

Practice chapter 23

Student: _____

1. Short-run fluctuations in output and employment are referred to as

- A) business cycles
- B) economic growth
- C) inventory cycles
- D) recessions

2. The situation where output and living standards decline is referred to as

- A) a business cycle
- B) economic decline
- C) an inventory downturn
- D) a recession

3. Real gross domestic product

- A) is a measure of the overall level of prices
- B) measures the value of final goods and services produced within the borders of a given country during a given time period using current prices
- C) measures the value of final goods and services produced within the borders of a given country during a given time period corrected for changing prices
- D) can change from one year to the next even if there is no change in output

4. Nominal gross domestic product

- A) is a measure of the overall level of prices
- B) measures the value of final goods and services produced within the borders of a given country during a given time period using current prices
- C) measures the value of final goods and services produced within the borders of a given country during a given time period corrected for changing prices
- D) only changes when the level of output changes

5. Nominal gross domestic product

- A) measures the change in inventories over the course of a year
- B) changes only when there is a change in output
- C) changes only when there is a change in the price level
- D) can change when there is a change in either output or the price level

6. Suppose that an economy's output does not change from one year to the next, but the price level doubles. What happens to real GDP?

- A) real GDP doubles
- B) real GDP is halved
- C) real GDP doesn't change
- D) There is not enough information to determine what happens to real GDP

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8. Suppose a small economy produces only HD TV sets. In year 1, 100,000 sets are produced and sold at a price of \$1,200 each. In year 2, 100,000 sets are produced and sold at a price of \$1,000 each. As a result

- A) Nominal GDP stays constant, while real GDP decreases
- B) Nominal GDP decreases, while real GDP stays constant
- C) Nominal GDP and real GDP both decrease
- D) Nominal GDP decreases, and real GDP decreases even more

9. Suppose a small economy produces only MP3 players. In year 1, 10,000 MP3 players are produced and sold at a price of \$100 each. In year 2, 12,000 MP3 players are produced and sold at a price of \$80 each. Which of the following statements is true?

- A) Real GDP and nominal GDP both increase
- B) Real GDP increases while nominal GDP remains constant
- C) Real GDP decreases while nominal GDP increases
- D) Real GDP increases while nominal GDP decreases

10. An increase in the overall level of prices is called:

- A) Growth
- B) Expansion
- C) Inflation
- D) Nominal GDP growth

11. Which of the following is most likely to be an indication of higher unemployment?

- A) An increase in real GDP
- B) An increase in nominal GDP
- C) A decrease in real GDP
- D) A decrease in nominal GDP

12. Suppose a family's income increases by 5% at the same time that inflation is 6%. Then

- A) the family's standard of living will increase
- B) the family's standard of living will not change
- C) the family's standard of living is not affected by inflation
- D) the family's standard of living will fall

13. Suppose that real GDP increases by 5% while the population of a country increases by 7%. Then

- A) Output per person necessarily increases
- B) Output per person necessarily decreases
- C) Output per person necessarily remains unchanged
- D) There is not enough information to determine what happens to output per person

14. Investment happens when:

- A) Current income is greater than current spending
- B) Current consumption is greater than current output
- C) Resources are devoted toward increasing current output
- D) Resources are devoted toward increasing future output

15. Savings:

- A) Occur when current spending is less than current incomes
- B) Are generally not a determinant of future output
- C) And investment are essentially the same concept
- D) Occur when current consumption is more than current output

16. Which of the following is the best example of financial investment?

- A) Ford Motor Co. builds a new manufacturing plant
- B) A student pursues an MBA degree
- C) A retiree purchases Google stock
- D) A young couple purchases a new home

17. Which of the following is the best example of economic investment?

- A) Apple builds a new plant to manufacture iPads
- B) Your college purchases a 5-year old building in order to offer more classes
- C) A retiree purchases U.S. government bonds
- D) A company like Bank of America acquires another company like Merrill Lynch

18. Which of the following is the best example of investment as defined by economists?

- A) A restaurant owner buys a freezer to store ingredients for the restaurant meals
- B) A college professor buys a truck to drive around in
- C) A business manager purchases stock on the New York Stock Exchange
- D) A worker deposits money into a long-term retirement account

19. One principle of economic growth is the notion that, to raise living standards over time, an economy must:

- A) Have full employment of its labor force
- B) Devote some portion of its current output to increasing its future output
- C) Maintain low inflation over the years
- D) Have a small population so that its GDP per person will be high

20. Situations in which firms expect one thing to happen but then something else happens are called:

- A) Recessions
- B) Shocks
- C) Business cycles
- D) Fluctuations

21. If consumers become pessimistic, the economy is likely to experience a:

- A) Negative demand shock
- B) Positive demand shock
- C) Negative supply shock
- D) Positive supply shock

22. An increase in worker productivity will lead to a:

- A) Negative demand shock
- B) Positive demand shock
- C) Negative supply shock
- D) Positive supply shock

23. What impact will a negative demand shock have on the main measures of economic performance?

- A) Real GDP will increase, inflation will increase, and unemployment will decrease
- B) Real GDP will decrease, inflation will decrease, and unemployment will increase
- C) Real GDP will decrease, inflation will increase, and unemployment will increase
- D) Real GDP will increase, inflation will decrease, and unemployment will decrease

24. What impact will a negative supply shock have on the main measures of economic performance?

- A) Real GDP will increase, inflation will increase, and unemployment will decrease
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- C) Real GDP will decrease, inflation will increase, and unemployment will increase
- D) Real GDP will increase, inflation will decrease, and unemployment will decrease

25. Economists believe that most short-run fluctuations:

- A) Are the result of demand shocks
- B) Are the result of supply shocks
- C) Will not last long because prices will adjust to equalize the quantities demanded and supplied of goods and services
- D) Will always have a negative impact on real GDP, inflation, and unemployment

26. If prices are "sticky" in the short run, then:

- A) The economy will respond to demand shocks primarily through changes in output and employment
- B) The economy will respond to demand shocks primarily through changes in output and inflation
- C) Prices will adjust to equalize the quantities demanded and supplied of goods and services
- D) Unemployment will not change in response to a demand shock

27. If prices are inflexible, then a negative demand shock will lead to:

- A) A short-run increase in real GDP
- B) A short-run decrease in real GDP
- C) A short-run decrease in prices
- D) No change in real GDP in the short run

Practice chapter 23 **Key**

1. A
2. D
3. C
4. B
5. D
6. C
7. A
8. B
9. D
10. C
11. C
12. D
13. B
14. D
15. A
16. C
17. A
18. A
19. B
20. B
21. A
22. D
23. B
24. C
25. A
26. A
27. B