

AP MACROECONOMICS
UNIT 2 PRACTICE QUESTIONS

1.

If in a specified year nominal gross domestic product grew by 11 percent and real gross domestic product grew by 4 percent, inflation for this year would be

- (A) -7%
- (B) 7%
- (C) 8%
- (D) 11%
- (E) 15%

2.

Which of the following is an example of structural unemployment?

- (A) A computer programmer who leaves her job to move to Florida
- (B) A worker who loses his job during a recession
- (C) An autoworker who is replaced by a robot
- (D) A construction worker who is always unemployed during the winter months
- (E) A worker who is engaged in unproductive work

3.

Which of the following means of reducing military spending would have the greatest positive impact on gross domestic product for the United States?

- (A) Combining two domestic military bases into one overseas base
- (B) Cutting retirement benefits to military personnel
- (C) Closing overseas military bases and relocating those operations to the United States
- (D) Closing overseas military bases and laying off military personnel
- (E) Canceling contracts with domestic producers for new airplanes

4.

Which of the following will result in the greatest increase in aggregate demand?

- (A) A \$100 increase in taxes
- (B) A \$100 decrease in taxes
- (C) A \$100 increase in government expenditures
- (D) A \$100 increase in government expenditures, coupled with a \$100 increase in taxes
- (E) A \$100 increase in government expenditures, coupled with a \$100 decrease in taxes

5.

The consumer price index measures which of the following?

- (A) The change over time of the weighted prices of a particular group of goods and services
- (B) The change over time of the weighted wholesale price index
- (C) The change over time of the difference between the gross domestic product deflator and the wholesale price index
- (D) Inflation corrected for changes in the real gross domestic product
- (E) Inflation corrected for changes in the wholesale price index

6.

Current equilibrium output equals \$2,500,000, potential output equals \$2,600,000, and the marginal propensity to consume equals 0.75. Under these conditions, a Keynesian economist is most likely to recommend

- (A) decreasing taxes by \$25,000
- (B) decreasing taxes by \$100,000
- (C) increasing government spending by \$25,000
- (D) increasing government spending by \$33,333
- (E) increasing government spending by \$100,000

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7.

The circular flow of economic activity between consumers and producers includes which of the following?

- I. Households buy factor services from firms.
- II. Households sell factor services to firms.
- III. Households buy outputs from firms.
- IV. Households sell outputs to firms.

- (A) III only
- (B) IV only
- (C) I and II only
- (D) II and III only
- (E) III and IV only

8.

Which of the following groups of people would benefit from unanticipated inflation?

- I. Savers
- II. Borrowers
- III. Lenders

- (A) I only
- (B) II only
- (C) III only
- (D) I and II only
- (E) I and III only

9.

Which of the following transactions would represent an addition to a nation's current gross domestic product?

- (A) Ms. Smith purchases a share of stock in an automobile company.
- (B) A retailer increases her stock of imported shoes.
- (C) The government increases its domestic purchases of food for use by the military.
- (D) A corporation sells shoes from last year's inventory.
- (E) A mother sells her car to her daughter.

10.

Which of the following is true according to the circular flow model?

- (A) Firms are suppliers in both the product and factor markets.
- (B) Firms are demanders in the product markets and suppliers in the factor markets.
- (C) Households are demanders in both the product and factor markets.
- (D) Households are demanders in the product markets and suppliers in the factor markets.
- (E) The government is a demander in the product market only.

11.

If real gross domestic product is increasing at 3 percent per year and nominal gross domestic product is increasing at 7 percent per year, which of the following is necessarily true?

- (A) Unemployment is increasing.
- (B) The price level is increasing.
- (C) Exports exceed imports.
- (D) The economy is in a recession.
- (E) The government is running a budget deficit.

12.

The official unemployment rate is not an accurate indicator of actual unemployment in the economy because

- (A) structural unemployment is greater than cyclical unemployment at the going wage rate
- (B) full employment is greater than natural unemployment
- (C) the unemployment rate is less than natural unemployment
- (D) the official rate does not include persons who have given up looking for work
- (E) the official rate does not reflect the number of people receiving unemployment compensation

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13.

The value of the spending multiplier decreases when

- (A) tax rates are reduced
- (B) exports decline
- (C) imports decline
- (D) government spending increases
- (E) the marginal propensity to save increases

14.

