

Milestone Review Test Questions: (Answers are posted on following page below last question)

1. A country's government runs a budget deficit when which of the following occurs in a given year?
 - a. The amount of new loans to developing nations exceeds the amount of loans paid off by developing nations.
 - b. Government spending exceeds tax revenues.
 - c. The debt owed to foreigners exceeds the debt owed to the country's citizens.
 - d. The amount borrowed exceeds the interest payment on the national debt.
2. Unlike a market economy, a command economy uses.
 - a. More centralized planning in economic decision making
 - b. Consumer sovereignty to make production decisions
 - c. Its resources more efficiently
 - d. The popular vote in making resource allocation decisions.
3. The value of a country's currency will tend to appreciate if
 - a. Demand for the country's exports increases
 - b. The country's money supply increases
 - c. The country's citizens increase their travel abroad
 - d. Tariffs on the country's imports decrease.
4. Which of the following best illustrates an improvement in a country's standard of living.
 - a. An increase in real per capita gross domestic product
 - b. An increase in nominal per capita gross domestic product
 - c. Price stability
 - d. An increase in the consumer price index
5. The official unemployment rate understates the unemployment level in the economy because the official unemployment rate
 - a. Ignores the duration of unemployment
 - b. Ignores underemployment and discouraged workers
 - c. Includes jobs created by the underground economy
 - d. Excludes frictionally unemployed workers.
6. If a reduction in aggregate supply is followed by an increase in aggregate demand, which of the following will definitely occur?
 - a. Output will increase.
 - b. Output will decrease.
 - c. Output will not change.
 - d. The price level will increase.
7. Which of the following combinations of changes in government spending and taxes is necessarily expansionary?

<u>Government Spending</u>	<u>Taxes</u>
a. Increase	Increase
b. Increase	Decrease
c. Decrease	Not Change
d. Decrease	Decrease

8. For an economy consisting of households and businesses only, which of the following is consistent with the circular flow of income and production?
- Households are producers of goods and services and consumers of resources.
 - Households are users of resources, and businesses are sources of saving.
 - Households are suppliers of resources and consumers of goods and services.
 - Businesses are suppliers of resources and consumers of goods and services.
9. With an increase in the real interest rate, consumption and real gross domestic product will most likely change in which of the following ways?
- | <u>Consumption</u> | <u>Real GDP</u> |
|--------------------|-----------------|
| a. Increase | Increase |
| b. Increase | Decrease |
| c. Decrease | Decrease |
| d. No change | Increase |
10. Which of the following will lead to a decrease in a nation's money supply?
- A decrease in income tax rates
 - A decrease in the discount rate
 - An open market purchase of government securities by the central bank
 - An increase in reserve requirements
11. An increase in which of the following would cause the aggregate demand curve to shift to the left?
- Consumer optimism
 - Population
 - Income taxes
 - Net exports
12. Which of the following statements is true of unanticipated inflation?
- It decreases the economic well-being of all members of society proportionately.
 - It increases the economic well-being of net debtors.
 - It increases the well-being of creditors
 - It helps those who are on fixed incomes.
13. Any point inside the production possibilities curve is
- Better than points on the production possibilities curve
 - Allocatively efficient but technologically inefficient
 - Associated with inefficient use of unemployment of resources
 - Associated with movements along the production possibilities curve.
14. A country's infrastructure refers to its
- Natural resources
 - Private financial institutions
 - Public capital goods such as highways
 - Internal, as opposed to external, debt.

15. When the Central bank sells government bonds on the open market, which of the following will most likely increase?
- The money supply
 - Interest rates
 - Aggregate Demand
 - Inflation
16. The unemployment rate is calculated as
- The number of people not working divided by the population
 - The number of people not working divided by the number of people working both full-time and part-time.
 - The number of people unemployed by the number of people in the labor force.
 - The number of people in the labor force divided by the population.
17. Which of the following describes a typical business cycle in the correct sequence?
- Peak, trough, recession, and expansion
 - Peak, trough, expansion, and recession
 - Peak, contraction, trough, expansion
 - Peak, expansion, trough, contraction
18. If the international value of the U.S. dollar depreciates in comparison with the Japanese yen,
- The U.S. exports to Japan will increase.
 - The U.S. exports to Japan will decrease.
 - The U.S. balance of trade deficit with Japan will not be affected.
 - Trade between the U.S. and Japan will not take place.
19. Structural unemployment is best described as unemployment arising from
- The elimination of jobs as a result of technological change.
 - An increase in the number of workers searching for better-paying jobs.
 - The temporary reduction of jobs during a downturn in the business cycle.
 - The reduction in jobs due to a large number of college graduates.
20. The value of which of the following would be included in the U.S. gross domestic product?
- Time spent volunteering at a local hospital.
 - A U.S. savings bond received as a birthday gift.
 - A movie ticket purchased at a local theater.
 - A used car sold at the same price paid for it.
 - A handbag made in Italy by a United States firm and sold in Italy.

Answers

1. b

2. a

3. a

4. a

5. b

6. d

7. b

8. c

9. c

10. d

11. c

12. b

13. c

14. c

15. b

16. c

17. c

18. a

19. a

20. c