

Introduction to Macroeconomics Practice #1

Multiple Choices

1. Which is the most correct statement about the relationship between inflation and unemployment?
 - a. In the short run, reducing inflation is associated with falling unemployment.
 - b. **In the short run, reducing inflation is associated with rising unemployment.**
 - c. In the long run, reducing inflation is associated with falling unemployment.
 - d. In the long run, reducing inflation is associated with rising unemployment.
2. What is almost always the cause of large or persistent inflation?
 - a. an increase in demand for domestic production
 - b. **growth in the quantity of money**
 - c. foreign competition
 - d. higher worker productivity
3. What is the definition of inflation?
 - a. a period of rising productivity in the economy
 - b. a period of rising income in the economy
 - c. an increase in the overall level of output in the economy
 - d. **an increase in the overall level of prices in the economy**
4. What causes almost all variation in living standards in different countries?
 - a. population growth rates
 - b. endowments of natural resources
 - c. national government budgets
 - d. **Productivity**
5. How could you justify higher income tax rates on rich people in Canada?
 - a. on the basis of market efficiency
 - b. on the basis of the lack of other sources of government revenue
 - c. **on the basis of equity for society**
 - d. on the basis of government bias against the wealthy
6. If education produces external benefits for society, which of the following might NOT be an appropriate policy for society to establish regarding education?
 - a. tax incentives for schooling
 - b. mandatory minimum levels of education
 - c. **programs that promote the hiring of high school dropouts**
 - d. public subsidies of education
7. If an externality is present in a market, what may enhance economic efficiency?
 - a. **government intervention**
 - b. increased competition
 - c. better informed market participants
 - d. more defined property rights
8. How does a market economy reward people?
 - a. according to their need for goods and services
 - b. according to how willing they are to work
 - c. **according to their ability to produce things that other people are willing to pay for**
 - d. according to their ability to produce things of cultural importance
9. A friend of yours asks you why market prices are better than government-determined prices. What do you say?
 - a. because they generally reflect the value of a good to society, but not the cost of making it
 - b. because they generally reflect the cost to society of making a good, but not its value
 - c. **because they generally reflect both the value of a good to society and the cost of making it**
 - d. because they generally reflect neither the value of a good to society nor the cost of making it

10. If Canada decides to trade with Mexico, what do we know?
- Mexico will be better off, but trade with a less developed country will not help Canada.
 - It will not benefit Mexico because workers in Canada are more productive.
 - It will benefit Mexico because workers in Canada are more productive.
 - Mexico and Canada can both be better off.**
11. A furniture maker currently produces 100 tables per week and sells them for a profit. She is considering expanding her operation in order to make more tables. Should she expand?
- Yes, because making tables is profitable.
 - No, because she may not be able to sell the additional tables.
 - It depends on the marginal cost of producing more tables and the marginal revenue she will earn from selling more tables.**
 - It depends on the average cost of producing more tables and the average revenue she will earn from selling more tables.
12. Carol has spent \$2000 purchasing and repairing an old car, which she expects to sell for \$2400. She discovers that she needs an additional repair, which will cost \$400. She can sell the car as it is now for \$2000. What should she do?
- She should sell the car now for \$2000.
 - She should never sell something for less than it cost.
 - She should complete the repairs and sell the car.
 - It doesn't matter which action she takes; the outcome is the same either way.**
13. Mallory decides to spend three hours working overtime rather than watching a video with her friends. She earns \$8 an hour. What is her opportunity cost of working?
- the \$24 she earns working
 - the \$24 minus the enjoyment she would have received from watching the video
 - the enjoyment she would have received had she watched the video**
 - nothing, since she would have received less than \$24 of enjoyment from the video
14. Which of the following is NOT a major area of study for economists?
- how people make decisions
 - how countries choose national leaders**
 - how people interact with each other
 - how forces and trends affect the overall economy
15. For society, when is a good NOT scarce?
- if at least one individual in society can obtain all he or she wants of the good
 - if firms are producing at full capacity
 - if all members of society can have all they want of the good**
 - if those who have enough income can buy all they want of the good
16. Why is the use of theory and observation more difficult in economics than in sciences, such as physics?
- It is difficult to evaluate an economic experiment.
 - It is difficult to devise an economic experiment.
 - It is difficult to actually perform an experiment in an economic system.**
 - It is difficult to collect sufficient data.
17. What is a model?
- a theoretical abstraction with very little value
 - a useful tool to only the ones who constructed it
 - a realistic and carefully constructed theory
 - a simplification of real life**
18. What does a circular-flow diagram do?
- It illustrates cost-benefit analysis.
 - It explains how the economy is organized.**
 - It shows the flow of traffic in an economic region.
 - It explains how banks circulate money in the economy.

19. Which of the following concepts is NOT illustrated by the production possibilities frontier?
- efficiency
 - opportunity cost
 - equity
 - tradeoffs
20. What would unemployment cause an economy to do?
- produce inside its production possibilities frontier
 - produce on its production possibilities frontier
 - produce outside its production possibilities frontier
 - cause many different scenarios on its production possibilities frontier depending on its severity

Short Answers

1. In each of the following decision situations, show what tradeoffs are involved.

- You are driving and need to decide how fast to drive.
 - Driving faster gets you earlier to your destination. However, driving faster is less safe, takes more gas, and may get you a ticket.
- You meet a young lady at a party and you are considering whether to ask her out.
 - If you ask her out you might enjoy her company and form a long-term relationship. However, you may not enjoy her company, wasting some time and money. Moreover, if you ask her and she refuses, you will feel humiliated, wishing you had not done so.

2. An economic principle is that people respond to incentives. Identify the incentives and discuss the possible unintended outcomes in each of the following situations.

- The City of Winnipeg decides to set a rather high regulated parking fee in downtown in order to reduce traffic congestion.
 - When parking fees are high, traffic congestion may not decrease as desired. Why? Because high parking fees makes building more parking lots by private entrepreneurs more profitable. With more parking lots available, people who were previously deterred by the difficulty of finding a parking spot will prefer now to drive to work.
- A very popular hip-hop singer asks his managers to set concert prices very low such that everybody can afford them.
 - If tickets to a concert are cheap, some entrepreneurs will buy a large number of them to re-sell them for profit. Thus, those who were supposed to benefit from the lower prices will actually have to pay even more. The benefit from low prices goes to the entrepreneurs.

3. Identify each of the following topics as being part of microeconomics or macroeconomics:

- the impact of a change in consumer income on the purchase of luxury automobiles
Microeconomics
- the impact of a war in the Middle East on the rate of inflation in Canada
Macroeconomics