As a measure of economic welfare, gross domestic product underestimates a country's production of goods and services when there is an increase in

- (A) the production of military goods
- (B) the production of antipollution devices
- (C) crime prevention services
- (D) household production
- (E) legal services

15.

In a closed economy with no taxes in which the average propensity to consume is 0.75, which of the following is true?

- (A) If income is \$100, then saving is \$75.
- (B) If income is \$100, then consumption is \$50.
- (C) If income is \$200, then saving is \$50.
- (D) If income is \$200, then consumption is \$75.
- (E) If income is \$500, then saving is \$100.

16.

If purchases of education and medical care were counted as investment rather than consumption, gross domestic product would

- (A) not change, because there is no change in total expenditures
- (B) increase, because investment is included in gross domestic product but consumption is not
- (C) increase, because consumption is included in gross domestic product but investment is not
- (D) decrease, because investment is weighted more heavily than consumption in calculating gross domestic product
- (E) decrease, because consumption is weighted more heavily than investment in calculating gross domestic product

17.

Suppose that disposable income is \$1,000, consumption is \$700, and the marginal propensity to consume (MPC) is 0.6. If disposable income then increases by \$100, consumption and savings will equal which of the following?

	<u>Consumption</u>	<u>Savings</u>
(A)	\$420	\$280
(B)	\$600	\$400
(C)	\$660	\$320
(D)	\$660	\$440
(E)	\$760	\$340

18.

If, at full employment, the government wants to increase its spending by \$100 billion without increasing inflation in the short run, it must do which of the following?

- (A) Raise taxes by more than \$100 billion.
- (B) Raise taxes by \$100 billion.
- (C) Raise taxes by less than \$100 billion.
- (D) Lower taxes by \$100 billion.
- (E) Lower taxes by less than \$100 billion.

19.

The major difference between real and nominal gross domestic product (GDP) is that real GDP

- (A) excludes government transfer payments
- (B) excludes imports
- (C) is adjusted for price-level changes using a price index
- (D) measures only the value of final goods and services that are consumed
- (E) measures the prices of a market basket of goods purchased by a typical urban consumer

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20.

Which of the following statements exemplifies the concept of structural unemployment?

- (A) New entrants into the labor force have trouble finding jobs.
- (B) Workers leave their current jobs to find better jobs.
- (C) Workers are laid off because aggregate demand has declined.
- (D) Workers are fired because consumers have reduced their total expenditures.
- (E) Workers are fired because their skills are no longer in demand.

21.

Under which of the following conditions would consumer spending most likely increase?

- (A) Consumers have large unpaid balances on their credit cards.
- (B) Consumers' wealth is increased by changes in the stock market.
- (C) The government encourages consumers to increase their savings.
- (D) Social security taxes are increased.
- (E) Consumers believe they will not receive pay increases next year.

22.

The unemployment rate measures the percentage of

- (A) people in the labor force who do not have jobs
- (B) people in the labor force who have a part-time job but are looking for a full-time job
- (C) people who do not have jobs and have given up looking for work
- (D) people in the adult population who do not have jobs
- (E) people in the adult population who have temporary jobs

23.

Which of the following can be considered a leakage from the circular flow of economic activity?

- (A) Investment
- (B) Government expenditures
- (C) Consumption
- (D) Exports
- (E) Saving

24.

In an economy with lump-sum taxes and no international sector, assume that the aggregate supply curve is horizontal. If the marginal propensity to consume is equal to 0.8, which of the following will necessarily be true?

- (A) The average propensity to consume will be less than the marginal propensity to consume.
- (B) The government expenditure multiplier will be equal to 5.
- (C) A \$10 increase in consumption spending will bring about an \$80 increase in disposable income.
- (D) Wealth will tend to accumulate in the hands of a few people.
- (E) The economy will be running a deficit, since consumption expenditures exceed personal saving.

25.

Which of the following is included in the computation of gross domestic product?

- (A) Government transfer payments, such as unemployment benefits
- (B) Purchases of used goods, such as used cars
- (C) Child care tasks performed by househusbands
- (D) Total value of business inventories
- (E) Additions to business inventories

26.

In the country of Agronomia, banks charge 10 percent interest on all loans. If the general price level has been increasing at the rate of 4 percent per year, the real rate of interest in Agronomia is

- (A) 14%
- (B) 10%
- (C) 6%
- (D) 4%
- (E) 2.5%

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27.

