

The macroeconomy

Multiple choice questions by topic with answers

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What is **most** likely to increase in the short run following a rise in an economy's rate of inflation caused by a demand-side shock?

- A the current account deficit on the balance of payments
- B the price of government bonds
- C the purchasing power of the currency
- D the rate of unemployment

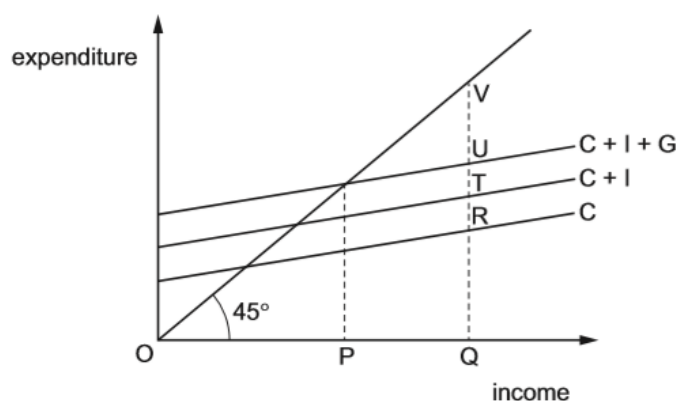
Answer A

An economy adopts an expansionary monetary policy to boost employment. A result of this policy is that the consumer price index rises at an accelerating rate.

Which curve could represent this?

- A Kuznets curve
- B Laffer curve
- C Lorenz curve
- D Phillips curve

In the diagram, OP is the equilibrium level of income and OQ the full employment level of income in a closed economy.



What is the deflationary gap?

- A PQ
- B RV
- C TV
- D UV

Answer D

What is measured on the vertical axis of the Phillips curve?

- A the rate of change of real wages
- B the rate of change of take-home pay
- C the rate of inflation
- D the rate of interest

Answer c

What will be the **most** likely consequence of an increase in the dependency ratio?

- A** a decrease in GDP per head
- B** a decrease in labour productivity
- C** an increase in the labour force
- D** an increase in unemployment

Answer A

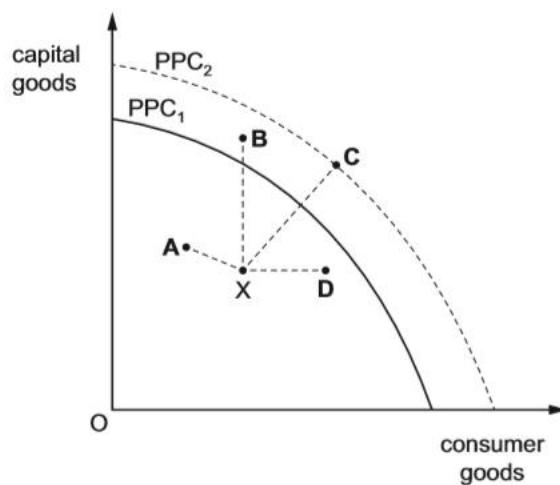
Which statement is correct?

- A** Economic development is necessary for economic growth.
- B** Economic growth and economic development are directly proportional.
- C** Economic growth enables economic development.
- D** Economic growth is always sustainable.

Answer C

The diagram shows a production possibility curve PPC_1 . The economy is initially at point X.

If the economy achieves actual economic growth but not potential growth, what would the final position be?



Answer D

Which change is most likely to increase both economic growth and economic development in the long run?

- A a decrease in the saving ratio
- B an increase in investment in human capital
- C the depletion of non-renewable resources
- D the greater use of compulsory overtime working of labour

Answer B

The diagram shows the annual percentage (%) change in employment and output in the UK private sector between 2000 and 2012.



In which year did labour productivity increase the most?

- A 2003
- B 2007
- C 2009
- D 2012

Answer A

What has **not** accompanied global economic growth over the last twenty five years?

