Chapter 11
Macroeconomic Issues: Economic Growth and the Business Cycle

Multiple Choice Questions

Choose the one alternative that best completes the statement or answers the question.

1. The sources of economic growth include all of the following except
   (a) increases in labor quality.
   (b) new laborers.
   (c) an increase in the money supply.
   (d) technological progress.
   (e) All of the above are sources of economic growth.
   Answer: C

2. Economic growth increases with each of the following except
   (a) an expansion of investment.
   (b) a decrease in consumption purchases.
   (c) an increase in factory/plant sizes.
   (d) a growth in inventories.
   (e) an increase in equipment purchases.
   Answer: B

3. Intensive economic growth results from
   (a) an increase in labor from foregone leisure.
   (b) an increase in capital from sacrificing current consumption.
   (c) an increase in labor from household production.
   (d) an increase in output per unit of factor output.
   (e) All of the above.
   Answer: D

4. Extensive economic growth results from all of the following except
   (a) an increase in labor from foregone leisure.
   (b) an increase in capital from sacrificing current consumption.
   (c) an increase in labor from household production.
   (d) an increase in output per unit of factor output.
   (e) All of the above are causes of intensive economic growth.
   Answer: D
5. Output per worker
   (a) is not a very good measure of average living standards.
   (b) decreases when there is more capital available per worker.
   (c) is lower in countries that have accumulated considerable capital per worker.
   (d) increases as technology improves.
   (e) All of the above.
Answer: D

6. Eventually additional increases in capital per worker
   (a) cause output per worker to decline due to the law of diminishing returns.
   (b) cause output per worker to increase due to the law of diminishing returns.
   (c) cause output per worker to yield ever smaller increases in output per worker due to the law of diminishing returns.
   (d) cause output per worker to yield ever larger increases in output per worker due to the law of increasing technological returns.
   (e) None of the above.
Answer: C

7. The enormous increase in computational power and the lowering of the cost of electronic products are an example of
   (a) how technological progress will gradually replace the majority of the labor force.
   (b) how technological progress will increase labor and capital output.
   (c) how technological progress can generate economic growth independently of increases in labor and capital inputs.
   (d) how technological progress can generate increases in capacity independently of increases in labor and capital inputs.
   (e) None of the above.
Answer: C

8. Which of the following correctly completes this statement? The unemployment rate is
   (a) the number of unemployed.
   (b) the number of unemployed divided by the population.
   (c) the number of unemployed divided by the number of employed workers.
   (d) the number of unemployed divided by the labor force.
   (e) the number of unemployed divided by the number of adults in the population.
Answer: D

9. The most general description of business cycles is
   (a) the pattern of short-run upward and downward movement in total output.
   (b) the increase in consumer spending that accompanies an increase in disposable income.
   (c) the cyclical change in the nation’s balance of trade.
   (d) the cyclical movement in interest rates.
   (e) the cyclical change in profits and losses of businesses.
Answer: A
10. Economic growth is best defined as
(a) the rate of growth of employment.
(b) the long-run expansion of total output.
(c) the rate of increase in economic productivity.
(d) the cyclical changes in total output.
(e) the increase in total output due to technological growth.
Answer: B

11. When a new college graduate enters the labor force for the first time and is looking for a job, he or she is, according to employment statisticians,
(a) a discouraged worker.
(b) in the labor force but unemployed.
(c) employed.
(d) not counted as unemployed until after the first job.
(e) not in the labor force.
Answer: B

12. An examination of data on U.S. economic output shows that
(a) economic growth has been steady and uninterrupted.
(b) output growth and rising unemployment occur together.
(c) economic growth is largely determined by the level of interest rates.
(d) economic growth has been no more than 1.5 percent per year.
(e) economic well-being is most influenced by long-run growth, not the business cycle.
Answer: E

13. As a general rule, a recession occurs when
(a) output declines for a period of 12 or more months.
(b) output declines for a period of 6 or more months.
(c) unemployment rises above 7.5% for 6 or more months.
(d) unemployment rises above 5.0% for 12 or more months.
(e) unemployment rises above 10% for 3 or more months.
Answer: B

14. An electrical engineer who is out of a job and is able to work refused a job offer last week because it did not meet his or her salary requirements. This engineer is
(a) officially employed.
(b) structurally unemployed.
(c) officially unemployed.
(d) officially out of the labor force.
(e) officially a discouraged worker.
Answer: C
15. The Great Depression made a lasting impression on all Americans who experienced it. During the Depression, the unemployment rate, according to government statisticians, was approximately _____ percent of the labor force.
   (a) 50
   (b) 40
   (c) 25
   (d) 15
   (e) 60
   Answer: C

