

Macroeconomic Principles and Metrics

Macroeconomics · Answer Key · 25 Questions

1. Which economic indicator is defined as the total market value of all final goods and services produced within a country in a given period?

- A) GNP
- B) GDP**
- C) Net National Product
- D) Disposable Personal Income

2. According to the Quantity Theory of Money, represented by the equation $MV=PY$, what does the variable 'V' represent?

- A) Velocity of money**
- B) Volume of trade
- C) Value of assets
- D) Variable interest rates

3. In the context of the Phillips Curve, what is the theoretical inverse relationship observed in the short run?

- A) Interest rates and savings
- B) Inflation and unemployment**
- C) Tax rates and government spending
- D) Exports and imports

4. What is the primary objective of contractionary monetary policy?

- A) To increase the money supply
- B) To reduce inflation**
- C) To stimulate consumer spending
- D) To lower the unemployment rate

5. Which of the following describes 'cyclical unemployment'?

- A) Unemployment due to technological advancement
- B) Unemployment caused by seasonal changes
- C) Unemployment resulting from economic downturns**
- D) Unemployment arising from workers switching jobs

6. What does the Gini coefficient measure in an economy?

- A) The rate of inflation
- B) The level of industrial output
- C) Income inequality**
- D) The balance of trade

7. Which term describes a sustained increase in the general price level of goods and services in an economy?

- A) Deflation
- B) Stagflation
- C) Hyperinflation
- D) Inflation**

8. Who is credited with the development of the 'Liquidity Preference Theory'?

- A) Adam Smith
- B) John Maynard Keynes**
- C) Milton Friedman
- D) Karl Marx

9. What is the 'Natural Rate of Unemployment' composed of?

- A) Frictional and structural unemployment**
- B) Cyclical and seasonal unemployment
- C) Structural and cyclical unemployment
- D) Frictional and cyclical unemployment

10. In macroeconomics, what does 'crowding out' refer to?

- A) Increase in private investment due to tax cuts
- B) Decrease in private investment due to government borrowing**
- C) Increase in imports due to high tariffs
- D) Decrease in exports due to currency appreciation

11. Which tool is primarily used by a central bank to influence the money supply by buying or selling government securities?

- A) Reserve requirements
- B) Open market operations**
- C) Discount rate adjustments
- D) Income tax rate changes

12. What is the definition of 'Stagflation'?

- A) High inflation combined with high unemployment**
- B) Low inflation combined with high growth
- C) High growth combined with low unemployment
- D) Low inflation combined with recession

13. The 'Multiplier Effect' in macroeconomics suggests that:

- A) Small changes in spending lead to smaller changes in income
- B) Initial spending leads to a larger final increase in national income**
- C) Tax increases lead to higher economic growth
- D) Government debt has no impact on interest rates

14. Which component constitutes the largest portion of GDP in most developed economies?

- A) Government spending
- B) Net exports
- C) Investment
- D) Private consumption**

15. What does the 'Law of Comparative Advantage' state?

- A) Countries should only produce what they have an absolute advantage in
- B) Countries gain by specializing in goods with the lowest opportunity cost**
- C) Trade is only beneficial if both countries have equal GDP
- D) Tariffs are necessary for all international trade

16. What does the 'Okun's Law' describe?

- A) The relationship between unemployment and GDP growth**
- B) The relationship between interest rates and investment
- C) The relationship between inflation and money supply
- D) The relationship between taxes and government revenue

17. Which of the following is considered an 'automatic stabilizer' in fiscal policy?

- A) Discretionary infrastructure spending
- B) Progressive income tax**
- C) Changes in interest rates
- D) Minimum wage adjustments

18. What is 'Human Capital' in the context of economic growth?

- A) The physical machinery used by workers
- B) The skills, education, and health of the workforce**
- C) The total amount of financial savings in a nation
- D) The infrastructure connecting a country

19. The 'Solow Growth Model' emphasizes the role of which factor in long-term economic growth?

- A) Short-term fiscal stimulus
- B) Technological progress**
- C) Consumer confidence
- D) Trade protectionism

20. Which type of inflation is caused by an increase in production costs, such as wages or raw materials?

- A) Demand-pull inflation
- B) Cost-push inflation**
- C) Monetary inflation
- D) Hyperinflation

21. What is the 'Balance of Payments' an accounting record of?

- A) Internal government debt
- B) Transactions between residents of one country and the rest of the world**
- C) Total national wealth
- D) The value of currency reserves

22. Which economic concept suggests that people adjust their expectations of inflation based on past experiences and available information?

- A) Rational expectations
- B) Static expectations
- C) Adaptive expectations**
- D) Absolute advantage

23. What happens to the real interest rate when inflation is higher than the nominal interest rate?

- A) The real interest rate becomes negative**
- B) The real interest rate remains unchanged
- C) The real interest rate becomes positive
- D) The real interest rate equals the nominal rate

24. In macroeconomics, what does the term 'seigniorage' refer to?

- A) The interest earned by central banks
- B) Profit made by a government by issuing currency**
- C) The cost of printing physical money
- D) The tax levied on foreign exchange

25. Which organization is responsible for overseeing the global financial system and providing short-term loans to countries with balance of payments problems?

A) World Trade Organization

B) International Monetary Fund

C) World Bank

D) United Nations