Which of the following best explains why transfer payments are not included in the calculation of gross domestic product?

- (A) Transfer payments are used to pay for intermediate goods, and intermediate goods are excluded from gross domestic product.
- (B) Transfer payments are a government expenditure, and government expenditures are excluded from gross domestic product.
- (C) Recipients of transfer payments have not produced or supplied goods and services in exchange for these payments.
- (D) Recipients of transfer payments are usually children, and income earned by children is excluded in gross domestic product.
- (E) Recipients of transfer payments are sometimes not citizens of the United States.

28.

Suppose that a typical consumer buys the following quantities of three commodities in 1993 and 1994.

<u>Commodity</u>	<u>Quantity</u>	1993 per <u>Unit Price</u>	1994 per <u>Unit Price</u>
Food	5 units	\$ 6.00	\$ 5.00
Clothing	2 units	\$ 7.00	\$ 9.00
Shelter	3 units	\$12.00	\$19.00

Which of the following can be concluded about the consumer price index (CPI) for this individual from 1993 to 1994 ?

- (A) It remained unchanged.
- (B) It decreased by 25%.
- (C) It decreased by 20%.
- (D) It increased by 20%.
- (E) It increased by 25%.

29.

Which of the following groups would most likely gain from unanticipated inflation?

- (A) Landlords who own apartments in cities with rent controls
- (B) Individuals who have fixed retirement incomes
- (C) Individuals who earn high incomes
- (D) Individuals who have borrowed money at fixed interest rates
- (E) Banks that have loaned all excess reserves at a fixed interest rate

30.

Which of the following will be counted as unemployed by the United States Bureau of Labor Statistics?

- (A) Persons who quit their previous jobs to stay at home to care for sick parents
- (B) Persons who were laid off from their previous jobs and have not applied for a job in two years
- (C) Persons who were fired from their previous jobs and are actively applying for work
- (D) Persons who have given up looking for jobs after long searches
- (E) Persons who quit their previous jobs to start their own businesses

31.

Suppose that autonomous consumption is \$400 and that the marginal propensity to consume is 0.8. If disposable income increases by \$1,200, consumption spending will increase by

- (A) \$1,600
- (B) \$1,360
- (C) \$1,200
- (D) \$ 960
- (E) \$ 400

32.

Assume that the nominal interest rate is 10 percent. If the expected inflation rate is 5 percent, the real interest rate is

- (A) 0.5%
- (B) 2%
- (C) 5%
- (D) 10%
- (E) 15%

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33.

Which of the following will lead to an increase in the United States gross domestic product?

- (A) More individuals prepare their own personal income tax forms.
- (B) Some citizens begin working abroad as computer programmers.
- (C) The government prohibits the sale of alcoholic beverages.
- (D) Foreign companies build new assembly plants in the United States.
- (E) A million United States households sell their used cars to their children.

34.

Which type of unemployment would increase if workers lost their jobs because of a recession?

- (A) Cyclical
- (B) Frictional
- (C) Seasonal
- (D) Search
- (E) Structural

35.

Labor Market Data for Country X
(in millions of persons)

Population	180
Employed	94
Unemployed	6
Not in labor force	80

Based on the information in the table above, what is the unemployment rate for Country X?

- (A) 3.3%
- (B) 4.0%
- (C) 6.0%
- (D) 6.38%
- (E) 7.5%

36.

In a closed economy with only lump-sum taxation, if the marginal propensity to consume is equal to 0.75, a \$70 billion increase in government spending could cause a maximum increase in output of

- (A) \$52.5 billion
- (B) \$70 billion
- (C) \$122.5 billion
- (D) \$210 billion
- (E) \$280 billion

37.

Which of the following household purchases will be counted as part of gross private investment in a country's gross domestic product?

- (A) Government bonds
- (B) Shares of a company stock
- (C) Corporate bonds
- (D) A new car for personal use
- (E) A newly constructed home

38.

If a worker's nominal wage rate increases from \$10 to \$12 per hour and at the same time the general price level increases by 10 percent, the worker's real wage has

- (A) approximately decreased by 10%
- (B) approximately decreased by 20%
- (C) approximately increased by 10%
- (D) approximately increased by 20%
- (E) not changed

39.

The value of which of the following is counted in the United States gross domestic product?

