***Macroeconomics, 5e* (Williamson)**

**Chapter 1 Introduction**

1) In 2008, the per-capita GDP in the United States was about

A) $17,500.

B) $27,500.

C) $38,000.

D) $47,500.

Answer: C

Question Status: Revised

2) Which of the following topics is NOT a primary concern of macroeconomists?

A) fluctuations in the level of economic activity

B) differences in standards of living across countries

C) relative wages of skilled and unskilled workers

D) unemployment

Answer: C

Question Status: Previous Edition

3) Which of the following questions is of most interest for MACROECONOMISTS?

A) Why is there inflation?

B) Why does the steel industry want tariffs?

C) What is the appropriate stance of antitrust policy?

D) Why do foreigners immigrate to the United States?

Answer: A

Question Status: Previous Edition

4) Primarily, macroeconomists use microeconomic principles to study

A) business cycles and trends in the stock market.

B) long-run economic growth and antitrust policies.

C) trends in the stock market and long-term economic growth.

D) long-run economic growth and business cycles.

Answer: D

Question Status: Previous Edition

5) Which is a question of interest in this book?

A) What causes illegal immigration?

B) What mechanism could force people to pollute less?

C) What causes economic fluctuations?

D) What is the effect of penalties on crime?

Answer: C

Question Status: New

6) Which is a question of interest in this book?

A) What causes growth in the long term?

B) How should a labor contract be structured?

C) How should a government be elected?

D) What is the impact of government provided health care?

Answer: A

Question Status: New

7) Which is a question of interest in this book?

A) Where is the stock market heading?

B) What is the optimal inflation rate?

C) How are stock options priced?

D) What are commodity futures?

Answer: B

Question Status: New

8) The two most important American business cycle events of the twentieth century were

A) the Great Depression and stagflation.

B) World War II and the Great Depression.

C) the productivity slowdown and the Great Depression.

D) government budget deficits and World War II.

Answer: B

Question Status: Previous Edition

9) Over the course of the twentieth century, the typical American

A) remained equally as rich.

B) became twice as rich.

C) became five times as rich

D) became eight times as rich.

Answer: D

Question Status: Previous Edition

10) Which of the following assertions is false?

A) The Great Depression was a typical business cycle.

B) Very rapid growth occurred during World War II.

C) Real GDP per capita dipped about 30% during the Great Depression.

D) On average, the U.S. economy grows at a rate of 2.1%.

Answer: A

Question Status: Previous Edition

11) The relationship between the level of growth of an economic variable, g*t*, and its level, *yt*, is best approximated as

A) g*t* = .

B) *gt* = log *yt* - log *yt*-1.

C) *yt* = log *gt* - log *gt*-1.

D) log *gt* = *yt* - *yt*-1.

Answer: B

Question Status: Previous Edition

12) The business cycle component of the log of real per-capita GNP is equal to

A) log of actual real GNP - log of trend GNP.

B) log of trend GNP ÷ log of actual real GNP.

C) log of trend GNP - log of actual real GNP.

D) log of actual real GNP ÷ log of trend GNP.

Answer: A

Question Status: Previous Edition

13) For the study of economic growth, it is most helpful to examine movements in \_\_\_\_\_\_\_\_; for the study of business cycles, it is most helpful to examine movements in \_\_\_\_\_\_\_\_.

A) trend GNP; trend GNP

B) trend GNP; deviations from trend in GNP

C) deviations from trend in GNP; trend GNP

D) deviations from trend in GNP; deviations from trend in GNP

Answer: B

Question Status: Previous Edition

14) Over the twentieth century, growth in per-capita GNP was highest

A) immediately prior to the Great Depression.

B) during World War II.

C) during the 1960s.

D) during the 1980s.

Answer: B

Question Status: Previous Edition

15) When we say the U.S. economy has grown on average at 2.1%, we mean

A) the inflation rate.

B) the growth rate of nominal GDP.

C) the growth rate of per-capita nominal GDP.

D) the growth rate of per-capita real GDP.

Answer: D

Question Status: Previous Edition

16) A useful macroeconomic model

A) is extremely realistic.

B) is simple.

C) never generates testable hypotheses.

D) provides a lot of intricate details.

Answer: B

Question Status: Previous Edition

17) Macroeconomic models are

A) complex programs running on super-computers.

B) literary descriptions of the economy.

C) a simple abstraction of reality.

