Macroeconomic Principles and Theories

Macroeconomics · Answer Key · 21 Questions

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1. Which of the following is the primary measure of a nation's total economic output and income?

A) Consumer Price Index (CPI)
B) Gross Domestic Product (GDP)
C) Unemployment Rate
D) Balance of Trade

2. The Phillips Curve, in its original formulation, suggests an inverse relationship between which two macroeconomic variables?

A) Inflation and Economic Growth
B) Unemployment and Government Spending
C) Inflation and Unemployment
D) Interest Rates and Investment

3. According to the Quantity Theory of Money, which variable is most directly linked to changes in the price level, assuming velocity and real output are constant?

A) Interest Rates
B) Money Supply
C) Government Debt
D) Exchange Rates

4. What is the primary goal of contractionary fiscal policy?

A) To stimulate aggregate demand and reduce unemployment
B) To reduce aggregate demand and control inflation
C) To increase government spending on infrastructure
D) To lower taxes and encourage investment

5. Which economic school of thought emphasizes the role of government intervention in stabilizing the economy through fiscal and monetary policy?

A) Classical Economics
B) Austrian Economics
C) Keynesian Economics
D) Monetarism

6. The natural rate of unemployment is defined as the level of unemployment that exists when the economy is operating at:

A) Full capacity and experiencing high inflation
B) Potential output and stable prices
C) A recessionary gap and low inflation
D) An inflationary gap and high unemployment

7. A country's balance of payments records all economic transactions between its residents and the residents of:

A) Itself
B) Its trading partners only
C) All other countries
D) The European Union

8. Which of the following is a direct tool of monetary policy used by central banks to influence the money supply?

A) Government spending adjustments
B) Tax rate changes
C) Open market operations
D) Trade tariffs

9. The Laffer Curve illustrates the theoretical relationship between tax rates and:

A) Government debt
B) Inflation
C) Total tax revenue
D) Unemployment

10. When the real exchange rate depreciates, a country's exports become:

A) More expensive for foreigners, and imports become cheaper
B) Cheaper for foreigners, and imports become more expensive
C) Cheaper for foreigners, and imports become cheaper
D) More expensive for foreigners, and imports become more expensive

11. In a closed economy, the fundamental identity of national income accounting states that investment must equal:

A) Government spending
B) Consumption
C) National saving
D) Net exports

12. The concept of 'stagflation' refers to a period characterized by:

A) High economic growth and low unemployment
B) Low economic growth and low inflation
C) High economic growth and high inflation
D) High unemployment and high inflation

13. Which macroeconomic model emphasizes the role of aggregate supply shocks in explaining economic fluctuations?

A) The Aggregate Demand-Aggregate Supply (AD-AS) Model
B) The Solow Growth Model
C) The IS-LM Model
D) The Keynesian Multiplier Model

14. The multiplier effect in macroeconomics suggests that an initial change in autonomous spending leads to:

A) An equal change in aggregate output
B) A smaller change in aggregate output
C) A larger change in aggregate output
D) No change in aggregate output

15. Rational expectations theory posits that economic agents use all available information to form expectations about future economic variables, leading to:

A) Ineffective systematic monetary and fiscal policies
B) More predictable economic outcomes
C) Increased government influence on the economy
D) A greater reliance on adaptive expectations

16. What is the main implication of the 'liquidity trap' for monetary policy?

A) Interest rates can be lowered indefinitely
B) Conventional monetary policy becomes ineffective
C) Inflation will accelerate rapidly
D) Fiscal policy becomes more potent

17. The concept of 'hysteresis' in unemployment suggests that:

A) Temporary unemployment always returns to the natural rate
B) Long-term unemployment can increase the natural rate of unemployment
C) The natural rate of unemployment is fixed
D) Cyclical unemployment is the primary driver of long-term unemployment

18. Which of the following is considered a component of 'consumption expenditure' in GDP calculations?

A) Purchases of new houses
B) Spending on new machinery by businesses
C) Government spending on defense
D) Spending on groceries by households

19. The Okun's Law describes a statistical relationship between the unemployment rate and:

A) Inflation rate
B) GDP gap
C) Interest rates
D) Money supply

20. A country runs a current account deficit when its:

A) Imports of goods and services exceed its exports
B) Exports of goods and services exceed its imports
C) Foreign debt exceeds its foreign assets
D) Capital inflows exceed its capital outflows

21. The 'real business cycle' theory attributes economic fluctuations primarily to:

A) Changes in the money supply
B) Aggregate demand shocks
C) Technological advancements and productivity shocks
D) Government policy interventions