- A a depletion of non-renewable resources
- B decreased international trade
- C growing urbanisation
- D increased atmospheric pollution

Answer B

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Answer A

**Economic
growth**

The table shows the annual percentage (%) change in China's GDP and the contribution of some of its component parts between 2006 and 2012.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------|------|------|------|------|------|------|------|
| GDP | 12.7 | 14.2 | 9.6 | 9.2 | 10.4 | 9.3 | 7.7 |
| consumption | 5.1 | 5.6 | 4.2 | 4.6 | 4.5 | 5.2 | 4.2 |
| investment | 5.5 | 6.0 | 4.5 | 8.1 | 5.5 | 4.5 | 3.9 |
| net exports | 2.1 | 2.6 | 0.9 | -3.5 | 0.4 | -0.4 | -0.4 |

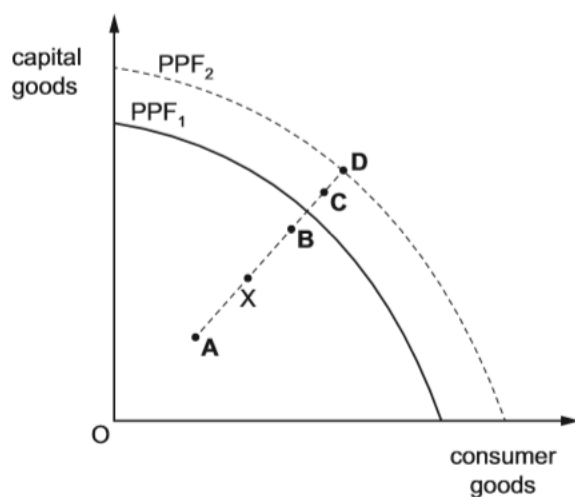
What can be concluded about China's economy between 2006 and 2012?

- A** China's current account was in surplus more years than it was in deficit.
- B** China's economic rate of growth fell in more years than it rose.
- C** China's growth was greater overall in consumer goods than in capital goods.
- D** China's standard of living rose at a decreasing rate.

Answer B

The diagram shows a production possibility frontier, PPF_1 . The economy is initially at point X.

If the economy achieves actual economic growth but not potential growth, what would the final position be?



Answer B

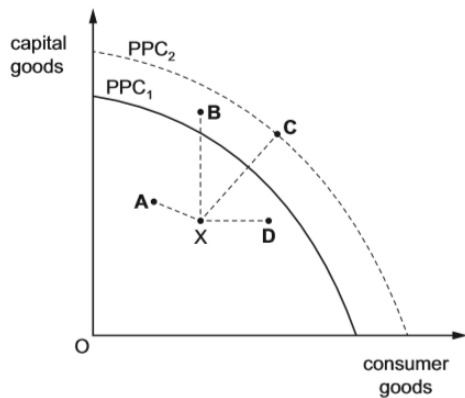
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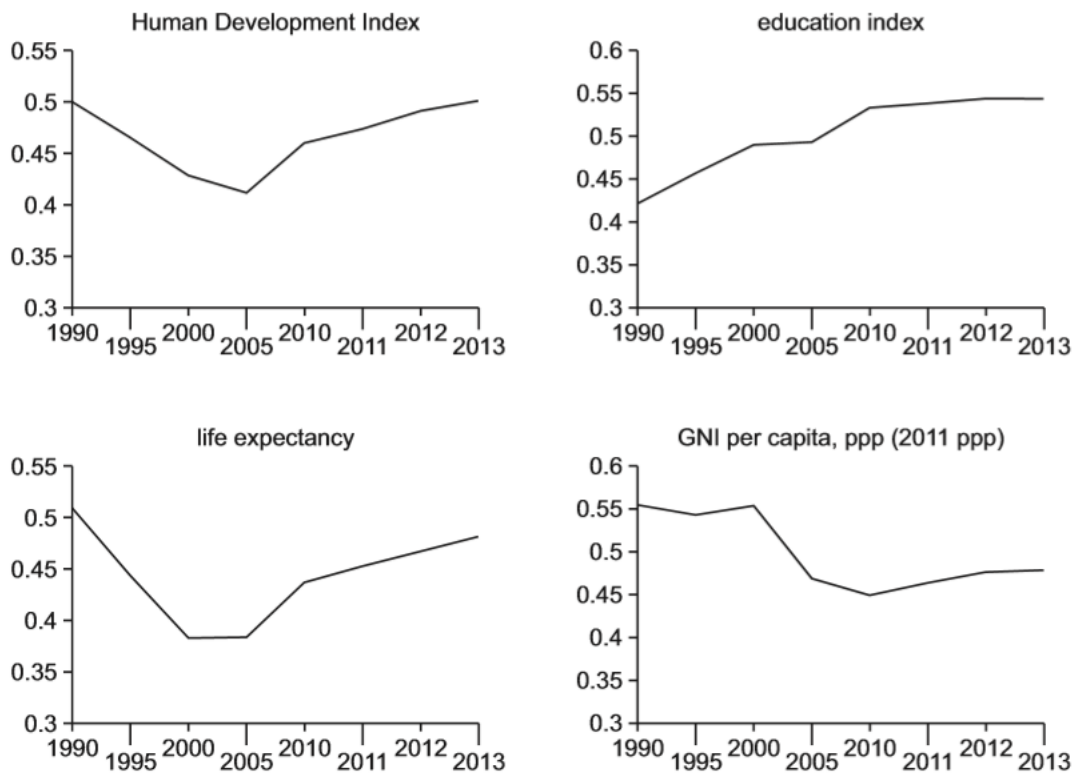
What is **not** included in the measurement of national income?

