

Unit 3 - Macro Fiscal Policy Ch 12-15

Multiple Choice

Identify the choice that best completes the statement or answers the question.

1 Products that would be used in calculating GDP include

- A toys manufactured in China at a factory owned by a U.S. company.
- B radios manufactured in Tennessee at a factory owned by a Korean electronics company.
- C plastic manufactured in a factory in Kentucky and sold to toy manufacturers around the world to make plastic toys.
- D cotton cloth manufactured in India and sold to clothes makers in the United States.

2 An accurate statement about the Great Depression would be that

- A it was a recession that became a depression because of World War II.
- B it was set off because of a sharp and unexpected rise in interest rates.
- C it was the most severe economic downturn in the history of industrial capitalism.
- D its effects and duration would have been even worse if it weren't for a strong economy in Japan and Europe at the time.

3 An example of capital deepening would be

- A permitting two workers to share one job.
- B buying new tools for your factory.
- C laying off employees when a factory is modernized.
- D moving a manufacturing plant overseas where labor costs are lower.

4 The calculation of GDP would include

- A the sale of a 25-year-old house.
- B the baby sitting of a person who instead of paying rent watches the homeowner's children.
- C the work performed by a high school English teacher.
- D the price of the steel used to build a new car.

Expenditure Approach
Income Approach
Wages
Goods

To answer question five, use the following incomplete formula.

$\frac{?}{GDP1} \times 100 = \text{Economic Growth}$

5 To correctly show the the formula for calculating economic growth, what should be put in place of the question mark?

- A GDP1 + GDP2
- B GDP1 - GDP2
- C GDP2 - GDP1
- D GDP 1 x GDP2

6 The lowest point in an economic contraction is called a

- B peak
- C trough
- D recession
- E depression

7 How is nominal GDP converted into real GDP?

- A by adding up all of the real purchases made in the economy
- B through eliminating the effects of price increases on GDP growth
- C by adding all incomes earned in an economy to total expenditures by consumers, businesses, and government
- D by adding the contributions of American-owned factories in foreign countries

8 Which of the following is an example of a final good or service?

- A Wheat a bakery purchases to make bread
- B Coffee beans a coffee shop purchases to make coffee
- C Lumber purchased by a construction company to use in building houses
- D A cake purchased from a bakery for a wedding

finished goods = final goods
In an economy, when the price level falls, consumers and firms buy more goods and services. This relationship is represented by the

- A aggregate supply curve
- B aggregate demand curve
- C equilibrium GDP
- D business cycle

10 If we calculate the GDP by counting up the total amount spent on all goods and services, we are using which method?

- A The Expenditure Approach
- B The Formula Approach
- C The Income Approach
- D The Real GDP Approach

11 The formula for determining GDP is

$$\text{GDP} = C + I + \text{G} + X - M$$

Which of the following is something that would fall under the letter "G" in the formula?

- A Americans buy lots of Chevrolets
- B Chevrolet sends lots of cars to France
- C Germany sends lots of BMW's to the U.S.
- D The FBI buys lots of cars for their agents to use

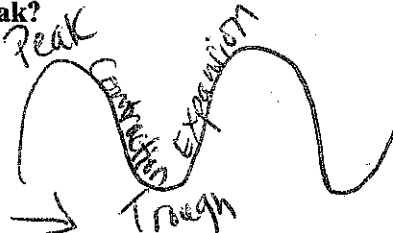
↳ Government Spending

12 An international crisis has caused consumers to save their money and postpone big purchases. What is the effect on aggregate supply?

- A no change to aggregate supply
- B aggregate supply will decrease
- C aggregate supply will increase
- D there is not enough information

13 In a typical business cycle, what stage immediately follows a peak?

- A contraction
- B expansion
- C trough
- D growth



14 What is the difference between a recession and a depression?

- A A recession is a period of economic growth while a depression is a period of economic contraction.
- B A recession is more severe than a depression and lasts longer.
- C A depression is a particularly bad recession.
- D Unlike a recession, a depression includes high levels of inflation.

