# Chapter 01 Testbank

1. The Great Depression:

A. occurred only in the United States

B. resulted in the development of microeconomics

C. was a period of low production and high unemployment

D. ended a few months after the share market crash of 1929

2. Economics is best defined as the study of:

A. inflation, interest rates and the stock market

B. supply and demand

C. how people make choices in the face of scarcity and the implications of those choices for society as a whole

D. the financial concerns of businesses and individuals

3. The field of macroeconomics developed when economists looked for causes of:

A. the wealth of nations

B. the Great Depression

C. World War I

D. poverty and inflation

4. Macroeconomic policies are government policies designed to affect:

A. the environmental impact of all industries

B. the performance of the economy as a whole

C. the economic activity of the government

D. particular sectors of the economy

5. Government actions designed to affect the performance of the economy as a whole are called \_\_\_\_\_\_\_ policies.

A. global

B. microeconomic

C. macroeconomic

D. social

6. The degree to which people have access to goods and services that make their lives easier, healthier, safer and more enjoyable is called the:

A. microeconomic standard

B. global standard

C. scarcity standard

D. standard of living

7. People who enjoy high standards of living usually have all of the following EXCEPT:

A. higher literacy rates

B. longer life expectancies

C. freedom from scarcity

D. better general health

8. The scarcity principle states that:

A. people do not have enough money to buy what they want

B. society will eventually run out of resources

C. with limited resources, having more of one thing means having less of another

D. some countries have fewer resources than others

9. The standard of living in an economy is best measured by:

A. average labour productivity

B. total output

C. output per person

D. the inflation rate

10. If Country A and Country B have the same population size, the standard of living in these two countries can still be different depending on:

A. their respective political systems

B. their respective inflation rates

C. their relative geographic size

D. the relative sizes of total output

11. When comparing the standard of living in two countries, it is important to adjust total output for differences in:

A. geographic area

B. employment levels

C. political systems

D. population

12. If total output increases from $1 trillion to $2 trillion as population increases from 100 million to 200 million, then output per person:

A. doubles

B. increases, but by less than 100%

C. remains constant

D. decreases

13. The process of steady increase in the quantity and quality of goods and services the economy can produce is called:

A. aggregation

B. globalisation

C. production

D. economic growth

14. Average labour productivity equals:

A. average production per year

B. total output

C. output per person

D. output per employed worker

15. The country of Northland produced $1000 billion of output in one year. The population of Northland was 50 million, of whom 30 million were employed. What was average labour productivity in Northland?

A. $20

B. $33

C. $20 000

D. $33 333

16. The value of output was $1000 billion in Northland and $2000 billion in Southland. The population of Northland was 50 million and the population of Southland was 120 million. There were 30 million employed workers in Northland and 75 million employed workers in Southland. Average labour productivity was higher in \_\_\_\_\_\_\_\_\_ and the standard of living was \_\_\_\_\_\_\_.

A. Northland; the same in both countries

B. Northland; higher in Northland

C. Southland; the same in both countries

D. Southland; higher in Southland

17. Average consumption in an economy is best measured by \_\_\_\_\_, while average productivity in an economy is best measured by \_\_\_\_\_.

A. total output; output per worker

B. output per worker; total output

C. output per person; output per worker

D. output per worker; output per person

18. In Econland, population and average labour productivity are constant. If a larger proportion of the population enters retirement, then total output will \_\_\_\_\_ and output per person will \_\_\_\_\_\_.

A. increase; increase

B. decrease; decrease

C. remain constant; remain constant

D. decrease; remain constant

19. If average labour productivity increases while population and the number of employed workers remain constant, then total output:

A. increases

B. decreases

C. remains constant

D. may increase or decrease

20. In Econland, total output is $6 billion, population equals 250 000 people, and, of these, 200 000 are employed workers. Output per person in Econland equals \_\_\_\_\_\_\_ and average labour productivity equals \_\_\_\_\_\_.