- A** age-related pensions
- B** dividends obtained from foreign investments
- C** housing authorities' income from rent
- D** profits distributed to shareholders

National income statistics

Answer A

The graphs show the Human Development Index and its component parts for Zimbabwe.



Between 2005–2010, which components of HDI have comparable changes to its overall change?

- A** education and GNI per capita
- B** education and life expectancy
- C** education, GNI per capita and life expectancy
- D** GNI per capita and life expectancy

Answer B

The information in the table is taken from a country's national income accounts.

| | \$ million |
|------------------------|------------|
| consumer expenditure | 250 |
| investment expenditure | 100 |
| government expenditure | 150 |
| exports | 100 |
| imports | 150 |
| taxes | 80 |
| subsidies | 40 |

What is the value of national income at factor cost in \$ million?

- A 410
- B 450
- C 500
- D 550

Answer A

Which source of income is **not** included in measuring real GDP?

- A pension paid to retired people
- B profits made by firms
- C rent paid to landlords
- D wages paid to nurses

Answer A

Which adjustments to real GNP per head might make it a more reliable indicator when comparing standards of living in different countries?

- A adjustments to allow for differences in the level of government spending in different countries
- B adjustments to allow for differences in the rates of inflation in different countries
- C adjustments to allow for differences in the size of the hidden economy in different countries
- D adjustments to allow for differences in the value of exports from different countries

Answer C

The information in the table is taken from a country's national income accounts.

| | \$ million |
|---|------------|
| national income | 600 |
| consumer spending | 400 |
| investment spending | 80 |
| government spending on goods and services | 100 |
| exports | 140 |

What is the value of imports in \$ million?

- A 100
- B 120
- C 140
- D 240



Answer B

What would cause estimates of the money value of the 'Measure of Economic Welfare' for a country to be **greater** than the value of 'Gross National Product'?

- A** negative externalities such as pollution
- B** property income received from abroad
- C** regrettable necessities
- D** the value of non-marketed activities and leisure

Answer D

What is most likely to result from foreign direct investment in developing economies?

- A** a deterioration in the trade balances of developing economies
- B** a reduction in migration to urban areas in developing economies
- C** a reduction in the transfer of technology to developing economies
- D** a rise in per capita levels of consumption in developing economies

Answer D

Classification of countries

Which row shows characteristics of a fast-growing emerging economy?

| | GDP per head | birth rate | household saving ratio |
|----------|--------------|------------|------------------------|
| A | falling | falling | rising |
| B | falling | rising | falling |
| C | rising | falling | rising |
| D | rising | rising | falling |

Answer C

It has been estimated by the United Nations that the total external debt of developing countries has been increasing by about \$425 billion each year.

What is **least** likely to have contributed to this?

- A** disincentives for foreign direct investment through political instability
- B** increased government subsidies for the development of tourism industries
- C** withdrawal of multinational companies due to delays in the award of government contracts
- D** worsening of the terms of trade with partners in developed economies

Answer B

The following are four conditions sometimes attached to IMF loans to developing countries.

Which condition would conflict with the 'infant industry' argument?

- A** the need to allow free trade
- B** the need to control inflation
- C** the need to have a contractionary fiscal policy
- D** the need to privatise government enterprises

Answer A

Workers in poor countries are often less productive than workers using the same technology in rich countries.

