Multiple Choice Questions

1. A country's Real GDP can increase for brief periods of time
   A. Only if its aggregate demand increases
   B. Only if its aggregate supply increases
   C. If either its aggregate demand or its aggregate supply increases
   D. Only if both its aggregate demand and its aggregate supply increases

2. In order for a country's Real GDP to increase without inflation or deflation over long periods time
   A. Its aggregate demand must increase
   B. Its aggregate supply must increase
   C. Either its aggregate demand or its aggregate supply must increase
   D. Both its aggregate demand and its aggregate supply must increase

3. The U.S. represents less than 5% of the world's population, but produces a share of the world's output almost equal to
   A. 5%
   B. 10%
   C. 25%
   D. 50%

4. Expected deflation can reduce Aggregate Demand by
   A. Reducing the purchasing power of money
   B. Reducing the willingness to purchase big-ticket items
   C. Increasing nominal interest rates
   D. Reducing the government's budget deficit
5. Aggregate Demand is increased by
A. Increased interest rates
B. Increased taxes
C. A stronger currency
D. Increased consumer confidence

6. Aggregate Demand is reduced by
A. Increased government spending
B. Increased interest rates
C. Reduced taxes
D. A stronger dollar

7. As Real GDP increases, ceteris paribus, the slope of the Aggregate Supply curve
A. Increases
B. Remains unchanged
C. Decreases
D. Is always zero

8. Aggregate Supply can always be increased as workers
A. Work smarter, better and more efficiently
B. Work harder
C. Are provided with better education, tools, and technology
D. Both A and C

9. Aggregate Supply increases when
A. Raw materials prices rise
B. Government regulations proliferate
C. Wages rise
D. Wages fall
10. Aggregate Supply decreases when
A. Worker productivity increases
B. Raw materials prices fall
C. Technology improves
D. Wages rise

11. The ultimate source of long-term growth in already developed countries is
A. Increased worker productivity
B. Larger and more powerful government
C. A workforce that always works harder
D. Unrestricted immigration

12. From 1990 to 2004, developed countries that experienced larger increases in Real GDP tended also to experience higher rates of
A. Population growth
B. Deflation
C. Unemployment
D. Productivity growth

13. From 1990 to 2004 among developed countries, a 1 percentage point increase in productivity growth was associated with increased per capita GDP growth of
A. 0.01%
B. 0.30%
C. 1.50%
D. 3.00%

14. Increases in worker productivity usually reflect
A. Increased education and improved equipment
B. Management that pushes workers to work longer and harder
C. Elimination of unemployment benefit programs
D. Growth of labor unions
15. Increases in worker productivity usually reflect policies that encourage
A. Population growth
B. Consumption
C. Investment in physical and human capital
D. Extensive government regulation of business

16. Investment in physical and human capital is typically encouraged by
A. Lower taxes on interest income
B. Lower taxes on investment returns
C. Lower taxes on returns to education
D. All of the above

17. Sustainable economic growth depends upon
A. Investment, not saving
B. Saving, not investment
C. Both saving and investment
D. Neither saving nor investment

18. The greatest threat to continued growth in the developed countries might be
A. Low interest rates
B. Low inflation rates
C. Moderate marginal tax rates
D. Restrictive regulatory policies

19. Among countries with Per Capita GDP in 2004 less than $2,000,
A. The Gini coefficient of income inequality tends to be lower
B. The consumer price inflation rate tends to be lower
C. Agriculture tends to produce a larger share of GDP
D. High-income households tend to consume a smaller share of GDP
20. Among countries with Per Capita GDP in 2004 less than $2,000,
A. High-income households tend to consume a larger share of GDP
B. The consumer price inflation rate tends to be lower
C. Agriculture tends to produce a smaller share of GDP
D. All of the above

21. Among countries with Per Capita GDP in 2004 greater than $20,000,
A. High-income households tend to consume a larger share of GDP
B. The consumer price inflation rate tends to be higher
C. The Heritage Foundation Index tends to show more economic freedom
D. Agriculture tends to produce a larger share of GDP

