Foundations of Macroeconomics

Macroeconomics · Answer Key · 12 Questions

1. Which economic indicator measures the total market value of all final goods and services produced within a country in a specific period?

A) Consumer Price Index
B) Gross Domestic Product
C) Balance of Payments
D) National Net Worth

2. What is the primary objective of a central bank when setting interest rates to maintain price stability?

A) Eliminating all unemployment
B) Maximizing government tax revenue
C) Controlling inflation
D) Increasing the national debt

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

A) Deflation
B) Stagflation
C) Inflation
D) Recession

4. Who is the economist most famously associated with the theory that increased government spending can stimulate economic activity during a recession?

A) John Maynard Keynes
B) Adam Smith
C) Milton Friedman
D) Friedrich Hayek

5. In macroeconomic terms, what is the 'natural rate of unemployment' composed of?

A) Cyclical and seasonal unemployment
B) Structural and frictional unemployment
C) Underemployment and hidden unemployment
D) Total workforce and labor force participation

6. Which of the following is considered a component of the M1 money supply?

A) Savings accounts
B) Time deposits
C) Currency in circulation
D) Government bonds

7. What does the 'Phillips Curve' demonstrate the relationship between?

- **A) Inflation and unemployment**
- B) GDP growth and interest rates
- C) Trade balance and exchange rates
- D) Tax revenue and public spending

8. Which international institution was established to oversee the global financial system and provide short-term loans to countries with balance of payments problems?

- A) World Trade Organization
- **B) International Monetary Fund**
- C) World Bank
- D) Bank for International Settlements

9. What is the term for a period of at least two consecutive quarters of decline in a country's Gross Domestic Product?

- A) Economic depression
- B) Hyperinflation
- C) Market correction
- **D) Recession**

10. Which type of fiscal policy involves increasing government spending or decreasing taxes to expand the economy?

- A) Contractionary
- B) Neutral
- **C) Expansionary**
- D) Restrictive

11. What is the 'real' interest rate defined as?

- **A) The nominal interest rate minus the inflation rate**
- B) The bank rate set by the government
- C) The interest rate for foreign investment
- D) The rate charged on credit cards

12. What is the name of the curve that illustrates the relationship between tax rates and tax revenue collected by governments?

- A) Lorenz curve
- **B) Laffer curve**
- C) IS-LM curve
- D) Kuznets curve