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PRACTICE MACROECONOMICS MULTIPLE CHOICE QUESTIONS

Warning: These questions have been posted to give you an opportunity to practice with the multiple choice format of questioning and to help you review and understand more deeply the material taught. In no way should you assume that the level of difficulty of the multiple-choice questions shown here is the same as that of the questions to be given in the exam.

1. Expansionary monetary policy

- (a) tends to lead to an appreciation of a nation's currency.
- (b) usually has no effect on a currency's exchange value.
- (c) tends to lead to a depreciation of the currencies of other nations.
- (d) tends to lead to a depreciation of a nation's currency.

2. If the number of people classified as unemployed is 20,000 and the number of people classified as employed is 230,000, what is the unemployment rate?

- (a) 8%
- (b) 8.7%
- (c) 9.2%
- (d) 11.5%

3. It is often true that as the economy begins to recover from a recession the unemployment rate rises. Which of the following statements would be the best explanation for this?

- (a) The unemployment rate would rise because as the economy initially recovers from a recession the demand for goods and services falls, so the demand for workers falls.
- (b) As the economy begins to recover from a recession, workers who were previously discouraged about their chances of finding a job begin to look for work again.
- (c) The unemployment rate seems to rise as the economy begins to recover from a recession because of errors in the way the data are collected.
- (d) As the economy initially recovers from a recession, firms do not immediately increase the number of workers they hire. Firms wait to hire more individuals until they are convinced that the recovery is strong.

4. If an individual who cannot find a job because his or her job skills have become obsolete this

is an example of

- (a) frictional unemployment.
- (b) structural unemployment.
- (c) cyclical unemployment.
- (d) seasonal unemployment.

5. The natural rate of unemployment is generally thought of as the

- (a) ratio of the frictional unemployment rate to the cyclical unemployment rate.
- (b) sum of structural unemployment and cyclical unemployment.
- (c) sum of frictional unemployment and cyclical unemployment.
- (d) sum of frictional unemployment and structural unemployment.

6. Firms react to unplanned increases in inventories by

- (a) reducing output.
- (b) increasing output.
- (c) increasing planned investment.
- (d) increasing consumption.

7. The ratio of the change in the equilibrium level of income to a change in some autonomous increase in spending is the

- (a) elasticity coefficient.
- (b) multiplier.
- (c) automatic stabilizer.
- (d) marginal propensity of the autonomous variable.

8. Banks can create money

- (a) only by illegally printing additional dollar bills.
- (b) by paying interest to their depositors.
- (c) by making loans that result in additional deposits.
- (d) by offering financial services, such as stock market brokerage.

will _____ the size of the money multiplier.

- (a) reduce
- (b) increase
- (c) have no effect on
- (d) double

10. Which of the following represents an action by the Bank of Canada that is designed to decrease the money supply?

- (a) an increase in federal tax rates
- (b) selling government securities in the open market
- (c) a decrease in the Bank rate
- (d) a transfer of government funds from the Bank of Canada to private banks

11. If the interest rate falls, then

- (a) bond prices will remain the same
- (b) bond prices will rise
- (c) bond prices will fall

12. If the quantity of money demanded is less than the quantity of money supplied, then the interest rate will

- (a) either increase or decrease, depending on the amount of excess demand.
- (b) increase.
- (c) decrease.
- (d) not change.

13. Which of the following events will definitely lead to an increase in the equilibrium interest rate?

- (a) a decrease in the level of output (real GDP)
- (b) the purchase of government securities by the Bank of Canada
- (c) an increase in the level of output (real GDP) and an increase in the money supply
- (d) the sale of government securities by the Bank of Canada

14. If the Bank of Canada reduces the money supply to reduce inflation, a flexible exchange rate

will aid the Bank of Canada in fighting inflation because

- (a) as the money supply is decreased, the interest rate will increase, and the exchange rate will rise, causing Canadian exports to fall and Canadian imports to rise.
- (b) as the money supply is decreased, the interest rate will increase, and the exchange rate will rise, causing Canadian exports to rise and Canadian imports to fall.
- (c) as the money supply is decreased, the interest rate will increase, and the exchange rate will fall, causing Canadian exports to fall and Canadian imports to rise.
- (d) as the money supply is decreased, the interest rate will increase, and the exchange rate will fall, causing Canadian exports to rise and Canadian imports to fall.

15. When economists refer to "tight" monetary policy, they mean that the Bank of Canada is taking actions that will

- (a) increase the demand for money.
- (b) decrease the demand for money
- (c) expand the supply of money
- (d) contract the supply of money

16. An increase in total production (real GDP) causes the demand for money to _____ and the interest rate to _____.

- (a) increase; increase
- (b) increase; decrease
- (c) decrease; decrease
- (d) decrease; increase

17. Which of the following actions is an example of expansionary fiscal policy?

- (a) a decrease in welfare payments
- (b) a purchase of government securities in the open market
- (c) a decrease in the Bank rate
- (d) a decrease in the corporate profits tax rates

18. The main cause of cyclical unemployment is that

- (a) firms engage in race, gender and sex discrimination in their hiring practices.
- (b) some individuals do not have marketable job skills.
- (c) the level of overall economic activity fluctuates.

19. The aggregate demand (AE) curve would shift down if

- (a) government spending were increased.
- (b) taxes were increased.
- (c) the money supply were increased.
- (d) the interest rate decreased.

20. As the economy nears full capacity, the short-run aggregate supply curve

- (a) becomes flatter.
- (b) becomes steeper.
- (c) shifts to the right.
- (d) shifts to the left.

21. If the economy is operating at potential GDP, an increase in the money supply will lead to

- (a) stagflation.
- (b) structural inflation.
- (c) demand-side inflation.
- (d) supply-side inflation.

22. The sale of government securities by the Bank of Canada is predicted to

- a. decrease reserves of the chartered banks, and eventually lead to an expansion of the money supply.
- b. decrease reserves of the chartered banks, and eventually cause a contraction of the money supply.
- c. increase reserves of the chartered banks, and eventually cause a contraction of the money supply.
- d. increase reserves of the chartered banks, and eventually cause an expansion of the money supply.
- e. none of the above.

23. To lower interest rates, the Bank of Canada could

- a. buy securities.
- b. decrease the chartered banks' reserves.
- c. decrease the money supply.
- d. raise the treasury bill rate.
- e. raise the reserve requirement.

effect on GDP would be

- a. to decrease the value of GDP by \$3,000.
- b. to increase the value of GDP by \$3,000.
- c. to increase the value of GDP by \$2,000.
- d. to increase the value of GDP by \$1,000.
- e. no effect on GDP since the bananas were produced outside Canada.

25. An increase in the MPS will cause, other factors remaining constant:

- (a) a parallel shift up in the AE-function and a parallel shift up in the L-function;
- (b) a rotational shift up in the AE-function and a rotational shift up in the L-function;
- (c) a parallel shift down in the AE-function and a rotational shift up in the L-function;
- (d) a rotational shift down in the AE-function and a rotational shift up in the L-function;
- (e) a rotational shift down in the AS-function and a rotational shift up in the L-function.

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