A. $30 000; $24 000

B. $24 000; $30 000

C. $30 000; $30 000

D. $24 000; $24 000

21. If average labour productivity increases, then, the same number of employed workers will always produce:

A. more total output

B. more output per person

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22. A particularly strong expansion is called:

A. output excess

B. boom

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23. When jobs are hard to find, profits are low, few wage increases are given, and many companies go out of business, the economy is in:

A. expansion

B. boom

C. recession

D. shortage

24. The fraction of people who would like to be employed, but can't find work is called the:

A. inflation rate

B. average labour productivity rate

C. unemployment rate

D. participation rate

25. Unemployment typically \_\_\_\_\_\_\_ during a recession.

A. only exists

B. rises

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26. The unemployment rate is the:

A. number of workers unemployed

B. number of workers in the labour force

C. percentage of the population that is out of work

D. percentage of the labour force that is out of work

27. The rate at which prices in general are increasing is called the:

A. inflation rate

B. standard of living

C. unemployment rate

D. trade balance

28. A trade imbalance occurs when:

A. exports from and imports to a country suddenly decline

B. the quantity of imports equals the quantity of exports, but is large relative to total output

C. a country does not import or export any goods or services

D. the quantity of a country's exports differs significantly from the quantity of imports

29. A nation's central bank:

A. determines the nation's fiscal policy

B. controls the nation's monetary policy

C. is the bank that holds deposits for the most customers in the nation

D. is the bank that has the most neutral lending policy

30. When government revenue is less than government spending, the nation has a:

A. government budget surplus

B. trade surplus

C. government budget deficit

D. trade deficit

31. A government decision to privatise a sector of the economy formerly operated by the government is an example of \_\_\_\_\_ policy.

A. aggregation

B. monetary

C. fiscal

D. structural

32. Decisions to reduce the money supply are made by \_\_\_\_\_ and are an example of \_\_\_\_\_ policy.

A. the Prime Minister; monetary

B. the Reserve Bank; monetary

C. Senate; monetary

D. the Reserve Bank; fiscal

33. A decrease in income tax is an example of \_\_\_\_\_\_ policy.

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34. Deregulation of the airline, trucking, telephone and electric utility industries are examples of \_\_\_\_\_\_\_ policy.

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35. If tax revenues equal 20% of total output and government expenditures equal 25% of total output, then there is a:

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36. Which of the following would be considered an example of monetary policy?

A. A broad government initiative to reduce the country's reliance on agriculture and promote high-technology industries

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D. A decision by a developing country to reduce government control of the economy and to become more market-oriented

37. Positive analysis:

A. recommends whether a policy should be implemented

B. aims at determining only the economic consequences of a particular policy

C. depends on the analyst's values

D. determines whether the consequences of a policy are desirable

38. Normative analysis:

A. addresses the question of whether a policy should be used

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D. focuses on the actual effects of a policy

39. Which of the following statements is positive?

A. When the Reserve Bank increases the money supply, interest rates decrease

B. Large budget deficits should be avoided

C. Higher taxes are needed to support education

D. A tax cut that benefits low-income households is acceptable

40. Which of the following statements is positive?

A. Tax increases tend to discourage saving

B. Large budget surpluses should be avoided

C. Higher taxes are needed to support education

D. A tax cut that benefits high-income households is acceptable

41. ‘The central bank should raise interest rates in order to keep inflation at an acceptably low level’ is a \_\_\_\_\_\_\_ statement about \_\_\_\_\_\_\_ policy.

A. positive; fiscal

B. normative; fiscal

C. positive; monetary

D. normative; monetary

42. ‘If Government cuts income taxes, demand for output is likely to increase’ is a \_\_\_\_\_\_\_ statement about \_\_\_\_\_\_ policy.

A. positive; fiscal

B. normative; fiscal

C. positive; monetary

D. normative; monetary

43. ‘Any tax cut to increase demand for output should favour lower-income people’ is a \_\_\_\_\_\_ statement about \_\_\_\_\_\_ policy.

A. positive; fiscal

B. normative; fiscal

C. positive; monetary

D. normative; monetary

44. Aggregation means the:

A. adding up of individual economic variables to obtain economy wide totals

B. participation in national economic policy discussions

C. worsening of an economic situation

D. enhancement of the power and wealth of a nation

45. Macroeconomists, instead of microeconomists, would deal with:

A. positive analysis

B. aggregation

C. the scarcity principle

D. individual firms

46. Which of the following is the most aggregated value?

A. Total output of a firm

B. Total output of a country

C. Total output of a city

D. Total output of an industry

47. A cost of aggregation is that:

A. details about individual households and firms are lost

B. the ‘big picture’ cannot be studied

C. economy-wide totals cannot be obtained

D. broad economic trends are obscured

48. To aggregate 300 tonnes of steel, 5000 bushels of wheat, and 1 million barrels of crude oil, economists add together the \_\_\_\_\_ of the three products