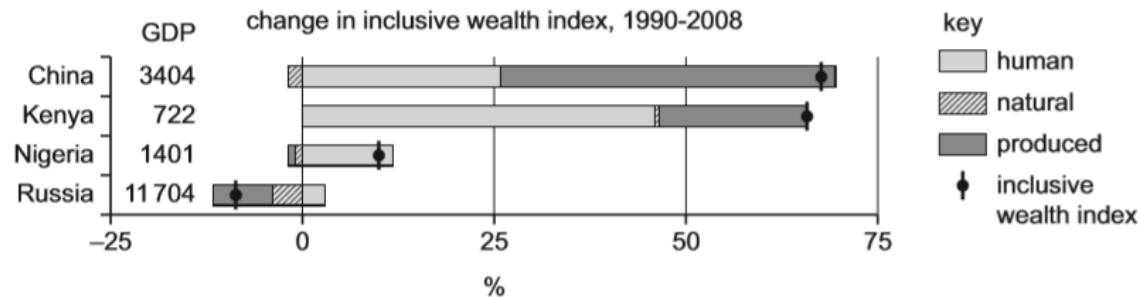
What would be **most** likely to remedy this situation?

- A an increase in the saving ratio in poor countries
- B increased freedom of migration from poor countries to rich countries
- C increased investment in education in poor countries
- D the removal of trade barriers imposed by rich countries on imports from poor countries

Answer C

In 2012 a United Nations report calculated the stock of wealth of 20 countries in terms of human, natural and produced resources. This was measured as the Inclusive Wealth Index (IWI).

The diagram shows the annual percentage (%) change in the IWI between 1990 and 2008 of the economies with the fastest and the slowest growth in IWI. It also shows their 2008 GDP per head (\$).



What can be concluded from the diagram?

- A A low level of GDP per head meant an inability to build stocks of wealth.
- B No country was able to prevent depletion of its natural resources.
- C The faster the growth in a country's IWI the higher was its GDP.
- D There was an increase in human resources in all four countries.

Answer D

Which combination is usually found in less developed economies?

| | low | high |
|---|------------------------|------------------------|
| A | capital : output ratio | saving ratio |
| B | external debt | capital : output ratio |
| C | population growth | external debt |
| D | saving ratio | population growth |

Answer D

What is a common characteristic of developing economies?

- A a relatively small agricultural sector
- B extensive underemployment
- C high saving rates
- D stable export earnings

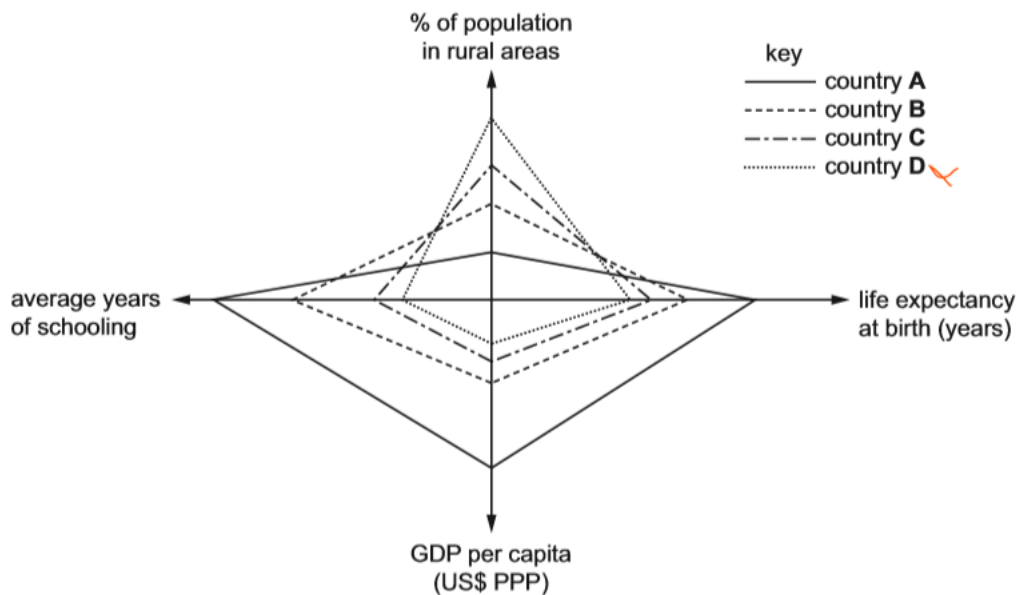
What is a common characteristic of developing economies?

