# ECO403 MCQs Lecture 1-16

1. **Which of the following is included in M2?**
   Select correct option:
   Commercial paper
   Stocks
   U.S. Treasury bonds **Savings accounts**

2. **The rate of inflation measures which of the following?** Select correct option:
   **The rate of increase in the overall level of prices** pg 4 The rate of increase in the price of a particular good The rate of increase in nominal GDP
   The rate of change in nominal interest rates

3. **The cost of changing prices is known as the:**
   Select correct option:
   **Menu cost of inflation pg 35**
   Shoe leather cost of inflation
   General inconvenience
   Relative price distortions

4. **n a macroeconomic model without foreign trade or government spending, aggregate demand is the** sum of: Select correct option:
   Personal saving and private investment.
   Personal saving and personal consumption.
   Personal consumption and personal income.
   **Personal consumption and private investment.**

5. Question # 13 of 15 (Start time: 08:05:13 PM) Total Marks: 1
   **Real GDP (Gross Domestic Product) is measured:**
   Select correct option:
   **In the prices of a base year.** In current dollars.
   At a constant output level but at current prices.
   As the difference between the current year's GDP and last year's GDP.
6. **Real interest rates are the:**
   Select correct option:
   **Nominal interest rates plus the inflation rate.**
   Interest rates quoted in the market.
   **Interest rates quoted in the market minus the inflation rate.**
   Interest rates quoted in the market plus the expected inflation rate.

7. **The number of people unemployed equals:** Select correct option:
The number of people employed minus the labor force.
The labor force plus the number of people employed.
The number of people employed divided by the labor force. **The labor force minus the number of people employed.**

8. **Economists define the labor force to include** Select correct option:

Only people who are working full-time.
**People who are not working but are actively looking for a job and people who are working.** People who are working.
None of the given options.

9. **To arrive at GDP, the Bureau of Economic Analysis (BEA) counts:** Select correct option:

The value of total sales.
**The value of final sales.**
The value of intermediate goods and final goods.
Total value added plus the value of sales at the retail level.

10. **example of an expansionary monetary policy is:** Select correct option:

An increase in the required reserve ratio.
**An increase in the discount rate.**
A reduction in the taxes banks pay on their profits.
The central bank buying government securities in the open market.

11. **Which of the following best defines Net national product** elect correct option:

GDP less depreciation
GNP plus income generated from foreign firms in the domestic country
**GNP less depreciation**
GNP less income generated from foreign firms in the domestic country

12. **change in the price level is merely a change in the units of measurement." This is the:**
Select correct option:

**Classical view of inflation** Keynesian view of inflation Ricardian view of inflation Neo classical view of inflation

13. **The cost of next best alternative forgone is best described by the:** Select correct option:

Principle of diminishing returns. Marginal principle.

***Principle of opportunity cost.*** Reality principle.

14. **Which of the following events will lead to an increase in the demand for money?**

Select correct option:

**An increase in the level of aggregate output**

A decrease in the price level

An increase in the interest rate

An increase in the supply of money

15. **Which of the following expressions is the unemployment rate?** Select correct option:

Labor Force/Population

**Unemployed / Employed + Unemployed**

Employed + Unemployed

Labor Force + Not in Labor Force

16. **Which of the following statements best describes the definition of scarcity?** Select correct option:

There are no buyers willing to purchase what sellers have produced

There is more than enough money to satisfy consumers' wants **Resources are limited in quantity and can be used in different ways**

There are not enough goods to satisfy all of the buyers' demand

17. **The difference between exports and imports in determining the GDP is known as the:**

Select correct option:

**Net exports.**

Import tariffs.

Net imports. Net income.

18. **If you buy a pizza from a restaurant rather than making the identical product at home, then which of the following would happen?** Select correct option:

GDP increases

**GDP decreases**

GDP remains unchanged

Society's well-being decreases

19. **An item that is intrinsically worthless is:** Select correct option:

Commodity money.

Precious metals.