A. units

B. dollar value

C. weight

D. number of tonnes, bushels and barrels

49. Aggregation allows economists to \_\_\_\_\_\_ at the cost of \_\_\_\_\_\_\_\_.

A. see the big picture; obscuring the details

B. make positive statements; ignoring normative analysis

C. make normative statements; ignoring positive analysis

D. see the details; obscuring the big picture

50. In a debate on the state of the economy, Senator A pointed out that the price of clothing, fruits and computers had decreased slightly over the last year, while Senator B stated that the inflation rate had increased over the last year. In this example, aggregate data is being used by:

A. both senators

B. Senator A

C. Senator B

D. neither senator

# Chapter 01 Testbank Key

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D. ended a few months after the share market crash of 1929

Ans: C

AACSB: Reflective thinking  
Blooms: Knowledge  
Difficulty: Easy  
LO: 1.1 What are the broad issues that macroeconomists study and the types of data they use and interpret?  
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A. inflation, interest rates and the stock market

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C. how people make choices in the face of scarcity and the implications of those choices for society as a whole

D. the financial concerns of businesses and individuals

Ans: C

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A. the environmental impact of all industries

B. the performance of the economy as a whole

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5. Government actions designed to affect the performance of the economy as a whole are called \_\_\_\_\_\_\_ policies.

A. global

B. microeconomic

C. macroeconomic

D. social

Ans: C

AACSB: Reflective thinking  
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6. The degree to which people have access to goods and services that make their lives easier, healthier, safer and more enjoyable is called the:

A. microeconomic standard

B. global standard

C. scarcity standard

D. standard of living

Ans: D

AACSB: Reflective thinking  
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A. $20

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Ans: D

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Ans: B

AACSB: Knowledge application  
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17. Average consumption in an economy is best measured by \_\_\_\_\_, while average productivity in an economy is best measured by \_\_\_\_\_.

A. total output; output per worker

B. output per worker; total output

C. output per person; output per worker

D. output per worker; output per person

Ans: C

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A. increase; increase

B. decrease; decrease

C. remain constant; remain constant

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19. If average labour productivity increases while population and the number of employed workers remain constant, then total output:

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B. decreases

C. remains constant

D. may increase or decrease

Ans: A

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20. In Econland, total output is $6 billion, population equals 250 000 people, and, of these, 200 000 are employed workers. Output per person in Econland equals \_\_\_\_\_\_\_ and average labour productivity equals \_\_\_\_\_\_.

A. $30 000; $24 000

B. $24 000; $30 000

C. $30 000; $30 000

D. $24 000; $24 000

Ans: B

AACSB: Knowledge application  
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21. If average labour productivity increases, then, the same number of employed workers will always produce:

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B. more output per person

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Ans: A

AACSB: Reflective thinking  
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22. A particularly strong expansion is called:

A. output excess

B. boom

C. growth recession

D. bonanza

Ans: B

AACSB: Reflective thinking  
Blooms: Knowledge  
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23. When jobs are hard to find, profits are low, few wage increases are given, and many companies go out of business, the economy is in:

A. expansion

B. boom

C. recession

D. shortage

Ans: C

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24. The fraction of people who would like to be employed, but can't find work is called the:

A. inflation rate

B. average labour productivity rate

C. unemployment rate

D. participation rate

Ans: C

AACSB: Reflective thinking  
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25. Unemployment typically \_\_\_\_\_\_\_ during a recession.

A. only exists

B. rises

C. falls

D. remains constant

Ans: B

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26. The unemployment rate is the:

A. number of workers unemployed

B. number of workers in the labour force

C. percentage of the population that is out of work

D. percentage of the labour force that is out of work

Ans: D

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27. The rate at which prices in general are increasing is called the:

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C. unemployment rate

D. trade balance

Ans: A

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28. A trade imbalance occurs when:

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LO: 1.2 Can you identify the three major types of macroeconomic policy and discuss the difference between positive and normative analyses of macroeconomic policy?  
Topic: Macroeconomic policy

30. When government revenue is less than government spending, the nation has a:

A. government budget surplus

B. trade surplus

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31. A government decision to privatise a sector of the economy formerly operated by the government is an example of \_\_\_\_\_ policy.

