady-state growth rate in output per effective worker is equal to:

Select correct option:

Zero.

The rate of technological progress g .

The growth rate of population n plus the rate of technological progress g . The saving rate s .

Question # 2 of 15 (Start time: 04:40:05 PM) Total Marks: 1

Currency held by the public is included in:

Select correct option:

- Neither M1 nor M2.
- M2 only.
- M1 only.
- Both M1 and M2.

Question # 3 of 15 (Start time: 04:40:33 PM) Total Marks: 1

Going to the dentist would be counted in GDP as:

Select correct option:

A service.

- Crowns and fillings.
- Insurance utilization.
- Investment.

Question # 4 of 15 (Start time: 04:40:49 PM) Total Marks: 1

If the real government debt is not changing, it means that budget is: Select correct option:

Balanced.

In surplus.

In deficit.

Zero.

Question # 5 of 15 (Start time: 04:41:42 PM) Total Marks: 1

Which of the following events is NOT expected to decrease aggregate demand? Select correct option:

A decrease in government purchases

An increase in real interest rates

A decrease in foreign incomes

A decrease in the price level

Trade policy is totally ineffective on output under:

Select correct option:

Floating exchange rate.

Fixed exchange rate.

Nominal exchange rate.

Real exchange rate.

Question # 7 of 15 (Start time: 04:44:44 PM) Total Marks: 1

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

Select correct option:

Marginal rate of substitution.

Rate of discounting.

Rate of inflation.

Interest rate.

Question # 8 of 15 (Start time: 04:46:10 PM) Total Marks: 1

Which of the following is the long run impact of an increase in money supply?

Select correct option:

An increase in output level

An increase in price level

An increase in interest rate

All of the given options

Question # 9 of 15 (Start time: 04:47:41 PM) Total Marks: 1 An

increase in taxes will shift the:

Select correct option:

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.

Question # 11 of 15 (Start time: 04:49:50 PM) Total Marks: 1

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

Select correct option:

Larger.

Smaller.

Exactly the same.

Often larger, but sometimes smaller.

Question # 14 of 15 (Start time: 04:51:57 PM) Total Marks: 1

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

Select correct option:

Rise.

Fall.

Remain constant.

First rise then fall.

1. **If the government of a small open economy increases personal income taxes, then that country's:**
Select correct option:
Net exports increases.
Investment increases.
Equilibrium real exchange rate rises.
Consumption rises.
2. **Barter economies require:**
Select correct option:
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.(not sure)
3. **The socially optimal rate of growth is:**
Select correct option:
Zero.
Negative.
Where the marginal social benefit = the marginal social cost. Total social costs are minimized.
4. **Development is impossible without:**
Select correct option:
Incentive to profit.(not sure)
Foreign aid.
Domestic savings.
Inflation.
5. **An increase in government expenditures causes aggregate demand curve:**
Select correct option:
To shift upward.
To shift downward.
To remain unchanged.
All of the above are possible.
6. **In a command (planned) economy:**
Select correct option:
The price mechanism acts as an incentive.
Resources are allocated by market forces.
Individual firms make decisions for themselves.
The public sector is large.
7. **The level of output produced when the labor market is in equilibrium is called:**

Select correct option:

Target output.

Product market equilibrium output.(not sure)

Full-employment output.

Natural output.

8. **Economic growth occurs when there is an increase in:**

Select correct option:

Wage rates.

The inflation rate.

Aggregate demand.

The economy's productive capacity

9. **Demand for a normal product may shift outwards if:**

Select correct option:

Price decreases

The price of a substitute falls

The price of a complement rises

Income falls

Reference: CONSUMER PRICE INDEX (CPI)

The idea that government spending causes a reduction in private investment is called: Select correct option:

Fiscal drag.

Crowding-out.

Investment blight.

