1. Macroeconomics does *not* try to answer the question of:
   A) why do some countries experience rapid growth.
   B) what is the rate of return on education.
   C) why do some countries have high rates of inflation.
   D) what causes recessions and depressions.

2. A typical trend during a recession is that:
   A) the unemployment rate falls.
   B) the popularity of the incumbent president rises.
   C) incomes fall.
   D) the inflation rate rises.

3. Macroeconomics is the study of the:
   A) activities of individual units of the economy.
   B) decision making by households and firms.
   C) economy as a whole.
   D) interaction of firms and households in the marketplace.

4. The study of the economy as a whole is called:
   A) household economics.
   B) business economics.
   C) microeconomics.
   D) macroeconomics.

5. Macroeconomists cannot conduct controlled experiments, such as testing various tax and expenditure policies, because:
   A) it is against the law.
   B) they tried it once and it did not work.
   C) they must make use of the data history gives them.
   D) economists already know the answers that would come out of the experiments.

6. The ability of macroeconomists to predict the future course of economic events:
   A) is no better than the meteorologist's ability to predict the next month's weather.
   B) is much better than the meteorologist's ability to predict the next month's weather.
   C) has gotten worse over time.
   D) is less precise than it was in the 1920s.

7. Which of the combinations listed is *not* a U.S. president and an important economic issue of his administration?
   A) President Carter, inflation
   B) President Reagan, budget deficits
   C) President G.H.W. Bush, budget deficits
   D) President Clinton, inflation

8. *All* of the following are types of macroeconomics data *except* the:
   A) price of an IBM computer.
   B) growth rate of real GDP.
   C) inflation rate.
   D) unemployment rate.

9. *All* of the following are important macroeconomic variables *except*:
   A) real GDP.
   B) the unemployment rate.
   C) the marginal rate of substitution.
   D) the inflation rate.

10. The total income of everyone in the economy adjusted for the level of prices is called:
    A) a recession.
    B) an inflation.
    C) real GDP.
    D) a business fluctuation.

11. A measure of how fast prices are rising is called the:
    A) growth rate of real GDP.
    B) inflation rate.
    C) unemployment rate.
    D) market-clearing rate.

12. The inflation rate is a measure of how fast:
    A) the total income of the economy is growing.
    B) unemployment in the economy is increasing.
    C) prices in the economy are rising.
    D) the number of jobs in the economy is expanding.

13. Real GDP _____ over time and the growth rate of real GDP _____.
    A) grows; fluctuates
    B) is steady; is steady
    C) grows; is steady
    D) is steady; fluctuates

14. Recessions are periods when real GDP:
    A) increases slowly.
    B) increases rapidly.
    C) decreases mildly.
    D) decreases severely.

15. Compared with a recession, real GDP during a depression:
    A) increases more rapidly.
    B) increases at approximately the same rate.
    C) decreases at approximately the same rate.
    D) decreases more severely.

16. A severe recession is called a(n):
    A) depression.
    B) deflation.
    C) exogenous event.
    D) market-clearing assumption.

17. Deflation occurs when:
    A) real GDP decreases.
    B) the unemployment rate decreases.
    C) prices fall.
    D) prices increase, but at a slower rate.

18. A period of falling prices is called:
    A) deflation.
    B) inflation.
    C) a depression.
    D) a recession.

19. Exogenous variables are:
    A) fixed at the moment they enter the model.
    B) determined within the model.
    C) the outputs of the model.
    D) explained by the model.

20. Endogenous variables are:
    A) fixed at the moment they enter the model.
    B) determined within the model.
    C) the inputs of the model.
    D) from outside the model.

21. In an economic model:
    A) exogenous variables and endogenous variables are both fixed when they enter the model.
    B) endogenous variables and exogenous variables are both determined within the model.
    C) endogenous variables affect exogenous variables.
    D) exogenous variables affect endogenous variables.

22. Variables that a model takes as given are called:
    A) endogenous.
    B) exogenous.
    C) market clearing.
    D) macroeconomic.

23. Macroeconomic models are used to explain how _____ variables influence _____ variables.
    A) endogenous; exogenous
    B) exogenous; endogenous
    C) microeconomic; macroeconomic
    D) macroeconomic; microeconomic

24. Important characteristics of macroeconomic models include *all* of the following *except*:
    A) simplifying assumptions.
    B) functional relationships based on controlled experiments.
    C) endogenous and exogenous variables.
    D) implicit or explicit consistency with microeconomic foundations.

25. In a simple graphical model of the supply and demand for pizza with the price of pizza measured vertically and the quantity of pizza measured horizontally:
    A) the supply curve slopes upward and to the right.
    B) the demand curve slopes upward and to the right.
    C) the supply curve slopes downward and to the right.
    D) at the equilibrium price, the supply of pizza exceeds the demand for pizza.