16. Which of the following is correct? Unanticipated inflation
   (a) makes creditors better off and debtors worse off.
   (b) does not redistribute income between debtors and creditors.
   (c) can cause union members to sign wage contracts that do not protect them from inflation.
   (d) never occurs.
   (e) is harmful to businesses that have borrowed heavily.
   Answer: C

17. A recession is (in the most general terms)
   (a) a decline in the price level.
   (b) a decline in interest rates.
   (c) a decline in the level of real business activity.
   (d) an increase in the rate of unemployment.
   (e) a decline in the price level and an increase in the rate of unemployment.
   Answer: C

18. Which of the following is not a phase of the business cycle?
   (a) Recession
   (b) Expansion
   (c) Shutdown
   (d) Trough
   (e) Peak
   Answer: C

19. According to the text, the relationship between the business cycle and interest rates is
   (a) unpredictable and shows no stable pattern.
   (b) changing due to high levels of deficit spending.
   (c) that interest rates tend to be lower during recessions.
   (d) for interest rates to fall during presidential election years.
   (e) that interest rates tend to be higher during recessions.
   Answer: C
20. In general, the relationship between the business cycle and the government deficit is
(a) for the deficit to fall when the economy is growing.
(b) only now being studied by macroeconomics.
(c) not stable since its relationship depends on consumer confidence.
(d) dependent on the policy of the current administration.
(e) similar to the relationship between the business cycle and interest rates.
Answer: A

21. In macroeconomics, the current concept of full employment is called
(a) the long-run rate.
(b) the structural unemployment rate.
(c) the zero-percent unemployment rate.
(d) the three-percent rule.
(e) the natural unemployment rate.
Answer: E

22. Which of the following is a true statement?
(a) Inflation never helps anybody.
(b) Prices of goods rise faster than wages.
(c) Unanticipated inflation can redistribute income.
(d) Wages always rise faster than prices.
(e) All of the above.
Answer: C

23. Business recoveries normally last
(a) as long as the previous recession.
(b) marginally longer than the previous recession.
(c) about half as long as the average recession.
(d) about 4 times as long as the average recession.
(e) about twice as long as the average recession.
Answer: D

24. One question used to define whether a person is unemployed is
(a) did that person work during the preceding week?
(b) is that person currently available for work?
(c) did that person look for work during the past four weeks?
(d) is that person willing to work?
(e) All of the above are questions that define whether a person is unemployed.
Answer: E
25. Which of the following is correct? The labor force is
(a) the number of persons employed.
(b) the number of persons employed plus the number of unemployed persons.
(c) the number of persons employed plus those receiving Social Security benefits.
(d) the number of persons employed plus the number of unemployed persons plus the number of discouraged workers.
(e) None of the above.

Answer: B

26. The natural rate of unemployment, as defined by macroeconomists,
(a) occurs when inflation is growing at less than 1% per year.
(b) occurs when the number of qualified job seekers is about equal to unfilled jobs.
(c) is the rate of unemployment reported by government statisticians.
(d) is a rate of unemployment equal to 0%.
(e) None of the above.

Answer: B

27. The four phases of the business cycle occur in the following order:
(a) recession, trough, peak, expansion.
(b) expansion, trough, peak, recession.
(c) recession, trough, expansion, peak.
(d) expansion, trough, peak, recession.
(e) None of the above.

Answer: C

28. The U.S. population is currently about 225 million. If about 8 million are unemployed, 1 million have given up looking for work but would accept a job, and about 100 million have part-time or full-time employment, the unemployment rate that would be reported by the Bureau of Labor Statistics is ____ percent.
(a) 9
(b) 8
(c) 48
(d) 8.3
(e) 7.4

Answer: E

29. The value added by a business firm corresponds to
(a) the goods it produces and sells.
(b) the wages paid by the firm.
(c) the difference between the firm’s purchases from other firms and its sales.
(d) what the firm buys from other firms.
(e) the difference between the firm’s revenue and costs.