Accelerator effect.(not sure)

- 10. In the steady state for the Solow model of economic growth with depreciation (δ), positive labor force growth (n) and technological change (a), we would expect Y/L to grow:**

Select correct option:

At the rate ($a + n + \delta$).

At the rate ($a + n - \delta$).

At the rate ($a + n$).

At the rate a .

11. If people suddenly wish to hold more money at each interest rate:

Select correct option:

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.

12. If Marginal Propensity to Consume = 1, the government purchases multiplier is equal to:

Select correct option:

1

4

5

Infinity(not sure)

13. Assume an economy with constant, positive labor force growth but no technological progress within a Solow model of economic growth. This economy is dynamically inefficient, when:

Select correct option:

There is unemployed labor in the economy.

The proportion of the growing labor force that is unemployed is increasing.

By decreasing the saving rate in the current period, it would be possible to increase future steady state.

The marginal product of capital does not equal the sum of the rate of growth of the labor force and the depreciation rate.

14. An increase in the money supply by the central bank causes the aggregate demand curve:

Select correct option:

To shift upward.

To shift downward.

To remain unchanged.

All of the above are possible.

15. In the Solow growth model, persistent increases in standards of living are due to:

Select correct option:

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.

More added lectur 1 to 28

1. **The Golden Rule level of capital accumulation k^* gold denotes the steady state with the highest:**

Select correct option:

Level of consumption per worker.

Level of output per worker.

Growth rate of consumption per worker.

Growth rate of output per worker.

2. **If the production function $Y = F(K, L)$ has constant returns to scale, then:**

Select correct option:

$F(zK, zL) = zY$.

$F(K/L, 1) = Y/L$.

$y = f(k)$, where y is output per worker and k is capital per worker

All of the given options.

Reference: $y = Y/L =$ output per worker

$k = K/L =$ capital per worker

Assume constant returns to scale:

$zY = F(zK, zL)$ for any $z > 0$

Pick $z = 1/L$. Then

$Y/L = F(K/L, 1)$

$y = F(k, 1)$

$y = f(k)$

Where $f(k) = F(k, 1)$

3. **Technological progress is encouraged by:**

Select correct option:

The patent system.

Tax incentives for research and development.

Government subsidies for research.

All of the given options.

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

Select correct option:

Consumer price index.

Producer price index.

The GDP deflator.
The chain-type price index.

5. **Which of the following is the closest definition of the term "investment"?**

Select correct option:

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

6. **If State Bank of Pakistan wishes to pursue a "tight" monetary policy it would:**

Select correct option:

Increase the minimum reserve asset ratio.

Buy government securities on the open market.

Lower interest rates.

Sell government securities on the open market.

7. **In the Solow growth model with technological growth rate, $L \times E$ shows:**

Select correct option:

Capital per effective worker.

Output per effective worker.

Output per worker.

The number of effective workers. Pg 65

8. **Resources in an economy:**

Select correct option:

Are always fixed.

Can never decrease.

Always increase over time.

Are limited at any moment in time.

9. **The demand for money represents the idea that there is:**

Select correct option:

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.

10. Economic growth occurs when there is an increase in:

Select correct option:

Wage rates.

The inflation rate.

Aggregate demand.

The economy's productive capacity.

Reference:

Normal economic growth requires a certain amount of money supply growth to facilitate the growth in transactions. Money growth in excess of this amount leads to inflation. $\Delta Y/Y$ depends on growth in the factors of production and on technological progress (all of which we take as given, for now).

11. The Average Propensity to Consume (APC) is:

Select correct option:

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.

Reference:

average propensity to consume-- the ratio of consumption to income-- falls as income rises.

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

Select correct option:

The diminishing marginal utility effect

The ceteris paribus effect

The income effect

The substitution effect

Reference:

1. The income effect is the change in consumption that results from the movement to a higher indifference curve.

2. The substitution effect is the change in consumption that results from the change in the relative price of consumption in the two periods.

13. Complete price flexibility is a crucial assumption of:

Select correct option:

The classical macroeconomic theory. Pg 71

The Keynesian macroeconomic theory.

