

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

**Chapter 1 Introduction**

1) In 2011, the per-capita GDP in the United States, in 2005 dollars, was about

- A) \$17,500.
- B) \$27,500.
- C) \$43,000.
- 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 growth rate of an economic variable,  $g_t$ , and its level,  $y_t$ , can be approximated by

A)  $g_t = y_t - y_{t-1}$ .

B)  $g_t = \log y_t - \log y_{t-1}$ .

C)  $y_t = \log g_t - \log g_{t-1}$ .

D)  $\log g_t = y_t - y_{t-1}$ .

Answer: B

Question Status: Revised

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  $\div$  log of actual real GNP.

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

D) log of actual real GNP  $\div$  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) never wrong.
  - B) accurate descriptions of the economy.
  - C) simple abstractions of reality.
  - D) consistent with all economic data.

Answer: C

Question Status: Revised

- 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: Previous Edition

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 expectations 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) Which aspect of macroeconomics generates the most controversy?

- A) economic growth
- B) the causes of business cycles
- C) supply and demand
- D) competitive equilibrium

Answer: B

Question Status: Revised

25) What is the key feature that differentiates business cycle theories?

- A) whether the theory was developed before or after the Great Depression.
- B) whether the theory is Keynesian or non-Keynesian.
- C) whether the theory also explains economic growth.
- D) whether the theory explains how monetary policy works.

Answer: B

Question Status: New

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 models that are most supportive of the role of government policy aimed at smoothing business cycles are

- A) real business cycle models.
- B) endogenous growth models.
- C) Keynesian models.
- D) Solow growth models.

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) Credit markets are

- A) bad, as they cause people to accumulate debt.
- B) not important for the financial crisis.
- C) important, but given too little attention in the past by macroeconomists.
- D) markets that work perfectly.

Answer: C

Question Status: New

34) In the long run, inflation is caused by

- A) aggressive labor unions.
- B) greedy monopolists.
- C) growth in the money supply.
- D) global warming.

Answer: C

Question Status: Previous Edition

35) 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: Previous Edition

36) 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

37) Regarding money, what matters most?

- A) that it exists.
- B) that its quantity is known.
- C) that coins are available.
- D) that its quantity is stable.

Answer: A

Question Status: Previous Edition

38) 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: Previous Edition

39) 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: Previous Edition

40) 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: Previous Edition

41) 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: Previous Edition

42) 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



- 43) 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: Previous Edition

- 44) Which is not a cause for business cycles considered by macroeconomists?
- A) shocks to money supply
  - B) greed
  - C) shocks to technological ability
  - D) variations in optimism

Answer: B

Question Status: Revised

- 45) 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

- 46) 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

- 47) The Beveridge curve is
- A) a positive relationship between unemployment and the inflation rate.
  - B) a positive relationship between the government deficit and aggregate output.
  - C) a negative relationship between the vacancy rate and the unemployment rate.
  - D) a positive relationship between the inflation rate and the nominal interest rate.

Answer: C

Question Status: New

- 48) The Beveridge curve shifted outward during what period?
- A) during the Great Depression.
  - B) during the Great Moderation.
  - C) after January 2008.
  - D) between January 2000 and December 2007.

Answer: C

Question Status: New

49) 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

50) 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

51) 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

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

- A) remained relatively stable.
- B) decreased.
- C) increased.
- D) drifted apart.

Answer: C

Question Status: Previous Edition

53) 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: Previous Edition

- 54) In the 2008-09 recession, the government deficit
- A) stayed roughly constant.
  - B) decreased.
  - C) increased.
  - D) would have increased if the government had intervened.

Answer: C

Question Status: New

- 55) 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

- 56) 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

- 57) Average labor productivity is defined as
- A) per-capita 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: Revised

- 58) 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

59) Government debt is different from individual debt because

- A) the government can always tax to reduce 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: Revised

60) 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

61) The real interest rate is

- A) always positive.
- B) always negative.
- C) variable.
- D) zero.

Answer: C

Question Status: Revised

62) When there is positive inflation

- A) the nominal interest rate is approximately equal to the real interest rate.
- B) the real interest rate is greater than the nominal interest rate.
- C) the nominal interest rate is greater than the real interest rate.
- D) the real interest rate is negative.

Answer: C

Question Status: Revised

63) Real interest rates were negative during most of the

- A) 1960s.
- B) 1970s.
- C) 1980s.
- D) 1990s.

Answer: B

Question Status: Previous Edition

64) An increase in energy prices is a likely cause of

- A) Great Depression.
- B) Korean War inflation.
- C) the recession in 1973-1975.
- D) the Great Moderation.

Answer: C

Question Status: Revised

65) 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

66) Which was the deepest recession in the United States *before* the recession of 2008-09?

- A) 1978-1979
- B) 1981-1982
- C) 1990-1991
- D) 2001

Answer: B

Question Status: Revised

67) 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

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

- A) an increase in energy prices.
- B) financial market problems.
- C) a drastic reduction in government expenses.
- D) an increase in taxes.

Answer: B

Question Status: Revised

69) Asymmetric information is:

- A) information revealed by economic agents turns out to be wrong.
- B) inflation forecasts are systematically too 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: Previous Edition

- 70) 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: Previous Edition

- 71) Inflation is defined as
- A) the rate of increase in the government budget deficit.
  - B) the increase in the money supply.
  - C) the rate of change in the average level of prices.
  - D) the nominal interest rate minus the price level.

Answer: C

Question Status: Revised

- 72) When a country has a current account deficit, the country
- A) is borrowing from abroad.
  - B) is lending abroad.
  - C) must have a government budget surplus.
  - D) must have a government budget deficit.

Answer: A

Question Status: Revised

- 73) Between 1947 and 2011,
- A) Exports decreased and imports decreased.
  - B) Exports and imports increased.
  - C) The current account surplus rose.
  - D) The current account deficit fell.

Answer: B

Question Status: New