22. Overall income disparity can be measured by
A. The difference between GDP and GNI
B. The Gini Index
C. The growth rate in Real GDP
D. The population growth rate

23. Without adjusting for "purchasing power parity", Real GDP tends to understate income in developing economies by
A. Underestimating saving
B. Ignoring government deficit spending
C. Omitting non-market transactions
D. All of the above

24. In developing economies, the fraction of the economy in non-market transactions can be as much as
A. 10 percent
B. 25 percent
C. 50 percent
D. 75 percent
25. Using the cost of a similar market basket of goods across countries to compare an economic variable like Gross National Income applies the concept of 
A. Private equity financing  
B. The Heritage Foundation Index of Economic Freedom  
C. The Gini Index  
D. Purchasing power parity

26. The Solow Growth Model predicts that 
A. Rich nations will grow faster than poor nations  
B. The rich will get richer and the poor will get poorer  
C. The rich will get poorer and the poor will get richer  
D. Poor nations will grow faster than rich nations

27. If the central prediction of the Solow Growth Model is valid, 
A. Per capita Real GDP differences among nations will increase  
B. Per capita Real GDP differences among nations will diminish  
C. Economic freedom as measured by the Heritage Foundation Index will decrease  
D. Population growth rates in rich countries will increase

28. Among countries with Per Capita GDP in 2004 greater than $20,000, 
A. The political structure tends to be relatively democratic  
B. Tax rates tend to be extremely high  
C. Environmental regulations tend to be extremely repressive  
D. All of the above

29. Among countries with Per Capita GDP in 2004 less than $2,000, 
A. The political system tends to be undemocratic  
B. The banking system tends to be unsound  
C. The government tends to be relatively corrupt  
D. All of the above
30. Low wages and low-cost land in developing countries will not attract foreign investment in manufacturing facilities if the developing countries
A. Permit unrestricted repatriation of profits
B. Protect their central banks from political control
C. Lack well-developed infrastructure
D. All of the above

31. Among countries with Per Capita GDP in 2004 less than $2,000,
A. Inflation rates tend to be high
B. Central banks tend to be weak or non-existent
C. The ruling party typically can print money when it wants
D. All of the above

32. Among countries with Per Capita GDP in 2004 less than $2,000, the opportunity cost of increased education and literacy for young workers might be measured as
A. New palaces and more soldiers for the ruling party
B. Increased consumption among the educated elites
C. Increased investment in improved infrastructure
D. Shortages of food or health care for the poor

33. Since the 1960s, some of the best examples of transition from developing to developed economies can be found in
A. East Asia
B. West Asia
C. Western Europe
D. North America

34. Since the 1960s, development coincided with political liberalization in
A. China
B. South Korea
C. North Korea
D. Saudi Arabia
35. Since the 1960s, development proceeded without many natural resources in
A. Canada
B. Saudi Arabia
C. Japan
D. All of the above

36. Refer to Figure 43.1. The increase in Real GDP might reflect
A. Increased marginal tax rates on capital income
B. Increased raw materials prices
C. Increased education among workers
D. Increased standards of environmental protection

37. Refer to Figure 43.1. The increase in Real GDP might reflect
A. Lower marginal tax rates on capital income
B. Increased current government spending
C. Increased consumer confidence
D. Increased standards of environmental protection
38. Refer to Figure 43.1. If Aggregate Demand does not change, the increase in Real GDP will be accompanied by
A. A higher price level
B. No change in the price level
C. A lower price level
D. Lower real wages

39. Refer to Figure 43.1. The increase in Real GDP might reflect
A. Increased consumer confidence
B. Increased current government spending
C. A weaker currency
D. Increased worker productivity

40. Refer to Figure 43.1. The increase in Real GDP is unlikely to
A. Result from capital accumulation
B. Occur repeatedly in the future
C. Occur in developed economies
D. Result from a better-educated workforce