15 When the economy is working properly, what is the unemployment rate?

- A 0 to 3 percent
- B 4 to 6 percent
- C 8 to 10 percent
- D 10 to 12 percent

16 What does it mean when a person is underemployed?

- A The person has been working but now is laid off.
- B The person is looking for work in a special field.
- C The person is not making as much money as they need.
- D The person has a job but they are overqualified for it.

high skilled worker in low-level skill job

17 LaRhonda was fired from her job four years ago. She's been looking for a new job ever since. Now she's decided to give up and just stay home with the kids. LaRhonda is now

- A Structurally unemployed
- B Frictionally unemployed
- C Cyclically unemployed
- D Discouraged Worker

- gave up - no longer counted in

18 When Alison, a college math professor, leaves her job at a small rural college and starts looking for a job at large urban university, she is

- A frictionally unemployed
- B structurally unemployed
- C cyclically unemployed
- D seasonally unemployed

unemp. Rate.

19 If Jackson is paid an interest rate of 10% on his savings, but the inflation rate has risen to 20%, his savings have effectively changed in what way?

- A They stayed the same
- B They decreased
- C They increased
- D We don't have enough information to decide

- won't buy as much

20 Which of the following might cause the inflation rate to spike up sharply?

- Does not include energy food*
- A The items in the CPI market basket change because of changing consumer buying habits.
 - B The purchasing power of the average consumer increases due to a tax refund. *↑ money supply*
 - C Prices on world oil markets rise steeply due to war in the Middle East. *energy*
 - D Plentiful rainfall and moderate temperatures result in good harvests of wheat and soybeans. *food*

21 If Bob loses his job at the GM plant because car manufacturing is slow due to a downturn in the economy, you can conclude that he is

- A frictionally unemployed
- B structurally unemployed
- C cyclically unemployed -
- D seasonally unemployed

22 What types of goods are left out when calculating the Core Inflation Rate?

- A food and energy
 - B food and medical
 - C medical and energy
 - D medical and recreation
- alot of people missed this!*

23 Last year the inflation rate was 5%. Last year Trudy got a 6% raise. Which of the following is effectively true about Trudy's salary?

- A It stayed the same
- B It decreased
- C It increased
- D We don't have enough information to decide

24 Who generally bears most of a sales tax when the demand for the good taxed is inelastic?

- A the retailer
- B the consumer
- C the wholesaler
- D the producer

producer passed tax to consumers who will largely continue to purchase that good/service.

CPI = inflation

25 The sales tax on a \$20.00 hammer is 7%, or \$1.40. Why is this tax a bigger burden for Josh, who has a \$15,000 income, than for Aaron, who has a \$150,000 income?

- A The tax represents a larger proportion of Josh's income.
- B The burden is the same for both Josh and Aaron.
- C The tax rate is higher for Josh than for Aaron.
- D Josh will have to pay a greater property tax on the hammer than will Aaron.

26 Which is an example of discretionary spending where policy makers have more flexibility on decreasing spending?

- A Social Security - *entitlement*
 - B Medicare - *entitlement*
 - C Medicaid - *entitlement*
 - D Education → *NOT - Discretionary = non mandatory spending*
- mandatory spending*

27 What happens to the money that your employer withholds from your paycheck?

- A Your employer holds it until you leave your job and then returns it to you.
- B Your employer returns to you at the end of the year so that you can pay your federal taxes.
- C Your employer holds it in case you damage his property.
- D Your employer sends it to the federal government to help pay your income tax bill.

28 An example of expansionary fiscal policy would be

- A cutting taxes. ✓
- B cutting government spending. *this is contracting*
- C cutting production of consumer goods. *they don't do this!*
- D cutting prices of consumer goods. *or this!*

29 In contrast with classical economics, Keynesian economics - *Do more to fix bad economy.*

- A reduces the role of government.
- B takes the same view of the economy.
- C relies more heavily on the laws of supply and demand.
- D more strongly emphasizes the importance of government interference!

more spending!