D) templates that be applied to different situations by changing labels.

Answer: C

Question Status: New

18) The structure of a macroeconomic model involves all of the following **except**

A) the available technology.

B) the behavior of consumers and firms.

C) the preferences of consumers.

D) the available resources.

Answer: B

Question Status: Previous Edition

19) What characterizes a competitive equilibrium?

A) Markets are rationed.

B) Governments stay out of the market.

C) Economic agents are price-takers.

D) It is costly to experiment with policies.

Answer: C

Question Status: Previous Edition

20) What do we assume about households and firms?

A) They act irrationally.

B) They do what the government tells them to do.

C) They look after each other.

D) They optimize.

Answer: D

Question Status: New

21) The development most responsible for the wide-spread introduction of macroeconomic models built upon solid microeconomic foundations was the

A) work of John Maynard Keynes.

B) rational expectation revolution.

C) popularization of supply-side economics.

D) development of the Keynesian coordination failure model.

Answer: B

Question Status: Previous Edition

22) According to the *Lucas critique*, changes in economic policy are likely to have important effects on

A) the available amounts of natural resources.

B) the behavior of consumers and firms.

C) the preferences of consumers.

D) none of the above

Answer: B

Question Status: Previous Edition

23) Current macroeconomic models use microeconomic principles because

A) they use the same language for all economists.

B) they highlight the sociological aspects of production.

C) the behavior of economic agents changes with policy.

D) we live in a democratic society and everybody has a say.

Answer: C

Question Status: Previous Edition

24) What do macroeconomists not agree on?

A) that microeconomic principles should be used

B) what generates business cycles

C) how to build models of growth

D) that economic agents optimize

Answer: B

Question Status: Previous Edition

25) According to money surprise theory, the primary causes of business cycles are

A) shocks to aggregate demand.

B) monetary factors.

C) technology shocks.

D) waves of self-fulfilling optimism and pessimism.

Answer: B

Question Status: Previous Edition

26) According to real business cycle theory, the primary causes of business cycles are

A) shocks to aggregate demand.

B) monetary factors.

C) technology shocks.

D) waves of self-fulfilling optimism and pessimism.

Answer: C

Question Status: Previous Edition

27) According to Keynesian coordination failure theory, the primary causes of business cycles are

A) shocks to aggregate demand.

B) monetary factors.

C) technology shocks.

D) waves of self-fulfilling optimism and pessimism.

Answer: D

Question Status: Previous Edition

28) The macroeconomic model that is most supportive of the role of government policy aimed at smoothing business cycles is the

A) real business cycle model.

B) money surprise model.

C) Keynesian coordination failure model.

D) Solow growth model.

Answer: C

Question Status: Previous Edition

29) Two important theories of unemployment are

A) game theory and search theory.

B) search theory and the efficiency wage theory.

C) the efficiency wage theory and the quantity theory.

D) the quantity theory and game theory.

Answer: B

Question Status: Previous Edition

30) What is produced and consumed in the economy is determined jointly by

A) government policies and the economy's productive capacity.

B) the economy's productive capacity and the preferences of consumers.

C) the preferences of consumers and the behavior of business managers.

D) the behavior of business managers and government policies.

Answer: B

Question Status: Previous Edition

31) Improvements in a country's standard of living are brought about in the long run by

A) technological progress.

B) growth in the population.

C) constructing more machines and buildings.

D) immigration policy.

Answer: A

Question Status: Previous Edition

32) Business cycles are

A) each unique, but all have a single cause.

B) each unique and they can have many causes.

C) similar, and they all have a single cause.

D) similar, but they can have many causes.

Answer: D

Question Status: Previous Edition

33) A tax cut is

A) an improvement for almost all agents.

B) a free lunch.

C) a reallocation of resources from the future to the present.

D) a bad policy for almost all agents.

Answer: C

Question Status: Previous Edition

34) In the long run, inflation is caused by

A) aggressive labor unions.

B) greedy monopolists.

C) fast growth in the money supply.

D) global warming.

Answer: C

Question Status: Previous Edition

35) In macroeconomics, credit markets are

A) irrelevant.

B) important.

C) too difficult to deal with.

D) the only thing that matters.

Answer: C

Question Status: New

36) For macroeconomics, banks

A) are similar to other firms.

B) can be abstracted away.

C) play a key role.

D) are similar to households.

Answer: C

Question Status: New

37) In the long run, the quantity of money

A) does not matter.

