Advanced Macroeconomic Concepts

Macroeconomics · Answer Key · 8 Questions

1. Which of the following is the primary objective of a central bank implementing quantitative easing (QE)?

A) To directly increase government spending on infrastructure projects.
B) To reduce the benchmark interest rate to zero or below.
C) To inject liquidity into the financial system by purchasing assets.
D) To implement strict price controls on essential goods.

2. The Phillips Curve illustrates a short-run trade-off between which two macroeconomic variables?

A) Economic growth and government debt.
B) Unemployment and inflation.
C) Interest rates and exchange rates.
D) Budget deficit and trade surplus.

3. What does the concept of 'Ricardian Equivalence' suggest about government budget deficits?

A) Deficits inevitably lead to hyperinflation.
B) Consumers will increase savings to offset future tax increases associated with current deficits.
C) Deficits stimulate immediate consumption and investment.
D) Deficits are primarily financed by printing money.

4. In the IS-LM model, an increase in government spending would typically lead to:

A) A decrease in both the interest rate and output.
B) An increase in the interest rate and a decrease in output.
C) A decrease in the interest rate and an increase in output.
D) An increase in both the interest rate and output.

5. What is the primary mechanism through which expansionary monetary policy aims to stimulate aggregate demand?

A) Increasing taxes to fund public services.
B) Reducing the money supply to encourage saving.
C) Lowering interest rates to encourage borrowing and investment.
D) Implementing tariffs on imported goods.

6. The 'Laffer Curve' depicts the relationship between tax rates and tax revenue. What is its theoretical implication?

A) Higher tax rates always lead to higher tax revenue.
B) There is an optimal tax rate that maximizes government revenue.
C) Tax revenue is independent of tax rates.
D) Lowering tax rates always increases tax revenue.

7. A sudden and significant increase in the price of oil would most likely lead to which of the following in the short run?

A) A decrease in the general price level (deflation).
B) An increase in aggregate supply and a decrease in inflation.
C) A decrease in aggregate supply and an increase in inflation (stagflation).
D) A decrease in unemployment due to increased demand for oil production.

8. Which of the following is a direct consequence of a country running a persistent trade deficit?

A) An increase in the country's foreign exchange reserves.
B) A decrease in the country's national debt.
C) An increase in the country's net foreign debt.
D) A strengthening of the country's domestic currency.