Quantity theory of money.
The real business cycle theory.

Reference: Complete price flexibility is a crucial assumption, so classical theory applies in the long run.

14. **The extra output that a firm can produce using an additional unit of labor is known as:**

Select correct option:
Average product of labor.

Marginal product of labor. Pg 19

Total product.
Total cost.

Reference: The extra output the firm can produce using an additional unit of labor (holding other inputs fixed). $MPL = F(K, L + 1) - F(K, L)$

15. **12. Which one of the following could explain a shift to the right of the supply curve for a good?**

Select correct option:
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

16. **Which of the following is NOT included in M1?**

Select correct option:
Deposits in checking accounts
Deposits in checking accounts that pay interest
Currency held by the public

None of the given options

17. **Demand curves are derived while holding constant:**

Select correct option:
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

18. **You bought stock of a company at Rs.10, 000 and sold it after one year at Rs.12, 000. Your nominal capital gain is:**

Select correct option:
10%
20%

30%

40%

Calculation: $12,000 - 10,000 = 2000$

$2000 / 100 = 20\%$

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

Select correct option:

-3%

5%

13%

3%

calculation: $r = i - \pi$ $8 - 5 = 3$

20. The number of people unemployed equals:

Select correct option:

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.

Reference: **Unemployed:** not employed but looking for a job

21. The rate of inflation measures which of the following?

Select correct option:

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

Reference: Inflation is an increase in the overall level of prices in the economy

22. The cost of changing prices is known as the:

Select correct option:

Menu cost of inflation

Shoe leather cost of inflation

General inconvenience

Relative price distortions

Reference: **2. MENU COSTS**

This is the costs of changing prices. For example, Print new menus, print & mail new catalogs. The higher is inflation, the more frequently firms must change their prices

and incur these costs.

23. **Which of the following equations is correct?**

Select correct option:

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

24. **Gross National Product minus net factor income from abroad yields:**

Select correct option:

Net national product.

Disposable personal income.

National income.

Gross domestic product.

Reference: (GNP-GDP) = (Factor payments from abroad) minus (Factor payments to abroad)

25. **Economists define the labor force to include:**

Select correct option:

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.

26. **The money supply increases when:**

Select correct option:

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.

Reference: **Open market operations** are the purchase and sale of government bonds by the central bank. When the central bank buys bonds from public, the money it pays for the

bonds increases the monetary base and thus increases the money supply. When the central bank sells the bonds to the public, the money it receives reduces monetary base and hence reduce money supply

27. Which of the following is the best measure of the economic cost of higher unemployment?

Select correct option:

The loss of potential exports for the economy.

The loss of tax revenue.

The increase in social security benefits paid by the government.

The output of goods and services the unemployed workers could have produced

28. Which of the following best describes the definition of endogenous variables?

Select correct option:

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

Variables from outside the model

Ref: The values of endogenous variables are determined in the model

29. Which of the following statements best describes the definition of scarcity?

Select correct option:

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

Reference: Scarcity means that society has limited resources and therefore cannot produce all the goods and services people wish to have.

30. Causes of market failure include:

Select correct option:

Externalities and market power.

Market power and incorrect forecasts of consumer demand.

Externalities and foreign competition.

Incorrect forecasts of consumer demand and foreign competition.

31. In the endogenous growth model, the assumption of ----- is more plausible.

Select correct option:

Increasing returns to capital

Decreasing returns to capital

Constant returns to capital

Increasing returns to labor

Reference: In the endogenous growth model, the assumption of constant returns to capital is more plausible

32.36. Endogenous growth model is also known as:

Select correct option:

AK Model.

Exogenous growth model.

Best growth model.

All of the given options.

33. .

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

Select correct option:

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.(not sure)

The exchange rate will rise by the same amount as the interest rate.

35. Real interest rates are the:

Select correct option:

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.