**Fiat money.**
Barter items.

20. **The production function is a function that:** Select correct option:

Relates factor prices to the amounts of inputs demanded.
Relates marginal products of factors of production to factor prices.
Relates factors of production to the amount of output produced. **Always have constant returns to scale.**

21. **If the U.S. real exchange rate increases, then U.S. ----------will fall and U.S. ---- ---------- will** rise.
Select correct option:

**Imports; exports** Income;
imports
Exports; income
Exports; imports

22. **Which of the following is NOT included in M1?** Select correct option:

Deposits in checking accounts that pay interest
Deposits in checking accounts
**Deposits in money market mutual funds** Currency
held by the public

23. **Which of the following equations is correct?**
Select correct option:
Real exchange rate = (exchange rate + domestic price level) / foreign price level Exchange rate = (real exchange rate × domestic price level) / foreign price level
Real exchange rate = (nominal exchange rate × domestic price level) × foreign price level
**Real exchange rate = (nominal exchange rate × domestic price level) / foreign price level**

24. **Which of the following is a key problem resulting from inflation?** Select correct option:

Prices are stable
Certainty of future prices
**A haphazard redistribution of income**
An increase in the value of money

25. **If Umar does not have a job and is not currently looking for work but has looked in the past, he is** considered: Select correct option:

Not in the labor force.
Unemployed and in the labor force.
Unemployed.
**Unemployed and not in the labor force.**

26. **A common misperception about inflation is that it reduces real wages; this is:**
Select correct option:

**True only in the short run. Lec 13** True
only in the Long run.
True only in Command economies.
None of the given options.

27. **Aggregate demand is the total demand for all goods and services in an economy from:**
Select correct option:

The household sector.
All sectors except the rest of the world. The household and government sectors.
**All sectors including the rest of the world.**

28. : **The basic economic function of the household sector is:**
Select correct option:

**Undertaking consumption.**
Undertaking production. Exchanging
goods.
Exchanging resources.

29. **: Resources in an economy:** Select correct option:
Are always fixed.
Can never decrease.
Always increase over time.
**Are limited at any moment in time.**

30. : **S-I and NX are exactly equal to zero i-e the value of imports equals the value of exports then:**
Select correct option:

We have trade surplus. We have trade deficit.
**We have balanced trade.** We
have no trade at all.

31. :

32. : **The extra output that a firm can produce using an additional unit of labor is known as:**
Select correct option:

Average product of labor.
**Marginal product of labor.** Total
product.
Total cost.

33. **Disposable income can be calculated by subtracting which of the following from personal** income? Select correct option:

**Personal taxes**

Indirect business taxes

Capital consumption allowance Income earned but not received

34. **The narrowest definition of money supply is:**

Select correct option:

**M1.**

M2.

M3.

M4.

35. **If national output Y = 1,000 and domestic spending on all domestic and foreign goods and services** equals 900, then net exports NX will be equal to: Select correct option:

**100**

-100

1,900 0

36. **Which of the following best describes the definition of endogenous variables?** Select correct option:

Variables which are fixed at the moment they enter the model

**Variables which are determined within the model** Variables which does not change in any time

37. **Television sets are examples of:**

Select correct option:

**Durable goods.** Services.

Non-durable goods.

38. **The standard of living is often measured by which of the following?**

Select correct option:

**Real GDP per capita**

Real GDP / depreciation

Real GDP × population

Real GDP plus depreciation

39. **Different firms change their prices at different times; this leads to:** Select correct option:

Menu cost of inflation.

Shoe leather cost of inflation.

General inconvenience.

**Relative price distortions.**

40. **The demand for money represents the idea that there is:**

Select correct option:

A positive relationship between the interest rate and the quantity of money demanded.

A negative relationship between the level of aggregate output and the quantity of money demanded.
A negative relationship between the interest rate and the quantity of money demanded. A negative relationship between the price level and the quantity of money demanded.

41. **The demand for labor curve shows:** Select correct option:
An inverse relationship between the real wage and the number of workers who are willing to work.
That real wages are constant.
An inverse relationship between the real wage and the amount of labor hired.
A positive relationship between the real wage and the number of workers who are willing to work.

42. **The free market involves:** Select correct option:
The free provision of products.
The subsidizing of products by the government.
Market forces of supply and demand. All trade via barter.

43. **The index most widely used by the government and the private sector to measure changes in the** cost of living is the:
Select correct option: Consumer price index.
Producer price index.
The GDP deflator.
The chain-type price index.

44. **Your nominal capital gain in year 2005 is 20%. If inflation rate in this year is also 20% then what** will be your real capital gain?
Select correct option:
0%
10%
20%
40%

45. **An economy with international trade is known as:** Select correct option:

Crowded out.
An open economy.
A closed economy.
A Keynesian economy.

46. : **The rate of inflation measures which of the following?** Select correct option:

The rate of increase in the overall level of prices **The rate of increase in the price of a particular good**
The rate of increase in nominal GDP The rate of change in nominal interest rates

47. : **In a command (planned) economy:** Select correct option:

The price mechanism acts as an incentive.
Resources are allocated by market forces.
Individual firms make decisions for themselves. The
public sector is large.

