Macroeconomic policy (AS level)

Multiple choice questions by topic <u>with answers</u>

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Which action might be part of an expansionary economic policy?

A reducing the budget deficit
B reducing the level of government spending
C reducing the money supply
D reducing the rate of interest

Answer D

Which action is classified as a fiscal policy measure?

A fixing a currency to another country's currency
B managing changes in the level of government debt
C providing guidance to industry and the public
D tightening reserve asset requirements for financial institutions

Answer B

Which type of policy would have the most immediate effect in dealing with a deflationary economic downturn?

A increasing the government's budget surplus
B increasing liquidity by assisting banks to lend more
C investing in projects to improve transport networks
D switching the burden of taxation from earning to spending

Answer B

What is an example of a supply-side policy?

A an import quota to restrict the supply of goods
B a rise in interest rates to encourage the supply of savings
C a specific tax on the supply of goods to raise revenue
D a subsidy to businesses to promote the supply of training courses

ANSWER D

Which policy would assist in reducing a deficit within the balance of payments?

A increasing interest rates

B increasing the money supply

C reducing subsidies to exporting industries

D reducing the level of direct taxation

Answer A

What would be increased by an expansionary fiscal policy?

A budget deficit

B exchange rate

C money supply

D rate of direct taxation

Answer A

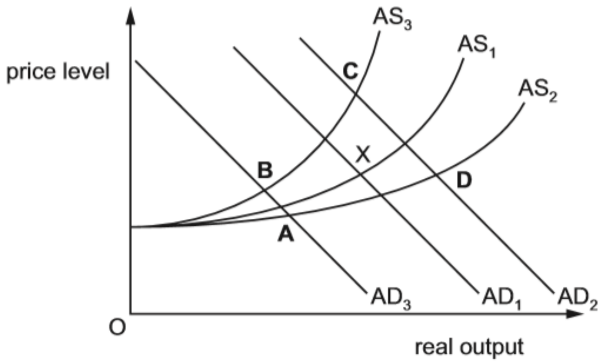
Which policy mix is most likely to be effective in the short run for reducing inflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget surplus	increasing the interest rate
B	decreasing the budget surplus	increasing the money supply
C	increasing the budget surplus	increasing the interest rate
D	increasing the budget surplus	increasing the money supply

Answer C

In its recent budget a government reduced total expenditure while increasing the amount spent on training to increase the productivity of the workforce. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these changes?



ANSWER A

Monetary policy can be used to increase the level of business activity.

Which action illustrates this?

A curbing consumption through controls on credit

B lowering reserve requirements of banks to increase lending

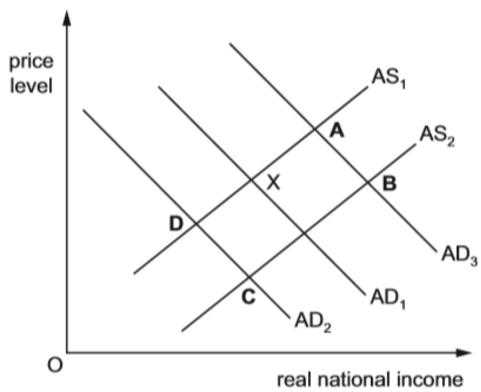
C reducing government spending to achieve a budget surplus

D stimulating company investments by increasing interest rates

Answer B

The government of a country plans to raise income tax rates. The initial equilibrium for the country is represented by point X on the diagram.

Which new equilibrium point would an economist predict as the result?



Answer D