- (A) Clean air
- (B) Child care a father provides for his child
- (C) An automobile produced in Sweden by a United States firm
- (D) A car produced in the United States and sold in Europe
- (E) Medical services not provided due to preventative health care

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40.

The annual inflation rate is expected to be 5 percent over the next 3 years. Juan plans to take out a 3-year loan to purchase an automobile. If Juan decides not to take out the loan if the real interest rate exceeds 3 percent, the highest nominal interest rate he is willing to pay is

- (A) 2 percent
- (B) 3 percent
- (C) 8 percent
- (D) 15 percent
- (E) 25 percent

41.

An industry historically used employees with specific skills. If this industry experiences technological advances that require new skills, there will most likely be

- (A) cyclical unemployment
- (B) frictional unemployment
- (C) seasonal unemployment
- (D) structural unemployment
- (E) no change in unemployment

42.

Which of the following would cause the official unemployment rate to understate the problem of unemployment?

- (A) Workers receiving unemployment compensation
- (B) Cyclically unemployed workers
- (C) Discouraged workers
- (D) Recent college graduates looking for work
- (E) Retirees

43.

Which of the following statements about the simple circular flow model of a market economy is correct?

- (A) Households are on the demand side of the product market and the supply side of the resource market.
- (B) Business firms are on the supply side of both the product market and the resource market.
- (C) Households receive income in the form of wages, and business firms receive income in the form of investment.
- (D) Exports and investment expenditures are examples of leakage from the circular flow, whereas imports and savings are injections.
- (E) Circular flow models are used primarily to explain why money is necessary in any economic system.

44.

Which of the following individuals is classified as unemployed?

- (A) A fifteen-year-old high school student who is looking for a babysitting job
- (B) A laid-off computer programmer who has given up looking for a new job
- (C) A parent who works in an after-school day care center for 15 hours a week
- (D) A recent college graduate who is looking for her first job
- (E) A mayor who lost an election and retired

45.

If the nominal gross domestic product (GDP) of the nation of Hypothetica increased in 2007 relative to the previous year, it must be true that in Hypothetica in 2007

- (A) both the price level and the real GDP have increased
- (B) neither the price level nor the real GDP has increased
- (C) the price level increased by a larger percentage than did the real GDP
- (D) the price level increased by a smaller percentage than did the real GDP
- (E) the price level and/or the real GDP has increased

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46.

If the nominal interest rate is 6 percent and the expected inflation rate is 4 percent, the real interest rate is

- (A) 10 percent
- (B) 6 percent
- (C) 4 percent
- (D) 2 percent
- (E) -2 percent

47.

The United States government defines an individual as unemployed if the person

- (A) does not hold a paying job
- (B) has been recently fired
- (C) works part-time but needs full-time work
- (D) is without a job but is looking for work
- (E) wants a job but is not searching because he or she thinks none is available

48.

Which of the following workers is most likely to be classified as structurally unemployed?

- (A) A high school teacher who is unemployed during the summer months
- (B) A recent college graduate who is looking for her first job
- (C) A teen-ager who is seeking part-time employment at a fast-food restaurant
- (D) A worker who is unemployed because his skills are obsolete
- (E) A woman who reenters the job market after her child begins elementary school

49.

If, in response to an increase in investment of \$10 billion, equilibrium income rises by a total of \$50 billion, then the marginal propensity to save is

- (A) 0.1
- (B) 0.2
- (C) 0.5
- (D) 0.8
- (E) 0.9

50.

In the circular flow diagram, which of the following is true?

- (A) Businesses pay wages, rent, interest, and profits to households in return for use of factors of production.
- (B) Businesses purchase goods and services from households in return for money payments.
- (C) Households pay wages, rent, interest, and profits to businesses in return for use of factors of production.
- (D) The relationship between households and businesses exists only in a traditional society.
- (E) The relationship between households and businesses exists only in a command economy.

51.

Which of the following is an example of "investment" as the term is used by economists?

- (A) A schoolteacher purchases 10,000 shares of stock in an automobile company.
- (B) Newlyweds purchase a previously owned home.
- (C) One large automobile firm purchases another large automobile firm.
- (D) A farmer purchases \$10,000 worth of government securities.
- (E) An apparel company purchases 15 new sewing machines.

52.

If the marginal propensity to consume is 0.9, what is the maximum amount that the equilibrium gross national product could change if government expenditures increase by \$1 billion?