36. The relative price of domestic goods in terms of foreign goods is known as:

Select correct option:

Real exchange rate.

Nominal exchange rate.

Discount rate.

Inflation rate.

Reference: THE REAL EXCHANGE RATE

ε = real exchange rate, the relative price of domestic goods in terms of foreign goods (e.g. Japanese Big Macs per U.S. Big Mac)

37. An asset that is included in M3 but not in M2 is:

Select correct option:

Currency.

Checkable deposits.

Small-denomination certificates of deposit.

Large-denomination certificates of deposit.

Reference: M3 M2 + large time deposits, repurchase agreements, institutional money market Mutual fund balances

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

Select correct option:

40 units.

95 units.

1000 units.

200 units.

Calculation: labour productivity per week 200

employee = 5

$200 * 5 = 1000$

39. Which of the following statements about net exports is correct? Select correct option:

The term $C + I + G$ understates 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.

Reference: NET EXPORTS ($NX = EX - IM$)

The value of total exports (EX) minus the value of total imports (IM).

Recall, $Y = C + I + G + NX$

Where $Y = GDP$ = the value of total output and $C + I + G + NX$ = aggregate expenditure

40. Stock market boom or crash is an example of which of the following?

Select correct option:

IS Shock

LM Shock

Demand Shock

Supply Shock

Reference IS SHOCKS: exogenous changes in the demand for goods & services.

Examples:

- Stock market boom or crash, change in households' wealth, ΔC

41. If State Bank of Pakistan wishes to pursue a “tight” monetary policy it would:

Select correct option:

Increase the minimum reserve asset ratio.

Buy government securities on the open market.

Lower interest rates.

Sell government securities on the open market.

42. A common misperception about inflation is that it reduces real wages; this is:

Select correct option:

True only in the short run.

True only in the Long run.

True only in Command economies.

None of the given options.

43. If the U.S. real exchange rate decreases, U.S. ----- will fall and U.S. ----- will rise.

Select correct option:

Exports; income

Exports; imports

Income; imports

Imports; exports

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

Select correct option:

Personal saving and private investment.

Personal saving and personal consumption.

Personal consumption and personal income.

Personal consumption and private investment.

45. The major difficulty in measuring economic growth in underdeveloped countries is:

Select correct option:

Lack of skilled manpower.

Lack of supply of empirical data.

Preoccupation with other more important problems. **All of the given options.**

46. An increase of \$1 in government purchases will:

Select correct option:

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.

47. Inflation resulting from demand shocks is known as:

Select correct option:

Demand pull inflation.

Cost push inflation.

Expected inflation.

Food inflation.

Demand-pull inflation: inflation resulting from demand shocks. Positive shocks to aggregate demand cause unemployment to fall below its natural rate, which “pulls” the inflation rate up

48. Which of the following equations is correct?

Select correct option:

Nominal interest rate = real interest rate - inflation

Real interest rate = nominal interest rate + inflation

Real interest rate = nominal interest rate \times inflation

Real interest rate = nominal interest rate - inflation

49. Which of the following statements best describes the definition of scarcity? Select correct option:

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

50. Real GDP (Gross Domestic Product) is measured:

Select correct option:

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.

51. A sustained high rate of growth of an economy results in: Select correct option:

High rate of growth of the agriculture sector.

Change in occupational structure in favor of industry.

Rapid industrialization.

All of the given options.

As risk premium ρ increases, interest rate increases, investment decreases and IS* curve:

Select correct option:

Shifts leftward.

Shifts rightward.

Does not change.

All of the above are possible.

52. An increase in the money supply will shift the:

Select correct option:

IS curve to the left and decrease both the interest rate and the level of income.

LM curve downward (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.

53. Which of the following types of capital exist in real world?

Select correct option:

Private capital stock.

Public infrastructure.

Human capital.

All of the given options.

54. The rate at which commercial banks borrow from the central bank is known as:

Select correct option:

Inflation rate.