- A** a relatively small agricultural sector
- B** extensive underemployment
- C** high saving rates
- D** stable export earnings

Answer B

The diagram shows data on various aspects of four countries.

Which country is likely to be **least** developed?



Answer D

What makes it possible for the increase in real national output to exceed the increase in labour productivity?

- A an increase in employment
- B an increase in the inflation rate
- C an increase in the money supply
- D an increase in total earnings

Employment / unemployment

Answer A

What is a cause of seasonal unemployment?

- A a general decrease in the demand for goods and services
- B a lack of necessary skills in the workforce
- C a temporary change in the pattern of consumers' expenditure
- D an unwillingness of workers to move to other parts of the country where there is work

Answer C

Which policy is likely to increase unemployment?

- A an increase in retraining facilities
- B a significant increase in indirect taxes
- C the imposition of selective import controls
- D an increase in the public sector deficit

Answer B

A government in a developed economy wishes to reduce cyclical unemployment.

Which policy is likely to be **most** effective?

- A decrease government expenditure and increase income tax
- B decrease its budget deficit
- C increase government expenditure and decrease income tax
- D increase its budget surplus

Answer C

Which type of unemployment is associated with a deficiency in aggregate demand?

- A cyclical
- B frictional
- C structural
- D voluntary

Answer A

Which type of unemployment occurs when aggregate demand is deficient?

- A cyclical unemployment
- B regional unemployment
- C seasonal unemployment
- D structural unemployment

Answer A

When would an economic recession result in an increase in a government's budget deficit?

- A The government increases tariffs on imports with inelastic demand and keeps the total amount it spends on unemployment benefit unchanged.
- B The government keeps the unemployment benefit rate and direct and indirect tax rates unchanged.
- C The government reduces foreign aid and widens the tax base.
- D The government reduces the unemployment benefit rate and decreases the tax free allowance on income tax.

Answer B

Which measure is **least** likely to help a household out of the poverty trap?

- A changing a universal benefit to a means-tested benefit
- B increasing the threshold at which income tax is paid
- C introducing a national minimum wage
- D reducing the basic rate of income tax

Answer A

Circular flow of income

Which row correctly identifies leakages from a country's circular flow of income?

| | private sector ($S > I$) | public sector ($T > G$) | trade sector ($X > M$) |
|----------|-------------------------------|------------------------------|-----------------------------|
| A | no | no | yes |
| B | no | yes | yes |
| C | yes | no | no |
| D | yes | yes | no |

Answer A

What represents an injection into a country's circular flow of income?

- A** corporate taxes
- B** interest payments on government bonds
- C** the payment of dividends to foreign shareholders
- D** the repayment of bank loans

Answer B

In a 4-sector economy, consisting of households, firms, government and foreign trade, the level of national income is in equilibrium where

$$C + I + G + (X - M) = Y.$$

What must Y include for an equilibrium to exist?

- A** $C + S + M$
- B** $C + S + T$
- C** $S + T$
- D** $S + T + M$

Answer B

Which row correctly identifies net leakages from the circular flow of income?

| | trade surplus (exports - imports) | government budget deficit (government spending - taxes) | private sector surplus (saving - investment) |
|----------|--------------------------------------|--|---|
| A | ✓ | ✓ | ✗ |
| B | ✓ | ✗ | ✗ |
| C | ✗ | ✓ | ✓ |
| D | ✗ | ✗ | ✓ |

Answer D

The multiplier / Accelerator

In a closed economy with no government expenditure and no taxation, the initial income is \$5000 million. All savings are carried out by consumers, who save 20% of any additional income received above \$5000 million. Firms plan to invest \$1000 million.

What is the value of the multiplier?

- A** 0.8 **B** 4 **C** 5 **D** 8

Answer C

In an open economy with a government sector, the marginal propensity to import is 0.3, the marginal propensity to tax is 0.3 and the marginal propensity to save is 0.2.