Answer: C
30. Which of the following is not a final good or service?
   (a) The flour purchased by the homemaker.
   (b) The flour purchased by the baker.
   (c) The flour purchased by the grocery store and still on the shelves.
   (d) The increase in flour inventories of the miller.
   (e) All of the above are final goods.
   Answer: B

31. Capital is different from other resources used in the process of production because
   (a) capital is typically less expensive than materials.
   (b) capital is only partially consumed in the process of production.
   (c) capital requires labor to operate; materials do not.
   (d) capital makes workers irrelevant in the production process.
   (e) All of the above.
   Answer: B

32. Which of the following is correct? Economists view investment as the
   (a) purchase of stocks and bonds.
   (b) purchase of raw land for later resale.
   (c) difference between people’s income and their spending.
   (d) purchase of equipment, plants, and inventories.
   (e) purchase of certificates of deposit.
   Answer: D

33. Which of the following is correct? Gross domestic product (GDP) is
   (a) the value of all final goods and services produced in a country during a year.
   (b) the sum of consumption, investment, government spending, and exports minus imports.
   (c) wages and salaries, proprietor’s income, interest, rents, profits, depreciation, and indirect business taxes.
   (d) All of the above.
   Answer: D

34. In computing GDP, it is essential to
   (a) avoid double counting.
   (b) include government transfer payments.
   (c) include government tax revenues.
   (d) count all intermediate products that are produced.
   (e) determine the market value of government services.
   Answer: A

35. Gross domestic product (GDP) is
   (a) the value of all goods and services sold during the year.
   (b) the value of all goods and services produced during the year.
   (c) the value of all consumer goods produced during the year.
   (d) the value of all intermediate and final goods and services produced during the year.
   (e) the value of all final goods and services produced during the year.
   Answer: E
36. Consumers of government services (like police protection and national defense) are typically not charged directly for these services. In national income accounting,
   (a) only government services that people pay for are included in GDP.
   (b) government services are valued in terms of comparable consumer services.
   (c) government services are typically valued at the cost of supplying them.
   (d) only government services that are provided free of charge are included in GDP.
   (e) government services are valued at market prices for comparable services.
Answer: C

37. Which of the following is correct? National income equals
   (a) GDP.
   (b) GDP minus depreciation.
   (c) net national product (NNP).
   (d) NNP minus indirect business taxes.
   (e) NNP minus depreciation and indirect business taxes.
Answer: D

38. Personal income differs from national income because
   (a) a portion of corporate profits is reinvested.
   (b) corporate income taxes do not enter personal income.
   (c) transfer payments are not included in national income.
   (d) Social Security contributions are deducted from payroll checks.
   (e) All of the above.
Answer: E

39. GDP typically does not include
   (a) the value of household production.
   (b) illegal goods and services.
   (c) the value of leisure.
   (d) nonmarketed goods and services.
   (e) All of the above are included in GDP.
Answer: E

40. Which of the following is correct? Nominal GDP is
   (a) the same as “GDP in current dollars.”
   (b) GDP after the effects of inflation have been removed.
   (c) the value of GDP in constant market prices.
   (d) GDP minus depreciation.
   (e) All of the above.
Answer: A
41. Which of the following correctly completes this statement? In calculating GDP, exports
(a) are subtracted from purchases of final goods and services.
(b) are added to the purchases of final goods and services.
(c) do not enter into GDP because they are sent abroad.
(d) always equal imports and, therefore, have no effect on GDP.
(e) do not enter into GDP because they are included in the foreign country’s GDP.
Answer: B

42. Which of the following is correct? GDP decreases when
(a) someone sells a used car to a neighbor.
(b) someone donates work he or she was previously paid to do.
(c) a dentist decides to work more hours.
(d) someone sells a share of stock to a family member.
(e) All of the above.
Answer: B

43. Which of the following is correct? Illegal activities
(a) have a value that is easy to estimate.
(b) are nonmarket transactions.
(c) are not included in GDP.
(d) are any economic activity that is immoral.
(e) are a relatively modest proportion (12–20%) of U.S. GDP.
Answer: C

44. The value of output will equal the value of income because
(a) business firms produce value added.
(b) government spending equals taxes.
(c) the government automatically spends the tax revenues it collects.
(d) workers receive wages when they produce goods.
(e) profits ensure that the two are equal.
Answer: E

45. One reason some economists prefer net national product (NNP) to gross domestic product (GDP) is that
(a) NNP includes depreciation.
(b) NNP is larger than GDP.
(c) NNP does not include depreciation and is a better measure of new goods and services.
(d) NNP adjusts better for inflation distortions.
(e) NNP excludes indirect business taxes.
Answer: C
46. Which of the following is correct? Nominal GDP
   (a) is the GDP the economy could produce at full employment.
   (b) is measured in current prices.
   (c) is measured in constant prices.
   (d) does not include depreciation.
   (e) is measured by changes in the GDP deflator.
   Answer: B