Interest rate.

Discount rate.

Reserve requirement rate.

Reference Discount rate which commercial banks pay to borrow from the State Bank.

55. **Which of the following best defines Net national product?**

Select correct option:

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

reference: Net National Product (NNP)

It is GNP adjusted for depreciation. $NNP = GNP - \text{Depreciation}$

56. **Which of the following is TRUE regarding Constant returns to scale?**

Select correct option:

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

57. **GNP is \$750 billion and depreciation is \$200 billion, then net national product:**

Select correct option:

Is \$550 billion.

Is \$640 billion.

Is \$950 billion.

Cannot be determined from this information.

58. **Which of the following is NOT a function of money?**

Select correct option:

A medium of exchange

A unit of account

A shelter against inflation

A store of value

59. **Economic growth can be seen by an outward shift of:**
Select correct option:

The Production Possibility Frontier.

The Gross Domestic Barrier.

The Marginal Consumption Frontier.

The Minimum Efficient Scale.

60. **Which one of the following could explain a shift to the right of the supply curve for a good?**
Select correct option:

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

61. **M1:**

Select correct option:

Is the narrowest definition of the money supply.

Includes the most liquid forms of money.

Includes travelers' checks.

All of the given options

62. **A lower average money holding means more frequent trips to the bank to withdraw smaller amounts of cash. This causes:**

Select correct option:

Menu cost of inflation.

Shoe leather cost of inflation. Pg 34

General inconvenience.

Relative price distortions.

63. **Unemployment that naturally occurs during the normal workings of an economy as people change jobs and move across the country is called:**

Select correct option:

Structural unemployment.

Frictional unemployment.

Natural unemployment.

Cyclical unemployment.

64. **Real GDP (Gross Domestic Product) is measured:**

Select correct option:

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.

65. **The standard of living is often measured by which of the following?**

Select correct option:

Real GDP per capita

Real GDP / depreciation

Real GDP \times population

Real GDP plus depreciation

Eco 403 lec1 to 16 current quiz

66. **Which of the following is included in M2?**

Select correct option:

Commercial paper

Stocks

U.S. Treasury bonds

Savings accounts

67. **The rate of inflation measures which of the following?**

Select correct option:

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

68. **The cost of changing prices is known as the:**

Select correct option:

Menu cost of inflation pg 35

Shoe leather cost of inflation
General inconvenience
Relative price distortions

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

Select correct option:

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

Personal consumption and private investment.

70. Question # 13 of 15 (Start time: 08:05:13 PM) Total Marks: 1

Real GDP (Gross Domestic Product) is measured:

Select correct option:

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.

71. **Real interest rates are the:**

Select correct option:

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.

72. **The number of people unemployed equals:**

Select correct option:

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.

73. **Economists define the labor force to include**

Select correct option:

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.

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

Select correct option:

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.

75. example of an expansionary monetary policy is:

Select correct option:

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.

76. Which of the following best defines Net national product

Select correct option:

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

77. change in the price level is merely a change in the units of measurement.”

This is the:

Select correct option:

Classical view of inflation

Keynesian view of inflation

Ricardian view of inflation

Neo classical view of inflation

78. The cost of next best alternative forgone is best described by the:

Select correct option:

Principle of diminishing returns.

Marginal principle.

Principle of opportunity cost.

Reality principle.

79. **Which of the following events will lead to an increase in the demand for money?**

Select correct option:

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

80. **Which of the following expressions is the unemployment rate?**

Select correct option:

Labor Force/Population

Unemployed / Employed + Unemployed

Employed + Unemployed

Labor Force + Not in Labor Force

81. **Which of the following statements best describes the definition of scarcity?**

Select correct option:

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

82. **The difference between exports and imports in determining the GDP is known as the:**

Select correct option:

Net exports.

Import tariffs.

Net imports.

Net income.