- (A) It could decrease by up to \$9 billion.
- (B) It could increase by up to \$0.9 billion.
- (C) It could increase by up to \$1 billion.
- (D) It could increase by up to \$9 billion.
- (E) It could increase by up to \$10 billion.

53.

Which of the following would increase the value of the multiplier?

- (A) An increase in government expenditure
- (B) An increase in exports
- (C) A decrease in government unemployment benefits
- (D) A decrease in the marginal propensity to consume
- (E) A decrease in the marginal propensity to save

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54.

A high marginal propensity to consume implies which of the following?

- (A) A small change in consumption when income changes
- (B) A high savings rate
- (C) A high marginal tax rate
- (D) An equilibrium level of income near full employment
- (E) A low marginal propensity to save

55.

The official unemployment rate understates the unemployment level in the economy because the official unemployment rate

- (A) ignores the duration of unemployment
- (B) ignores underemployed and discouraged workers
- (C) includes jobs created by the underground economy
- (D) excludes all unemployed teenagers
- (E) excludes frictionally unemployed workers

56.

For an economy consisting of households and businesses only, which of the following is consistent with the circular flow of income and production?

- (A) Households are producers of goods and services and consumers of resources.
- (B) Households are users of resources, and businesses are sources of saving.
- (C) Households are suppliers of resources and consumers of goods and services.
- (D) Businesses are users of taxes, and households are sources of taxes.
- (E) Businesses are suppliers of resources and consumers of goods and services.

57.

Which of the following individuals is considered officially unemployed?

- (A) Chris, who has not worked for more than three years and has given up looking for work
- (B) Kim, who is going to school full-time and is waiting until graduation before looking for a job
- (C) Pat, who recently left a job to look for a different job in another town
- (D) Leslie, who retired after turning 65 only five months ago
- (E) Lee, who is working 20 hours per week and is seeking full-time employment

58.

	National Economic Figures (billions of dollars)
Consumption	\$ 3,000
Government purchases of goods and services	1,000
Gross private domestic investment	700
Depreciation	300
Exports	300
Imports	500
Indirect business taxes	0

32. Based on the economic figures in the table above, what is the value of gross domestic product, in billions of dollars?

- (A) \$4,500
- (B) \$4,700
- (C) \$4,900
- (D) \$5,150
- (E) \$5,950

59.

The consumer price index (CPI) is designed to measure changes in the

- (A) spending patterns of urban consumers only
- (B) spending patterns of all consumers
- (C) wholesale price of manufactured goods
- (D) prices of all goods and services produced in an economy
- (E) cost of a select market basket of goods and services

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60.

Suppose that in an economy with lump-sum taxes and no international trade, autonomous investment spending increases by \$2 million. If the marginal propensity to consume is 0.75, equilibrium gross domestic product will change by a maximum of

- (A) \$0.5 million
- (B) \$1.5 million
- (C) \$2.0 million
- (D) \$8.0 million
- (E) \$15.0 million

61.

Assume that Jane's marginal propensity to consume equals 0.8, and that in 2004 Jane spent \$36,000 from her disposable income of \$40,000. If her disposable income in 2005 increased to \$50,000, her consumption spending increased by

- (A) \$4,000
- (B) \$8,000
- (C) \$9,000
- (D) \$10,000
- (E) \$14,000

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- | | |
|-------|-------|
| 1. B | 46. D |
| 2. C | 47. D |
| 3. C | 48. D |
| 4. E | 49. B |
| 5. A | 50. A |
| 6. C | 51. E |
| 7. D | 52. E |
| 8. B | 53. E |
| 9. C | 54. E |
| 10. D | 55. B |
| 11. B | 56. C |
| 12. D | 57. C |
| 13. E | 58. A |
| 14. D | 59. E |
| 15. C | 60. D |
| 16. A | 61. B |
| 17. E | |
| 18. A | |
| 19. C | |
| 20. E | |
| 21. B | |
| 22. A | |
| 23. E | |
| 24. B | |
| 25. E | |
| 26. C | |
| 27. C | |
| 28. E | |
| 29. D | |
| 30. C | |
| 31. D | |
| 32. C | |
| 33. D | |
| 34. A | |
| 35. C | |
| 36. E | |
| 37. E | |
| 38. C | |
| 39. D | |
| 40. C | |
| 41. D | |
| 42. C | |
| 43. A | |
| 44. D | |
| 45. E | |