47. The sum of the value added for all industries in the economy
   (a) does not include depreciation.
   (b) equals nominal GDP.
   (c) is gross of transfer payments.
   (d) equals real GDP.
   (e) equals real NNP.
   Answer: B

48. Federal, state, and local government purchases of goods and services do not include
   (a) salaries of judges.
   (b) construction costs of new public buildings.
   (c) purchases of new police cars.
   (d) Social Security payments.
   (e) chalk for state-university professors.
   Answer: D

Table 11.1 shows some (but not all) national income accounting data for the Dictatorship of Benevolence.

Table 11.1
(in billions of dollars)

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<thead>
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<th>Item</th>
<th>Value (in billions of dollars)</th>
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<tr>
<td>Wages and Salaries</td>
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<td>Gross National Income</td>
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<td>Consumption</td>
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<td>Net Factor Payments to Foreigners</td>
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<tr>
<td>Depreciation and Indirect Business Taxes</td>
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<tr>
<td>Profits</td>
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<td>Government Expenditures</td>
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49. From the data in Table 11.1, gross private domestic investment is $____ billion.
   (a) 225
   (b) 25
   (c) 260
   (d) 250
   (e) 335
   Answer: D
50. From the data in Table 11.1, net national income is $______ billion.
   (a) 1340
   (b) 1475
   (c) 1240
   (d) 1400
   (e) 1375
   Answer: B

Table 11.2
(in billions of dollars)

<p>| | |</p>
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<tr>
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<tr>
<td>Rent</td>
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<td>Indirect Business Taxes and Depreciation</td>
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51. Table 11.2 shows some (but not all) national income accounting data for Hypothetica. According to this data, the value of GDP is _____ billion.
   (a) $2100
   (b) $1850
   (c) $2000
   (d) $2050
   (e) $1900
   Answer: A

52. Table 11.2 shows some (but not all) national income accounting data for Hypothetica. According to this data, national income is _____ billion.
   (a) $225
   (b) $1800
   (c) $2000
   (d) $1750
   (e) $265
   Answer: B
Table 11.3
(in billions of dollars)

<p>| | |</p>
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<td>Personal Income</td>
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<td>Net National Product</td>
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<td>Government Spending</td>
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<td>Depreciation</td>
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<td>Investment</td>
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<td>Taxes</td>
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<tr>
<td>Net Factor Payment to Foreigners</td>
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</tbody>
</table>

53. Table 11.3 shows some national income accounting data for a hypothetical economy. In this economy, gross domestic product is equal to _____ billion.
   (a) $2000
   (b) $2300
   (c) $2500
   (d) $1900
   (e) $2100
   Answer: B

54. Table 11.3 shows some national income accounting data for a hypothetical economy. In this economy, personal disposable income is equal to _____ billion.
   (a) $800
   (b) $1700
   (c) $900
   (d) $1300
   (e) $700
   Answer: E

55. Table 11.3 shows some national income accounting data for a hypothetical economy. In this economy, national income is _____ billion.
   (a) $3700
   (b) $2200
   (c) $2800
   (d) $1400
   (e) $3100
   Answer: C
57. Table 11.3 shows some national income accounting data for a hypothetical economy. In this economy, net national product is _____ billion.
   (a) $2400  
   (b) $1500  
   (c) $2700  
   (d) $1800  
   (e) $3100  
   Answer: E

58. Relative prices of goods and services change from year to year. This is an important problem in measuring real GDP because
   (a) the amount of goods produced is determined by relative prices.  
   (b) relative prices affect the amount of capital depreciation in the national income accounts.  
   (c) relative prices can pertain to intermediate and final goods and services.  
   (d) changes in relative prices determine whether goods are “cheap” or “expensive” and can affect price indices.  
   Answer: D

59. The growth rate of real GDP per capita is calculated as the
   (a) growth rate of real GDP divided by the growth rate of population.  
   (b) growth rate of real GDP plus the growth rate of population.  
   (c) growth rate of real GDP times the growth rate of population.  
   (d) growth rate of real GDP minus the growth rate of population.  
   (e) None of the above is the correct way to calculate real GDP per capita.  
   Answer: D

60. Business cycles have occurred in
   (a) 19th century Russia.  
   (b) in England after the Industrial Revolution.  
   (c) Colonial America.  
   (d) post World War II Japan.  
   (e) All of the above.  
   Answer: E