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Blooms: Application  
Difficulty: Hard  
LO: 1.2 Can you identify the three major types of macroeconomic policy and discuss the difference between positive and normative analyses of macroeconomic policy?  
Topic: Macroeconomic policy

41. ‘The central bank should raise interest rates in order to keep inflation at an acceptably low level’ is a \_\_\_\_\_\_\_ statement about \_\_\_\_\_\_\_ policy.

A. positive; fiscal

B. normative; fiscal

C. positive; monetary

D. normative; monetary

Ans: D

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium  
LO: 1.2 Can you identify the three major types of macroeconomic policy and discuss the difference between positive and normative analyses of macroeconomic policy?  
Topic: Macroeconomic policy

42. ‘If Government cuts income taxes, demand for output is likely to increase’ is a \_\_\_\_\_\_\_ statement about \_\_\_\_\_\_ policy.

A. positive; fiscal

B. normative; fiscal

C. positive; monetary

D. normative; monetary

Ans: A

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium  
LO: 1.2 Can you identify the three major types of macroeconomic policy and discuss the difference between positive and normative analyses of macroeconomic policy?  
Topic: Macroeconomic policy

43. ‘Any tax cut to increase demand for output should favour lower-income people’ is a \_\_\_\_\_\_ statement about \_\_\_\_\_\_ policy.

A. positive; fiscal

B. normative; fiscal

C. positive; monetary

D. normative; monetary

Ans: B

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium  
LO: 1.2 Can you identify the three major types of macroeconomic policy and discuss the difference between positive and normative analyses of macroeconomic policy?  
Topic: Macroeconomic policy

44. Aggregation means the:

A. adding up of individual economic variables to obtain economy wide totals

B. participation in national economic policy discussions

C. worsening of an economic situation

D. enhancement of the power and wealth of a nation

Ans: A

AACSB: Reflective thinking  
Blooms: Knowledge  
Difficulty: Easy  
LO: 1.3 Do you understand the difference between microeconomics and macroeconomics and how aggregation is used?  
Topic: Aggregation

45. Macroeconomists, instead of microeconomists, would deal with:

A. positive analysis

B. aggregation

C. the scarcity principle

D. individual firms

Ans: B

AACSB: Reflective thinking  
Blooms: Knowledge  
Difficulty: Easy  
LO: 1.3 Do you understand the difference between microeconomics and macroeconomics and how aggregation is used?  
Topic: Aggregation

46. Which of the following is the most aggregated value?

A. Total output of a firm

B. Total output of a country

C. Total output of a city

D. Total output of an industry

Ans: B

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium  
LO: 1.3 Do you understand the difference between microeconomics and macroeconomics and how aggregation is used?  
Topic: Aggregation

47. A cost of aggregation is that:

A. details about individual households and firms are lost

B. the ‘big picture’ cannot be studied

C. economy-wide totals cannot be obtained

D. broad economic trends are obscured

Ans: A

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium  
LO: 1.3 Do you understand the difference between microeconomics and macroeconomics and how aggregation is used?  
Topic: Aggregation

48. To aggregate 300 tonnes of steel, 5000 bushels of wheat, and 1 million barrels of crude oil, economists add together the \_\_\_\_\_ of the three products

A. units

B. dollar value

C. weight

D. number of tonnes, bushels and barrels

Ans: B

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium  
LO: 1.3 Do you understand the difference between microeconomics and macroeconomics and how aggregation is used?  
Topic: Aggregation

49. Aggregation allows economists to \_\_\_\_\_\_ at the cost of \_\_\_\_\_\_\_\_.

A. see the big picture; obscuring the details

B. make positive statements; ignoring normative analysis

C. make normative statements; ignoring positive analysis

D. see the details; obscuring the big picture

Ans: A

AACSB: Reflective thinking  
Blooms: Knowledge  
Difficulty: Easy  
LO: 1.3 Do you understand the difference between microeconomics and macroeconomics and how aggregation is used?  
Topic: Aggregation

50. In a debate on the state of the economy, Senator A pointed out that the price of clothing, fruits and computers had decreased slightly over the last year, while Senator B stated that the inflation rate had increased over the last year. In this example, aggregate data is being used by:

A. both senators

B. Senator A

C. Senator B

D. neither senator

Ans: C

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium  
LO: 1.3 Do you understand the difference between microeconomics and macroeconomics and how aggregation is used?  
Topic: Aggregation

# Chapter 01 Testbank Summary

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