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

Select correct option:

GDP increases

GDP decreases

GDP remains unchanged
Society's well-being decreases

84. **An item that is intrinsically worthless is:**

Select correct option:

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

85. **The production function is a function that:**

Select correct option:

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.

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

Select correct option:

Imports; exports

Income; imports
Exports; income
Exports; imports

87. **Which of the following is NOT included in M1?**

Select correct option:

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

88. **Which of the following equations is correct?**

Select correct option:

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

89. Which of the following is a key problem resulting from inflation?

Select correct option:

Prices are stable

Certainty of future prices

A haphazard redistribution of income

An increase in the value of money

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

Select correct option:

Not in the labor force.

Unemployed and in the labor force.

Unemployed.

Unemployed and not in the labor force.

91. A common misperception about inflation is that it reduces real wages; this is:

Select correct option:

True only in the short run. Lec 13

True only in the Long run.

True only in Command economies.

None of the given options.

92. Aggregate demand is the total demand for all goods and services in an economy from:

Select correct option:

The household sector.

All sectors except the rest of the world.

The household and government sectors.

All sectors including the rest of the world.

93. : **The basic economic function of the household sector is:**

Select correct option:

Undertaking consumption.

Undertaking production.

Exchanging goods.

Exchanging resources.

94. : **Resources in an economy:**

Select correct option:

Are always fixed.

Can never decrease.

Always increase over time.

Are limited at any moment in time.

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

Select correct option:

We have trade surplus.

We have trade deficit.

We have balanced trade.

We have no trade at all.

96. :

97. : **The extra output that a firm can produce using an additional unit of labor is known as:**

Select correct option:

Average product of labor.

Marginal product of labor.

Total product.

Total cost.

98. **Disposable income can be calculated by subtracting which of the following from personal income?**

Select correct option:

Personal taxes

Indirect business taxes

Capital consumption allowance
Income earned but not received

99. **The narrowest definition of money supply is:**

Select correct option:

- M1.**
- M2.
- M3.
- M4.

100. **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:**

Select correct option:

- 100**
- 100
- 1,900
- 0

101. **Which of the following best describes the definition of endogenous variables?**

Select correct option:

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

102. **Television sets are examples of:**

Select correct option:

- Durable goods.**
- Services.
- Non-durable goods.

103. **The standard of living is often measured by which of the following?**

Select correct option:

- Real GDP per capita**
- Real GDP / depreciation
- Real GDP \times population
- Real GDP plus depreciation

104. Different firms change their prices at different times; this leads to:

- Select correct option:
Menu cost of inflation.
Shoe leather cost of inflation.
General inconvenience.

Relative price distortions.

105. The demand for money represents the idea that there is:

- Select correct option:
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.

106. The demand for labor curve shows:

- Select correct option:
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.

107. The free market involves:

- Select correct option:
The free provision of products.
The subsidizing of products by the government.
Market forces of supply and demand.
All trade via barter.

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

- Select correct option:
Consumer price index.
Producer price index.
The GDP deflator.
The chain-type price index.

109. **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?**

Select correct option:

0%

10%

20%

40%

110. **An economy with international trade is known as:**

Select correct option:

Crowded out.

An open economy.

A closed economy.

A Keynesian economy.

111. **: The rate of inflation measures which of the following?**

Select correct option:

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

112. **: In a command (planned) economy:**

Select correct option:

The price mechanism acts as an incentive.

Resources are allocated by market forces.

Individual firms make decisions for themselves.

The public sector is large.

113. **Macroeconomics is concerned with which of the following?**

Select correct option:

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

114. **If the nominal interest rate is 8% and the inflation rate is 5%, then the real rate of interest is:**

Select correct option:

-3%

- 5%
- 13%
- 3%

115. **When money is used to express the value of goods and services, it is functioning as a:**

Select correct option:

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

116. **An increase of 10% in nominal GDP indicates that:**

Select correct option:

- 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.