What is the value of the multiplier?

- A** 1.25 **B** 2 **C** 2.5 **D** 5

Answer A

In which exchange rate regime would the central bank of a country be best able to pursue an independent monetary policy to control the rate of inflation?

- A** a freely floating exchange rate system
B a system where the country's currency has a targeted value in relation to the US\$
C a system where the central bank buys and sells foreign currency at a fixed rate
D where the country participates in a monetary union with other countries

Answer A

What will increase the multiplier effect of an increase in government spending on national income?

- A** an increase in direct taxation
B an increase in interest rates
C an increase in the marginal propensity to consume
D an increase in the marginal propensity to import

Answer C

The table shows the levels of consumption expenditure and savings for given family incomes.

| disposable family income (\$) | consumption expenditure (\$) | savings (\$) |
|-------------------------------------|------------------------------------|-----------------|
| 2000 | 2150 | -150 |
| 3000 | 3100 | -100 |
| 4000 | 4000 | 0 |
| 5000 | 4850 | 150 |
| 6000 | 5650 | 350 |
| 7000 | 6380 | 620 |

Over the range of disposable income shown, as income rises the marginal propensity to consume

- A falls and then rises.
- B falls continuously.
- C rises and then falls.
- D rises continuously.

Answer B

If the marginal propensity to consume in an economy in a given period becomes greater than unity, this must mean that

- A consumers will be spending more than they are earning.
- B inflation will be generated in the economy.
- C the country will suffer a trade deficit.
- D the marginal propensity to save will be negative.

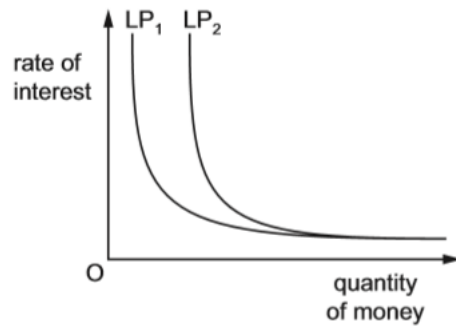
Answer D

What is the basic assumption underlying the accelerator theory?

- A Investment depends on the level of business confidence.
- B Investment depends on the level of savings.
- C Investment depends on the rate of change in consumer demand.
- D Investment depends on the rate of change of interest rates.

Answer C

The graph shows a shift in the liquidity preference curves for an economy from LP_1 to LP_2 .



Money

What might have caused this shift?

| | an increase in real national income | increased pessimism about the future of the economy |
|----------|--|---|
| A | ✓ | ✓ |
| B | ✓ | x |
| C | x | ✓ |
| D | x | x |

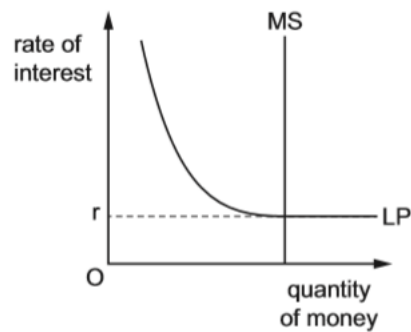
Answer A

An increase in which of the following will cause a decrease in investment spending?

- A** business confidence
- B** company profits
- C** interest rates
- D** national income

Answer C

The diagram shows a liquidity preference curve (LP) representing the demand to hold money in relation to the rate of interest and the money supply (MS) in an economy. The market is in equilibrium at interest rate r .



If the government increases the money supply, what will be the effect on the interest rate?

- A** falls below zero
- B** falls to zero
- C** increases
- D** no effect

Answer D

The central bank of a country creates cash to purchase government bonds from the commercial banks.

What is this called?

- A** liquidity preference
- B** quantitative easing
- C** supply-side policy
- D** the transmissions mechanism

Answer B

According to Keynesian theory, when will an increase in the money supply leave the level of output unchanged?

- A** when the liquidity trap is operative
- B** when the money supply increase was not anticipated
- C** when there is a floating exchange rate
- D** when there is an immediate adjustment to expectations about future price levels

Answer A

What would cause an increase in the transactions demand for money?

- A** a fall in the price of bonds
- B** an increase in nominal national income
- C** an increase in the rate of interest
- D** an increase in unemployment

Answer A