B) influences GDP.

C) influences unemployment.

D) influences the business cycle.

Answer: A

Question Status: Previous Edition

38) Regarding money, what matters most?

A) that is exists.

B) that its quantity is known.

C) that coins are available.

D) that its quantity is stable.

Answer: A

Question Status: New

39) The quantity of money in circulation in the United States is managed by

A) The Securities Exchange Commission.

B) The United States Treasury.

C) The Federal Reserve System.

D) Wall Street.

Answer: C

Question Status: New

40) Considering the future

A) is irrelevant to macroeconomics.

B) is key to macroeconomic modelling.

C) has a limited impact on macroeconomic analysis.

D) matters only under special circumstances.

Answer: B

Question Status: New

41) International trade between two countries

A) benefits only the receiving country.

B) benefits only the sending country.

C) benefits both countries.

D) benefits neither country.

Answer: C

Question Status: New

42) Unemployment, at the aggregate level.,

A) is avoidable.

B) is part of a well-functioning economy.

C) is always a sign of market failure.

D) would not happen with good policy.

Answer: B

Question Status: New

43) A trade-off between aggregate output and inflation

A) is theoretically possible, but has never been observed in practice.

B) may exist in the short run, but not in the long run.

C) may exist in the long run, but not in the short run.

D) exists in both the short run and the long run.

Answer: B

Question Status: Previous Edition

44) A good measure of productivity is

A) the interest rate.

B) the inflation rate.

C) aggregate output divided by employment.

D) the growth rate of aggregate output.

Answer: C

Question Status: New

45) Which is not a cause for business cycles considered by macroeconomists?

A) shocks to money supply

B) elections

C) shocks to technological ability

D) variations in optimism

Answer: B

Question Status: Previous Edition

46) A productivity slowdown was observed from the

A) early 1950s to the late 1960s.

B) early 1960s to the early 1970s.

C) late 1960s to the early 1980s.

D) mid-1980s to the late 1990s.

Answer: C

Question Status: Previous Edition

47) Two plausible hypotheses to explain the productivity slowdown are

A) measurement problems and adjustments to new technologies.

B) large government budget deficits and large balance of trade deficits.

C) globalization of capital markets and reductions in tariffs.

D) adjustments to new technologies and failures in the educational system.

Answer: A

Question Status: Previous Edition

48) The major contributor to the long-run improvement of a country's standard of living is

A) low inflation.

B) growth in government.

C) population growth.

D) technological progress.

Answer: D

Question Status: Previous Edition

49) Unemployment is good from a social point of view because

A) it keeps wages in check.

B) it allows for better matches between workers and firms.

C) it provides free time.

D) it keeps the least efficient workers out.

Answer: B

Question Status: Previous Edition

50) The U.S. government budget was

A) continuously in surplus from 1959 to the late 1990s.

B) in surplus for most of the period from 1959-1970, but was in deficit for most of the period from 1970 to the late 1990s.

C) in deficit for most of the period from 1959-1970, but was in surplus for most of the period from 1970 to the late 1990s.

D) continuously in deficit from 1959 to the late 1990s.

Answer: B

Question Status: Previous Edition

51) Over the long run, taxes and government expenses have

A) remained relatively stable.

B) decreased.

C) increased.

D) drifted apart.

Answer: C

Question Status: New

52) A government deficit occurs when

A) the government spends more than what it gets in taxes.

B) public goods are worth less than what was paid for them.

C) a government loses an election.

D) the government still has Treasury bonds to reimburse.

Answer: A

Question Status: New

53) The idea that government budget deficits do not matter under certain circumstances is

A) called the Friedman-Lucas theory.

B) called the Ricardian equivalence theorem.

C) attributed to Edward Prescott and Finn Kydland.

D) preposterous.

Answer: B

Question Status: Previous Edition

54) In the second half of the twentieth century, the U.S. inflation rate was at its highest in the period from

A) 1960 to the early 1970s.

B) the mid-1970s to the early 1980s.

C) the mid-1980s to the early 1990s.

D) 1990-2000.

Answer: B

Question Status: Previous Edition

55) The average labor productivity is defined as

A) per-capital real GDP divided by employment.

B) nominal GDP divided by employment.

C) per-capita nominal GDP divided by employment.

D) real GDP divided by employment.

Answer: D

Question Status: Previous Edition

56) A government surplus is

A) when it spends more than its income.