117. **The short-run is the time period in which:**

Select correct option:

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

118. **The GDP deflator can be used:**

Select correct option:

- 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.

119. **The level of output produced when the labor market is in equilibrium is called:**

Select correct option:

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

120. **The short-run is the time period in which:**

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

121. **if State Bank of Pakistan wishes to pursue a “tight” monetary policy it would:**

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

122. **When the GDP is measured using "adjustments for price changes" it is known as the:**

Select correct option:

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

123. **Which of the following is the largest component of total expenditures?**

Select correct option:
Consumption
Investment
Government spending
Net exports

124. **Which of the following events is NOT expected to decrease aggregate demand?**

Select correct option:

A decrease in government purchases
An increase in real interest rates

A decrease in foreign incomes
A decrease in the price level

125. Which of the following would be a macroeconomic question?

Select correct option:

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?

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

Select correct option:

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

127. Which of the following events is NOT expected to decrease aggregate demand?

Select correct option:

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

128. Exports ----- GDP and imports ----- GDP.

Select correct option:

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

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

Select correct option:

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

130. The supply of labor curve shows:

Select correct option:

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.

Quiz 2 for midterm

131. **Which of the following is NOT a function of money?**

Select correct option:

A medium of exchange

A unit of account

A shelter against inflation

A store of value

132. **The difference between a country's merchandise exports and its merchandise imports is the:**

Select correct option:

Balance of trade.

Balance of payments.

Capital account.

Current account.

133. **Barter economies require:**

Select correct option:

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.

me: d

134. **Causes of market failure include:**

Select correct option:

Externalities and market power.

Market power and incorrect forecasts of consumer demand.

Externalities and foreign competition.

Incorrect forecasts of consumer demand and foreign competition.

135. **Which plays the most important role in increasing the rate of growth in real GDP per capita over time?**
Select correct option:
- Increases in labor productivity**
Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest
136. **Which one of the following could explain a shift to the right of the supply curve for a good?**
Select correct option:
- 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
137. **Which of the following is NOT an example of consumption expenditure?**
Select correct option:
- Television sets
Military airplanes
Clothing
Restaurant meals
138. **Economists believe that wage rigidity can be caused by:**
Select correct option:
- Unions.
Minimum wage laws.
Efficiency wages.
All of the given options.
139. **A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to:**
Select correct option:
- 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.

140. **The relationship between the level of prices and inflation is:**

Select correct option:

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.

141. **The GDP deflator can be used:**

Select correct option:

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.

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

Select correct option:

We have trade surplus.

We have trade deficit.

We have balanced trade.

We have no trade at all.

143. **During periods of poor economic performance, real GDP:**

Select correct option:

Declines but unemployment typically does not change.

Declines and unemployment rises sharply.

Is unchanged but unemployment rises sharply.

Declines and unemployment rises moderately.

144. **Which of the following would be counted as investment in the calculation of GDP?**

Select correct option:

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

145. **Demand for a normal product may shift outwards if:**

Select correct option:

Price decreases

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

146. **Which of the following is a key problem resulting from inflation?**

Select correct option:

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

147. **The relationship between consumer spending and income is known as the:**

Select correct option:

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

148. **An increase of 10% in nominal GDP indicates that:**

Select correct option:

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.

149. **When money is accepted as payment for a good or service, it is being used as a:**

Select correct option:

Store of value.
Medium of exchange.

Unit of account.

A mechanism for transforming current purchases into future purchases.

150. **he index most widely used by the government and the private sector to measure changes in the cost of living is the:**

Select correct option:

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

151. **Demand curves are derived while holding constant:**

Select correct option:

- 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

152. **he relative price of domestic currency in terms of foreign currency is known as:**

Select correct option:

- Real exchange rate.
- Nominal exchange rate.**
- Discount rate.
- Inflation rate.

153. **A government policy that will increase frictional unemployment is a (n):**

Select correct option:

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

154. **An increase in the costs of production will:**

Select correct option:

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