48. **Macroeconomics is concerned with which of the following?** Select correct option:

Only changes in the overall price level
Only long-run trends in economic activity
Both long-run and short-run fluctuations in the economy
Only short-run fluctuations in the business cycle

49. **If the nominal interest rate is 8% and the inflation rate is 5%, then the real rate of interest is:**
Select correct option:

-3%
5%
13%
3%




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50. **When money is used to express the value of goods and services, it is functioning as a:**
Select correct option:

Unit of account.
Store of purchasing power. Store
of value.
Medium of exchange.

51. **An increase of 10% in nominal GDP indicates that:** Select correct option:

Real output has increased by 10%.
The aggregate price level has increased by 10%.
Real output and the aggregate price level have increased by 5% each.
It is possible that all of the increase was caused by an increase in the aggregate price level.

52. **The short-run is the time period in which:**
Select correct option:
Firms can purchase new capital. Potential output is fixed.
Price does not change very much. Government spending fixed.

53. **The money supply increases when:** Select correct option:

There is an increase in government purchases.
The Central bank buys Treasury bonds from the public.
A private citizen buys a bond issued by General Motors.
IBM sells stock to the public and uses the proceeds to finance the construction of a new factory.

54. **The GDP deflator can be used:**
Select correct option:
To reduce the overstatement of economic activity that would occur if we included intermediate production.
To correct nominal GDP for the contribution to domestic GDP made by foreign owned factors of production.
To decompose a change in nominal GDP into a change in real GDP and an average change in prices.
To obtain the factor income flows that result from the economic activity that has produced the GDP.

55. **The level of output produced when the labor market is in equilibrium is called:**
Select correct option:
Target output.
Product market equilibrium output.
Full-employment output.
Natural output.

56. **The short-run is the time period in which:** Select correct option:
Firms can purchase new capital.
Potential output is fixed.
Price does not change very much. Government spending fixed.

57. **if State Bank of Pakistan wishes to pursue a "tight" monetary policy it would:**
Select correct option:
Increase the minimum reserve asset ratio.
Buy government securities on the open market. Lower interest rates.
Sell government securities on the open market.

58. **When the GDP is measured using "adjustments for price changes" it is known as the:**
elect correct option:

Real GDP.
Nominal GNP.

Nominal GDP.
Real GNP.

59. **Which of the following is the largest component of total expenditures?** Select correct option:

**Consumption**
Investment
Government spending
Net exports

60. **Which plays the most important role in increasing the rate of growth in real GDP per capita over** time? Select correct option:

Increases in labor productivity
Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest

61. **Which of the following events is NOT expected to decrease aggregate demand?** select correct option:

A decrease in government purchases An increase in real interest rates A decrease in foreign incomes A decrease in the price level

62. **Which of the following would be a macroeconomic question?** elect correct option:

How have prices of specific commodities increased over time? How has output in specific markets changed over time?

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How have personal incomes in general increased over time?
How have the incomes in a particular occupation changed over time?

63. **Which one of the following could explain a shift to the right of the supply curve for a good?**
Select correct option:
The imposition of a tax on the good
A new supplier entering the market
A rise in firms' wage costs
A rise in the price of the good

64. **Which of the following events is NOT expected to decrease aggregate demand?**
Select correct option: A decrease in government purchases
An increase in real interest rates
A decrease in foreign incomes
A decrease in the price level

65. **Exports ---------- GDP and imports ----------GDP.**
Select correct option:
Increase; decrease
Increase; increase
Decrease; decrease
Decrease; increase

66. **If the government of a small open economy increases personal income taxes, then that country's:**
Select correct option:
Net exports increases. Investment increases.
Equilibrium real exchange rate rises. Consumption rises.

67. **he supply of labor curve shows:** Select correct option:
A positive relationship between the real wage and the number of workers who are willing to work.
An inverse relationship between the real wage and the amount of labor hired. An inverse relationship between the real wage and the number of workers who are willing to work.
That real wages are constant.

Quiz 2 for midterm

68. **Which of the following is NOT a function of money?** Select correct option:

A medium of exchange
A unit of account


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**A shelter against inflation** A store of value

**69. The money supply increases when:** Select correct option:

There is an increase in government purchases.
The Central bank buys Treasury bonds from the public.
A private citizen buys a bond issued by General Motors.
IBM sells stock to the public and uses the proceeds to finance the construction of a new factory.