30 When revenues exceed expenditures,

- A there is a budget surplus.
- B there is a budget deficit.
- C the government must create more money.
- D the government is forced to issue more bonds to raise money.

31 When you buy a United States Savings Bond, you

- A loan money to the government.
- B borrow money from a savings and loan association.
- C donate money for special government projects.
- D pay for your child's college education.

32 An example of contractionary fiscal policy would be

- A cutting taxes.
- B decreasing government spending.
- C increasing production of consumer goods.
- D expanding the government's role in regulating private industry.

33 The purpose of expansionary fiscal policy is to

- A increase economic growth.
- B prevent hyperinflation.
- C slow the growth of the GDP.
- D increase the separation between government and private industry.

34 Which of these makes increased government spending an effective tool for increasing demand?

- A the Laffer curve
- B political pressures
- C supply-side economics
- D the multiplier effect

35 Which of these is a contractionary fiscal policy?

- A The federal government builds a new medical research center at a prestigious state university.
- B The President and Congress pass a new two-cent-per-gallon gasoline tax.
- C The federal government sends taxpayers up to \$300 each in the form of an income tax rebate.
- D The sales tax on clothing is lifted for one week before the school year begins.

36 How did the Great Depression relate to the school of classical economics?

- A The end of the Great Depression in the 1940s confirmed many of the theories of classical economics.
- B Crises like the Great Depression were predicted by Adam Smith.
- C The Great Depression showed that letting market forces return the market to equilibrium might take too long.
- D The issues of the Great Depression had no connection to classical economics.

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37. What would you conclude about an economy characterized by increasing real gross domestic product (GDP), low unemployment, and increasing inflationary pressures?

- A. This economy is in a slowdown.
- B. The government needs to address the unemployment problem.
- C. This economy is in the expansion phase of a business cycle.
- D. The Federal Reserve should expand the money supply.

38. Which of these is most likely to lead to inflation?

- A. An increase in the costs of production
- B. Reduced prices for goods and services
- C. An increase in the aggregate supply of goods and services
- D. The application of price ceilings

39. Which of these represents a capital investment for Carpet Cleaning Business?

- A. Renting commercial office space
- B. Marketing the business
- C. Purchasing Carpet Cleaning Equipment
- D. Hiring ten employees

40. In the U.S., how are public goods paid for?

- A. Private firms collect fees from their employees
- B. Non-profit organizations collect charitable donations from people
- C. The government collects tax revenues from individuals and firms
- D. Corporations make profits from selling goods and services

41. Of the following groups, the one hurt the LEAST by unanticipated inflation is

- A. Workers who have cost-of-living adjustments in their labor contracts
- B. People who have saved money in accounts with a fixed interest rate
- C. Banks that have made long terms, fixed rate mortgage loans
- D. Consumers who buy goods and services at prevailing market prices

42. The BEST example of structural unemployment is an economy is someone

- A. Between jobs or entering the workforce
- B. Out of work due to a change in the business cycle
- C. Out of work due to a seasonal downturn in business
- D. Whose job skills do not match the economy's needs

43. When aggregate demand in an economy exceeds aggregate supply, the MOST immediate result is

- A. Inflation
- B. Deflation
- C. Unemployment
- D. A budgetary surplus

Turn Over

44. If the federal government is attempting to encourage spending by consumers and businesses, a fiscal policy BEST serving this purpose would be

- A. Decreasing taxes
- B. Decreasing government spending
- C. Reducing the investment tax credit
- D. Balancing the budget

45. Which of the following results when federal government expenditures are less than the federal government's total receipts?

- A. A federal budget deficit
- B. A negative balance of payments
- C. A federal budget surplus
- D. A trade surplus