

# Principles of Macroeconomics

## Exam IVa

Mark the best answer on the scantron. *Show your calculations on the scantron. Do not mark on this exam.*

1. \_\_\_\_\_ variation in economic activity that is considered non-periodic and unpredictable.
  - a) Stochastic
  - b) Cyclical
  - c) Trend
  - d) Seasonal
  - e) none of the above
2. An economic \_\_\_\_\_ is a turning point after an expansion.
  - a) Peak
  - b) Trough
  - c) Contraction
  - d) Expansion
  - e) None of the above
3. Which of the following would be considered a demand side shock?
  - a) Tax cut
  - b) Oil price increase
  - c) Oil production decrease
  - d) Power outage
  - e) None of the above
4. Business cycles complicate investment because they cause \_\_\_\_\_.
  - a) uncertainty
  - b) unemployment
  - c) high growth
  - d) low growth
  - e) None of the above
5. \_\_\_\_\_ monetary policy is useful during contractions to increase demand.
  - a) Expansionary
  - b) Contractionary
  - c) Stable
  - d) Budgetary
  - e) None of the above

6. Which of the following best describes an index?
- a) Stochastic variation in economic activity.
  - b) A numeric value that summarizes a level of activity.
  - c) A flow variable.
  - d) A series of data pointers.
  - e) None of the above
7. \_\_\_\_\_ index has some data components that have more influence on the mean than other components.
- a) Diffusion
  - b) Composite
  - c) Time series
  - d) Market weighted series
  - e) None of the above
8. Given that last year's price index was 200 and that this year's is ending at 210, what is the estimated inflation rate?
- a) 2.10
  - b) 10%
  - c) 5%
  - d) 4.9%
  - a) None of the above
9. Which of the following is a problem in using any index?
- a) Different mathematical procedures yield different results.
  - b) Problem of exclusion
  - c) Problem of inclusion
  - d) All of the above
  - e) None of the above
10. \_\_\_\_\_ indicators are data series that increase (decrease) before general economic activity increases (decreases).
- a) Leading
  - b) Lagging
  - c) Coincident
  - d) Counter
  - e) None of the above

11. Which of the following is NOT an example of inflation?
- a) Textbook prices drop 5%.
  - b) Retail prices increase as consumers go on a buying spree due to a tax cut.
  - c) Oil scarcity forces all firms to raise prices.
  - d) A large government deficit causes all prices to increase 5%.
  - e) None of the above
12. \_\_\_\_\_ occurs as government incurs a deficit as it goes on a buying spree.
- a) Demand pull inflation
  - b) Cost push inflation
  - c) Monetary inflation
  - d) Price inflation
  - e) None of the above
13. \_\_\_\_\_ is a weighted index that uses ending period quantities as weights.
- a) Price index
  - b) Paasche index
  - c) Fisher index
  - d) Laspeyres index
  - e) None of the above
14. Which of the following is a problem in measuring inflation?
- a) Composition of index may not match intended consumption pricing behavior.
  - b) Prices are stable.
  - c) Price changes of components do not add to total.
  - d) A & C
  - e) None of the above
15. \_\_\_\_\_ constrains inflation by limiting aggregate demand by increasing taxes.
- a) Contractionary fiscal policy
  - b) Contractionary monetary policy
  - c) Incomes policy
  - d) Price controls
  - e) None of the above

16. \_\_\_\_\_ is defined as the employed plus the unemployed.
- a) Unemployed
  - b) Employed
  - c) Labor Force
  - d) Employment rate
  - e) Unemployment rate
17. Mary received a notice that explained that her job is terminated due to declining demand for cassettes. This is an example of \_\_\_\_\_ unemployment.
- a) frictional
  - b) structural
  - c) cyclical
  - d) seasonal
  - e) None of the above
18. Given 5 million unemployed, 40 million employed, 3 million discouraged, and 60 million employable, what is the labor force participation rate?
- a) 12.5%
  - b) 11.1%
  - c) 13.3%
  - d) 20%
  - e) None of the above
19. Which of the following is a cost of unemployment?
- a) Inflation
  - b) High interest rates
  - c) Lower GDP
  - d) All of the above
  - e) None of the above
20. Which of the following policies target cyclical unemployment?
- a) Geographical relocation
  - b) Retraining
  - c) Expansionary fiscal policy
  - d) Contractionary monetary policy
  - e) None of the above

Q	70	90	100	110
L	4	6	8	10

21. What is the Marginal Product of Labor at L = 6 (from L at 4)?

- a) 100
- b) 10
- c) 5
- d) 0
- e) None of the above

LD	4	6	8
LS	8	6	4
W	14	12	10

22. What is the equilibrium wage and labor?

- a) Wage = 14, labor = 4
- b) Wage = 12, labor = 6
- c) Wage = 10, labor = 8
- d) Wage = 8, labor = 10
- e) None of the above

23. For a competitive labor market, firms not paying the market wage will \_\_\_\_\_.

- a) be able to hire as many as they need
- b) not be able to hire as many as they need
- c) not have a problem
- d) be competitive
- e) None of the above

24. Firms hire labor because labor generates \_\_\_\_\_.

- a) profit
- b) costs
- c) wages
- d) tax breaks
- e) None of the above

25. Higher wages mean that leisure time becomes \_\_\_\_\_.

- a) very cheap
- b) very desirable
- c) expensive
- d) nonexistent
- e) None of the above

26. Given inflexible wages, unemployment, and expansionary fiscal policy, what is the effect on output and prices?
- a) Output increases, prices decrease
  - b) Output increases, prices increase
  - c) Output decreases, prices decrease
  - d) Output decreases, prices increase
  - e) None of the above
27. Given flexible wages, full employment, and expansionary monetary policy, what is the effect on output and prices?
- a) Output increases, prices decrease
  - b) Output increases, prices increase
  - c) Output decreases, prices decrease
  - d) Output decreases, prices increase
  - e) None of the above
28. Given inflexible wages, unemployment, and contractionary fiscal policy, what is the effect on output and prices?
- a) Output increases, prices decrease
  - b) Output increases, prices increase
  - c) Output decreases, prices decrease
  - d) Output decreases, prices increase
  - e) None of the above
29. Given inflexible wages, full employment, and contractionary monetary policy, what is the effect on output and prices?
- a) Output increases, prices decrease
  - b) Output increases, prices increase
  - c) Output decreases, prices decrease
  - d) Output decreases, prices increase
  - e) None of the above
30. Which of the following is NOT a supply side policy?
- a) Tax cut
  - b) Tax credit for education
  - c) Jobs credit
  - d) Subsidizing education
  - e) None of the above

## Macroeconomics Exam IVa Key

- 1 A
- 2 A
- 3 A
- 4 A
- 5 A
- 6 B
- 7 D
- 8 C
- 9 D
- 10 A
- 11 A
- 12 A
- 13 B
- 14 A
- 15 C
- 16 C
- 17 B
- 18 B
- 19 C
- 20 C
- 21 B
- 22 B
- 23 B
- 24 A
- 25 C
- 26 B
- 27 E Output does not increase but prices rise.
- 28 C
- 29 C
- 30 A