KENTUCKY ECONOMICS · UNIT 2 · 25 QUESTIONS

Macroeconomics — Practice Test

This practice test was made by AI and there may be mistakes. If a question or answer looks wrong, use the Flag a mistake button to let Brett know so he can fix it.

1 **What does gross domestic product measure?**



A The value of all final goods and services produced in a country in a year

B The total money in banks

C The total value of exports only

D The total income of the government

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2 **Which equation shows the spending approach to gross domestic product?**

- A C + I + G + NX
- B C - I - G - NX
- C C + I - G
- D C + G - NX

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3 **How does real gross domestic product differ from nominal gross domestic product?**

- A Real GDP counts only services
- B Real GDP adjusts for price changes
- C Real GDP counts only exports
- D Real GDP ignores government spending

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4 **Nominal GDP is 1200 and the price index is 120 with a base year value of 100. What is real GDP?**

ANSWER _____

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5 **A labor force of 200 people includes 16 unemployed people. What is the unemployment rate, in percent?**

ANSWER _____

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6 **A worker who quits one job and is looking for another is an example of which type of unemployment?**

A Frictional

B Structural

C Cyclical

D Seasonal

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7 **Workers lose jobs because their skills no longer match available jobs. This is an example of**

- A Frictional unemployment
- B Cyclical unemployment
- C Structural unemployment
- D Seasonal unemployment

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8 **Unemployment that rises during a recession is best described as**

- A Frictional
- B Structural
- C Cyclical
- D Voluntary

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9 **The consumer price index rises from 200 to 220. What is the inflation rate, in percent?**



ANSWER

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10 **In the business cycle, the period from a peak to a trough is called**

- A An expansion
- B A recovery
- C A contraction
- D A boom

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11 **Fiscal policy refers to government decisions about**



A Interest rates only

B Spending and taxes

C The money supply only

D Exchange rates only

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12 **To fight a recession, an expansionary fiscal policy would**

A Cut spending and raise taxes

B Raise spending and cut taxes

C Raise spending and raise taxes

D Cut spending and cut taxes

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13 **Monetary policy refers to central bank decisions about**



A Tax rates

B Government spending

C The money supply and interest rates

D Trade quotas

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14 **If a central bank raises interest rates, what is the most likely effect on inflation?**

A Inflation rises

B Inflation falls

C Inflation stays the same

D Inflation becomes zero

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15 **If banks must hold 20 percent of deposits as reserves, what is the simple money multiplier?**

ANSWER _____

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16 **A deposit of 1000 enters a banking system with a money multiplier of 5. What is the maximum total amount of money that can result?**

ANSWER _____

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17 **Consumer confidence rises sharply. What happens to aggregate demand?**

A It shifts left

B It shifts right

C It stays the same

D It becomes vertical

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18 **A sharp rise in oil prices shifts aggregate supply left. What combination is most likely?**



A Higher output and lower prices

B Lower output and lower prices

C Higher output and higher prices

D Lower output and higher prices

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19 **In the short run, the Phillips curve shows a tradeoff between**

A Inflation and unemployment

B Taxes and spending

C Exports and imports

D Saving and investment

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20 **What is the difference between a budget deficit and the national debt?**

A The deficit is the yearly shortfall and the debt is the total accumulated borrowing

B The deficit is the total and the debt is the yearly shortfall

C They are the same thing

D The deficit is held abroad and the debt is held at home

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21 **Which of the following is an automatic stabilizer?**

- A Unemployment insurance
- B A new highway bill
- C A tax rate change passed by Congress
- D A change in the discount rate

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22 **Money is used to buy goods and services. This is money serving as a**

- A Store of value
- B Unit of account
- C Medium of exchange
- D Standard of deferred payment

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23 **A country imports more than it exports. It has a**

- A Trade surplus
- B Trade deficit
- C Balanced budget
- D Budget surplus

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24 **If the dollar appreciates, what happens to the price of United States exports for foreign buyers?**

- A They become cheaper
- B They become more expensive
- C They stay the same
- D They become free

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25 **If interest rates fall, what is the most likely effect on business investment?**



A It falls

B It rises

C It stays the same

D It becomes zero

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ANSWER KEY

1. A
2. A
3. B
4. 1000
5. 8
6. A
7. C
8. C
9. 10
10. C
11. B
12. B
13. C
14. B
15. 5
16. 5000
17. B
18. D
19. A
20. A
21. A
22. C
23. B
24. B
25. B

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