

## IB Macroeconomics: Practice Quiz#2

**MULTIPLE CHOICE.** The questions that follow are each followed by five suggested answers. Choose the response that best answers the question. *[10 marks]*

1. Identify below what is not considered to be a cause of long-run economic growth.
  - (a) An increase in the money supply
  - (b) An increase in technology
  - (c) An increase in labour productivity
  - (d) An increase in the quantity of labour and capital
2. Policies to encourage productivity do not include:
  - (a) encouraging risk-taking
  - (b) encouraging research and development
  - (c) building more retail outlets
  - (d) encouraging innovation
3. Cost-push inflation can start with:
  - (a) an increase in oil prices
  - (b) a decrease in the quantity of money
  - (c) an increase in government expenditures
  - (d) a decrease in investment
4. Human capital \_\_\_\_\_ that people obtain from education, on-the-job training, and work experience. \_\_\_\_\_ that have been produced in the past and that businesses now use to produce goods and services is capital.
  - (a) are inputs; Natural resources and other goods
  - (b) are productive resources; Inputs and outputs
  - (c) are goods and services; Inputs
  - (d) is the knowledge and skill; Tools, instruments, machines, buildings and other items
5. Classifying discouraged workers as unemployed would:
  - (a) decrease the unemployed rate
  - (b) have the indeterminate impact on the unemployment rate
  - (c) not change the unemployment rate
  - (d) increase the unemployment rate

6. Cyclical unemployment is the:
- (a) unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work
  - (b) unemployment that occurs during recessions and depressions
  - (c) portion of unemployment that is due to changes in the structure of the economy that results in significant loss of jobs in certain industries
  - (d) portion of unemployment that is due to the normal working of the labour market
7. Net exports are negative when:
- (a) a nation's imports exceed its exports.
  - (b) the economy's stock of capital goods is declining.
  - (c) depreciation exceeds domestic investment.
  - (d) a nation's exports exceed its imports.
  - (e) the government increases trade barriers
8. In order to increase its rate of long-run economic growth a government should undertake policies that:
- (a) encourage consumption over savings
  - (b) increase labor productivity
  - (c) encourage exports over imports
  - (d) increase government transfer payments
  - (e) ensure workers a fair, living wage
9. Which of the following observations about the short-run and the long-run are accurate?
- (a) **Short-run:** Real GDP is fixed, **Long-run:** Real GDP is flexible
  - (b) **Short-run:** There is only cyclical unemployment, **Long-run:** There is only frictional and structural unemployment
  - (c) **Short-run:** Wages and other resource prices are fixed, **Long-run:** Wages and other resource prices are flexible.
  - (d) **Short-run:** There is only demand-pull inflation, **Long-run:** There can be cost-push or demand-pull inflation.
  - (e) **Short-run:** Real GDP is at full employment, **Long-run:** Real GDP can be above or below full employment

10. How will an increase in taxes on imported capital equipment intended to protect domestic producers of machinery most likely affect aggregate demand and aggregate supply?
- (a) **Aggregate demand:** Increases, **Aggregate supply:** Increases
  - (b) **Aggregate demand:** Increases, **Aggregate supply:** No change
  - (c) **Aggregate demand:** Decreases, **Aggregate supply:** Decreases
  - (d) **Aggregate demand:** Decreases, **Aggregate supply:** No change
  - (e) **Aggregate demand:** Increases, **Aggregate supply:** Decreases

**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. *[25 marks]*

11. (a) Explain why a reduction in interest rates might lead to an increase in aggregate demand.
- (b) Evaluate the view that a decrease in aggregate demand would always be deflationary.
12. (a) Explain the potential effects on the economic growth rate from a substantial increase in the number of skilled people of working age entering a country.
- (b) Evaluate the view that expansionary monetary policy is the most effective way to achieve economic growth.
13. (a) With reference to the income, output and expenditure approaches, explain how the real gross national product (GNP)/gross national income (GNI) per capita of a country can be measured.
- (b) Using the monetarist/new classical model and the Keynesian model, discuss the view that increases in aggregate demand will inevitably be inflationary.
14. (a) Explain the possible impact of an increase in wealth and consumer confidence on aggregate demand.
- (b) Examine why, in contrast to the monetarist/new classical model, the economy will not automatically return to the full employment level of output in the Keynesian model.