26. In a simple model of the supply and demand for pizza, the endogenous variables are:
    A) the price of pizza and the price of cheese.
    B) aggregate income and the quantity of pizza sold.
    C) aggregate income and the price of cheese.
    D) the price of pizza and the quantity of pizza sold.

27. In a simple model of the supply and demand for pizza, when aggregate income increases, the price of pizza _____ and the quantity purchased _____.
    A) increases; decreases
    B) increases; increases
    C) decreases; increases
    D) decreases; decreases

28. In a simple model of the supply and demand for pizza, when the price of cheese increases, the price of pizza _____ and the quantity purchased _____.
    A) increases; increases
    B) decreases; increases
    C) decreases; decreases
    D) increases; decreases

29. Which statement below best illustrates the "art," rather than the "science" of macroeconomics?
    A) Macroeconomic data provides the motivation for new macroeconomic theory.
    B) Macroeconomic relationships can be expressed using symbols and equations.
    C) Macroeconomists must determine which simplifying assumptions give misleading results.
    D) Graphs and charts can be used to illustrate the history of macroeconomic variables.

30. In the relationship expressed in functional form, $Y = G(K, L)$, $Y$ stands for real GDP, $K$ stands for the amount of capital in the economy, and $L$ stands for the amount of labor in the economy. In this case $G(\ )$:
    A) is the growth rate of real GDP when the amount of capital and labor in the economy is fixed.
    B) indicates that the variables inside the parentheses are endogenous variables in the model.
    C) is the symbol that stands for government input into the production process.
    D) is the function telling how the variables in the parentheses determine real GDP.

31. Which of the following statements about economic models is *true*?
    A) There is only one correct economic model.
    B) All economic models are based on the same assumptions.
    C) The purpose of economic models is to show how endogenous variables affect exogenous variables.
    D) Economists use different models to address different questions.

32. Macroeconomic models:
    A) assume all wages and prices are sticky.
    B) assume all wages and prices are flexible.
    C) make different assumptions to explain different aspects of the macroeconomy.
    D) focus primarily on the optimizing behavior of households and firms.

33. The assumption of continuous market clearing means that:
    A) sellers can sell all that they want at the going price.
    B) buyers can buy all that they want at the going price.
    C) in any given month, buyers can buy all that they want and sellers can sell all that they want at the going price.
    D) at any given instant, buyers can buy all that they want and sellers can sell all that they want at the going price.

34. *All* of the following statements about sticky prices are true *except*:
    A) in the short run, some wages and prices are sticky.
    B) the sticky-price model describes the equilibrium toward which the economy slowly gravitates.
    C) for studying year-to-year fluctuations, most macroeconomists believe that price stickiness is a better assumption than is price flexibility.
    D) magazine publishers tend to change their newsstand prices only every three or four years.

35. The assumption of flexible prices is a more plausible assumption when applied to price changes that occur:
    A) from minute to minute.
    B) from year to year.
    C) in the long run.
    D) in the short run.

36. An assumption of _____ is more plausible for studying the short-run behavior of the economy, while an assumption of _____ is more plausible for studying the long-run, equilibrium behavior of the economy.
    A) deflation; inflation
    B) inflation; deflation
    C) flexible prices; sticky prices
    D) sticky prices; flexible prices

37. Which of the following is the best example of a sticky price?
    A) the price of a barrel of oil
    B) the price of the U.S. dollar in terms of euros
    C) the price of a share of stock
    D) the price of a soda in a vending machine

38. Macroeconomics is:
    A) based on microeconomic foundations.
    B) completely separate from microeconomics.
    C) explicitly based on microeconomic behavior.
    D) a subsidiary branch of microeconomics.

39. Macroeconomics is based on microeconomics for *all* of the following reasons *except*:
    A) when we study the economy as a whole, we must consider the decisions of individual economic actors.
    B) aggregate variables are simply the sum of variables describing many individual decisions.
    C) macroeconomic decision makers, when they make their choices, are required to maximize utility functions.
    D) to understand the determinants of aggregate investment, we must think about a firm's deciding whether to build a new factory.

40. Macroeconomists are like scientists because they both:
    A) design data and conduct controlled experiments to test their theories.
    B) rely on data analyzed from experiments they set up in a laboratory.
    C) are unlimited in their use of controlled experiments.
    D) collect data, develop hypotheses, and analyze the results.

## Answer Key

1. B
2. C
3. C
4. D
5. C
6. A
7. D
8. A
9. C
10. C
11. B
12. C
13. A
14. C
15. D
16. A
17. C
18. A
19. A
20. B
21. D
22. B
23. B
24. B
25. A
26. D
27. B
28. D
29. C
30. D
31. D
32. C
33. D
34. B
35. C
36. D
37. D
38. A
39. C
40. D