**70. he difference between a country's merchandise exports and its merchandise imports is the:** Select correct option:

**Balance of trade.**
Balance of payments. Capital account.
Current account.

**71. Barter economies require:** Select correct option:

The use of fiat money.
The use of commodity money.
A double coincidence of wants.
**Money to serve as a store of value but not as a medium of exchange.** me:

d

**72. Causes of market failure include:**
Select correct option:
Externalities and market power.
**Market power and incorrect forecasts of consumer demand.** Externalities and foreign competition.
Incorrect forecasts of consumer demand and foreign competition.

**73. Which plays the most important role in increasing the rate of growth in real GDP per capita** over time?
Select correct option:

**Increases in labor productivity** Increases in the money supply
Decreases in the level of inflation
Increases in the real rate of interest

**74. Which one of the following could explain a shift to the right of the supply curve for a good?**
Select correct option:

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The imposition of a tax on the good A new supplier entering the market A rise in firms' wage costs

A rise in the price of the good

75. **Which of the following is NOT an example of consumption expenditure?** Select correct option:

Television sets

**Military airplanes** Clothing

Restaurant meals

76. **Economists believe that wage rigidity can be caused by:** Select correct option:

Unions.

Minimum wage laws.

Efficiency wages.

**All of the given options.**

77. **A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to:**

Select correct option:

Boost the money supply by relaxing credit controls.

Cut interest rates.

Increase the size of the budget deficit.

Encourage a depreciation of the exchange rate.

78. **The relationship between the level of prices and inflation is:** Select correct option:

The higher the price level, the lower the rate of inflation.

The higher the rate of increase in the price level, the higher the rate of inflation. The higher the rate of increase in the price level, the lower the rate of inflation. **The higher the price level, the higher the rate of inflation.**

79. **he GDP deflator can be used:** Select correct option:

To reduce the overstatement of economic activity that would occur if we included intermediate production.

To correct nominal GDP for the contribution to domestic GDP made by foreign owned factors of production.

To decompose a change in nominal GDP into a change in real GDP and an average change in prices.

To obtain the factor income flows that result from the economic activity that has produced the GDP.

80. **f S-I and NX are exactly equal to zero i-e the value of imports equals the value of exports then:**
Select correct option:

We have trade surplus. We have trade deficit.

**We have balanced trade.** We have no trade at all.

81. **During periods of poor economic performance, real GDP:** Select correct option:

Declines but unemployment typically does not change. Declines and unemployment rises sharply.
**Is unchanged but unemployment rises sharply.** Declines and unemployment rises moderately.

82. **Which of the following would be counted as investment in the calculation of GDP?**
Select correct option:

The profit earned from the sale of bonds
**The purchase of a share of Microsoft stock** The construction of a new home
The tuition paid by a university student

83. **Demand for a normal product may shift outwards if:**
Select correct option:

**Price decreases**
The price of a substitute falls The price of a complement rises Income falls

84. **Which of the following is a key problem resulting from inflation?** Select correct option:

Prices are stable
Certainty of future prices
A haphazard redistribution of income
**An increase in the value of money**

85. **The relationship between consumer spending and income is known as the:**
Select correct option:

45-degree line.
Consumption function. **Investment function.** Consumer price index.

86. **An increase of 10% in nominal GDP indicates that:** Select correct option:

Real output has increased by 10%.
The aggregate price level has increased by 10%.
Real output and the aggregate price level have increased by 5% each.
It is possible that all of the increase was caused by an increase in the aggregate price level.

87. **When money is accepted as payment for a good or service, it is being used as a:** Select correct option:

Store of value.
**Medium of exchange.**
Unit of account.
A mechanism for transforming current purchases into future purchases.

88. **he index most widely used by the government and the private sector to measure changes in the cost of living is the:**
Select correct option:
Consumer price index.
Producer price index. The
GDP deflator.
The chain-type price index.

89. **Demand curves are derived while holding constant:**
Select correct option:
**Income, tastes, and the price of the good** Income and tastes
Tastes and the price of other goods
Income, tastes, and the price of other goods

90. **he relative price of domestic currency in terms of foreign currency is known as:** Select correct option:
Real exchange rate.
**Nominal exchange rate.**
Discount rate. Inflation rate.

91. **A government policy that will increase frictional unemployment is a (n):** Select correct option:

    Extension of job training programs.
    Increase in unemployment insurance benefits. Reduction in the minimum wage.
    Dissemination of information about job vacancies.

92. **An increase in the costs of production will:** Select correct option:

    Shift demand outwards
    Shift demand inwards Shift supply outwards
    Shift supply inwards