

IB Macroeconomics: Practice Quiz#1

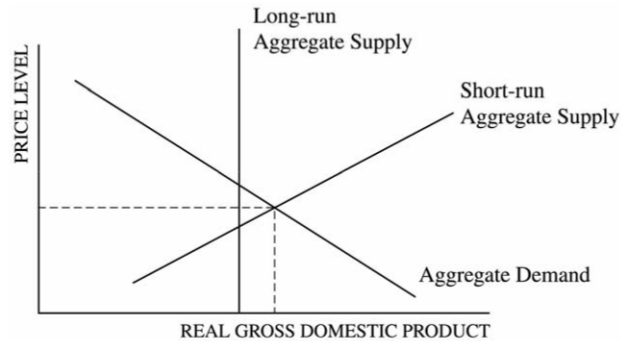
MULTIPLE CHOICE. The questions that follow are each followed by five suggested answers. Choose the response that best answers the question. *[20 marks]*

1. Macroeconomics is the branch of economics that deals with:
 - (a) the behaviour of individual decision-making units - business firms and households.
 - (b) the economy as a whole
 - (c) only the long run adjustments to equilibrium in the economy.
 - (d) imperfectly competitive markets
2. Which of the following is used to measure a country's living standard?
 - (a) The growth rate of price level
 - (b) The growth rate of nominal GDP
 - (c) The growth rate of real GDP
 - (d) The growth rate of per capita GDP
3. If the economy's current GDP is lower than its potential output,
 - (a) the unemployment rate is zero
 - (b) the unemployment rate is equal to the natural unemployment rate
 - (c) the unemployment rate is below the natural unemployment rate
 - (d) the unemployment rate is above the natural unemployment rate
4. Aggregate demand is the total demand for all goods and services in an economy from:
 - (a) all sectors including the rest of the world.
 - (b) the household sector
 - (c) the household and government sectors.
 - (d) all sectors except the rest of the world.
5. It has become conventional to classify an economic downturn as a recession when aggregate output declines for:
 - (a) three consecutive quarters
 - (b) two years
 - (c) a year
 - (d) two consecutive quarters

6. The total market value of all final goods and service produced within a given period by factors of production located within a country is:
- (a) net national product
 - (b) net national income
 - (c) gross national product
 - (d) gross domestic product
7. GDP is:
- (a) the monetary value of all goods and services (final, intermediate, and non-market) produced in a given year.
 - (b) total resource income less taxes, saving, and spending on exports.
 - (c) the economic value of all economic resources used in the production of a year's output.
 - (d) the market value of all final goods and services produced within a nation in a specific year.
8. GDP can be calculated by summing:
- (a) consumption, investment, government purchases, exports, and imports.
 - (b) consumption, investment, government purchases, and imports.
 - (c) investment, government purchases, consumption, and net exports.
 - (d) consumption, investment, wages, and rents.
9. Which of the following best measures a nation's standard of living:
- (a) unemployment rate.
 - (b) nominal GDP.
 - (c) total consumption and government spending
 - (d) real GDP per capita.
 - (e) inflation rate
10. The phase of the business cycle in which real GDP declines for at least 2 quarters is called:
- (a) the peak.
 - (b) a recovery.
 - (c) a recession.
 - (d) the trough.
 - (e) a depression

11. Which of the following would not affect the size of real GDP?
- (a) Consumer purchase of a new car for personal use.
 - (b) Government purchase of a new car for the military.
 - (c) Business purchase of a new car for a delivery vehicle.
 - (d) Consumer purchase of a rare renaissance painting.
 - (e) Consumer purchase of a haircut.
12. An appropriate fiscal policy to combat a recession would be to increase which of the following?
- (a) Interest rates
 - (b) The money supply
 - (c) Taxes
 - (d) Government spending
 - (e) The sales of government bonds
13. Which of the following will lead to an increase in the United States gross domestic product?
- (a) More individuals prepare their own personal income tax forms.
 - (b) Some citizens begin working abroad as computer programmers.
 - (c) The government prohibits the sale of alcoholic beverages.
 - (d) Foreign companies build new assembly plants in the United States.
 - (e) A million United States households sell their used cars to their children

14. According to the graph above, which of the following is true about the long-run equilibrium of the economy depicted?



- (a) The economy is in long-run equilibrium.
 - (b) The aggregate demand curve will shift to the left to restore long-run equilibrium.
 - (c) The long-run aggregate supply curve will shift to the right to restore long-run equilibrium.
 - (d) Without a fiscal policy stimulus, the economy will remain in a recession.
 - (e) As wages increase, the short-run aggregate supply curve will shift to the left to restore long-run equilibrium.
15. Which of the following household purchases will be counted as part of gross private investment in a country's gross domestic product?
- (a) Government bonds
 - (b) Shares of a company stock
 - (c) Corporate bonds
 - (d) A new car for personal use
 - (e) A newly constructed home
16. Which of the following would cause the short-run aggregate supply curve to shift to the right?
- (a) An increase in the wage rate
 - (b) An increase in the interest rate
 - (c) An increase in the natural rate of unemployment
 - (d) A decrease in the capital stock
 - (e) A decrease in the expected price level

17. A decrease in business taxes would lead to an increase in national income by increasing which of the following?
- (a) The money supply
 - (b) Unemployment
 - (c) Aggregate demand only
 - (d) Aggregate supply only
 - (e) Both aggregate demand and aggregate supply
18. All of the following changes will shift the investment demand curve to the right except:
- (a) a decrease in the corporate income tax rate
 - (b) an increase in the productivity of new capital goods
 - (c) an increase in the real interest rate
 - (d) an increase in corporate profits
 - (e) an increase in real gross domestic product
19. If a reduction in aggregate supply is followed by an increase in aggregate demand, which of the following will definitely occur?
- (a) Output will increase.
 - (b) Output will decrease.
 - (c) Output will not change.
 - (d) The price level will increase.
 - (e) The price level will decrease.
20. An advance in technology will cause the:
- (a) aggregate demand curve to shift to the right
 - (b) aggregate demand curve to shift to the left
 - (c) short-run aggregate supply curve to shift to the left
 - (d) long-run aggregate supply curve to shift to the left
 - (e) long-run aggregate supply curve to shift to the right

FREE-RESPONSE QUESTIONS. You must show all work and indicate the methods you use. You will be graded on the correctness of your methods and on the accuracy of your final answers.

21. How does each of the following changes affect the real gross domestic product and price level of an open economy in the short run? Explain each and shown an AS/AD diagram.
 - (a) An increase in the price of crude oil, an important natural resource
 - (b) A technological change that increases the productivity of labour
 - (c) An increase in spending by consumers
 - (d) The depreciation of the country's currency in the foreign exchange market
22. Describe the four components of aggregate demand and explain two factors that influence each of these components and shift the aggregate demand curve.
23. Explain how a decrease in business confidence can affect the real GDP of an economy that is producing below the full employment level of output.
24. During the global financial crisis of 2008–2009, there was a fall in consumer spending in many countries. Explain the factors which might be responsible for causing consumer spending to fall.
25. Indicate whether each of the following is counted in the United States gross domestic product for the year 2021.
 - (a) The value of a used textbook sold through an online auction in 2021.
 - (b) Rent paid in 2021 by residents in an apartment building built in 2000.
 - (c) Commissions earned in 2021 by a stockbroker.
 - (d) The value of automobiles produced in 2021 entirely in South Korea by a firm fully owned by United States citizens.