B) when it owes more than what it is owed.

C) when its income is higher than its spending.

D) when it is owed more than what it owes.

Answer: C

Question Status: Previous Edition

57) Government debt is different from individual debt because

A) the government can always tax to reimburse it.

B) the government cannot declare bankruptcy.

C) the government does not need to pay interest.

D) the government can decide the interest rate.

Answer: A

Question Status: Previous Edition

58) The real interest rate is

A) always equal to the pure rate of time preference.

B) equal to the rate of inflation minus the nominal rate of interest.

C) equal to the nominal rate of interest minus the rate of inflation.

D) less important for decision making than the nominal rate of interest.

Answer: C

Question Status: Previous Edition

59) The real interest rate is

A) always positive.

B) always negative.

C) lower than the nominal interest rate.

D) zero.

Answer: C

Question Status: Previous Edition

60) When there is high inflation

A) the nominal interest rate is approximately equal to the real interest rate.

B) the real interest rate is always greater than the nominal interest rate.

C) the nominal interest rate is always greater than the real interest rate.

D) the real interest rate is always negative.

Answer: C

Question Status: Previous Edition

61) Real interest rates were negative during most of the

A) 1960s.

B) 1970s.

C) 1980s.

D) 1990s.

Answer: B

Question Status: Previous Edition

62) A sharp increase in energy prices **most** plausibly accounts for the

A) Great Depression.

B) Korean War inflation.

C) recession in 1973-1975.

D) recessions of the early 1980s.

Answer: C

Question Status: Previous Edition

63) Which period was not a recession in the United States?

A) 1974-1975

B) 1990-1991

C) 1984-1985

D) 2001

Answer: C

Question Status: Previous Edition

64) Which was the deepest recession in recent decades in the Unites States? (except the 2008-2009 one that still needs to be quantified)

A) 1978-1979

B) 1981-1982

C) 1990-1991

D) 2001

Answer: B

Question Status: Revised

65) The most likely explanation of the recession of 1981-1982 was

A) an increase in energy prices.

B) a collapse in investment spending.

C) that it was an unfortunate byproduct of a decrease in inflation.

D) a dramatic decrease in stock prices.

Answer: C

Question Status: Previous Edition

66) A likely explanation for the 2008-2009 recession is

A) an increase in energy prices.

B) a loss of confidence in the banking system.

C) a drastic reduction in government expenses.

D) an increase in taxes.

Answer: B

Question Status: New

67) Asymmetric information is:

A) information revealed by economic agents turns out to be wrong.

B) inflation forecasts are systematically to high or too low.

C) some economic agents have more information than others.

D) the government knows less about the economy than households and firms.

Answer: C

Question Status: New

68) Limit commitment occurs when

A) collateral is required to get a loan.

B) one cannot borrow as much as necessary to conduct business.

C) one cannot be forced to repay a loan.

D) the bank can sell your loan to another bank.

Answer: C

Question Status: New

69) Inflation is defined as

A) 

B)  + 1.

C)  – 1.

D) .

Answer: C

Question Status: Previous Edition

70) When a country has a current account balance deficit, the country

A) is always borrowing from abroad.

B) is always lending abroad.

C) always has a large government budget surplus.

D) always has a large government budget deficit.

Answer: A

Question Status: Previous Edition

71) When a country has a current account balance surplus, the country

A) is always borrowing from abroad.

B) is always lending abroad.

C) always has a large government budget surplus.

D) always has a large government budget deficit.

Answer: B

Question Status: Previous Edition

72) Which of the following observations is **NOT** true about the unemployment rate in the United States?

A) The unemployment rate in the period after 1970 is higher than the unemployment rate in the period before 1970.

B) The unemployment rate fluctuates significantly.

C) Since 1970, the unemployment rate rose until the mid-1980s and has declined thereafter.

D) Since 1970, the unemployment rate fell until the mid-1980s and has increased thereafter.

Answer: D

Question Status: Previous Edition

73) The fact that the unemployment rate is higher after 1970 is primarily explained by

A) changes in the level of economic activity.

B) changes in the structure of the population.

C) changes in government intervention.

D) structural shifts.

Answer: B

Question Status: Previous Edition

74) Year-to-year fluctuations in the unemployment rate are primarily explained by

A) changes in the level of economic activity.

B) changes in the structure of the population.

C) changes in government intervention.

D) structural shifts.

Answer: A

Question Status: Previous Edition