



Test Information
Guide:
College-Level
Examination
Program®

2012-13

Principles of
Macroeconomics

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Principles of Macroeconomics

Description of the Examination

The Principles of Macroeconomics examination covers material that is usually taught in a one-semester undergraduate course in this subject. This aspect of economics deals with principles of economics that apply to an economy as a whole, particularly the general price level, output and income, and interrelations among sectors of the economy. The test places particular emphasis on the determinants of aggregate demand and aggregate supply, and on monetary and fiscal policy tools that can be used to achieve particular policy objectives. Within this context, candidates are expected to understand basic economic concepts such as scarcity and comparative advantage and measurement concepts such as gross domestic product, consumption, investment, unemployment and inflation. Candidates are also expected to demonstrate knowledge of the institutional structure of the Federal Reserve Bank and the monetary policy tools it uses to stabilize economic fluctuations and promote long-term economic growth, as well as the tools of fiscal policy and their impacts on income, employment, price level, deficits and interest rate. Basic understanding of foreign exchange markets, balance of payments, and effects of currency appreciation and depreciation on a country's imports and exports is also expected.

The examination contains approximately 80 questions to be answered in 90 minutes. Some of these are pretest questions that will not be scored. Any time candidates spend on tutorials and providing personal information is in addition to the actual testing time.

Knowledge and Skills Required

Questions on the Principles of Macroeconomics examination require candidates to demonstrate one or more of the following abilities.

- Understanding of important economic terms and concepts
- Interpretation and manipulation of economic graphs
- Interpretation and evaluation of economic data
- Application of simple economic models

The subject matter of the Principles of Macroeconomics examination is drawn from the following topics. The percentages next to the main topics indicate the approximate percentage of exam questions on that topic.

I. Basic Economic Concepts (8%–12%)

- A. Scarcity, choice and opportunity costs
- B. Production possibilities curve
- C. Comparative advantage, specialization and exchange
- D. Demand, supply and market equilibrium

II. Measurement of Economic Performance (12%–16%)

- A. National income accounts
 1. Circular flow
 2. Gross domestic product
 3. Components of gross domestic product
 4. Real versus nominal gross domestic product
- B. Inflation measurement and adjustment
 1. Price indices
 2. Nominal and real values
 3. Demand-pull versus cost-push inflation
 4. Costs of inflation
- C. Unemployment
 1. Definition and measurement
 2. Types of unemployment
 3. Natural rate of unemployment

III. National Income and Price Determination (15%–20%)

- A. Aggregate demand
 1. Determinants of aggregate demand
 2. Multiplier and crowding-out effects
- B. Aggregate supply
 1. Short run and long-run analyses
 2. Sticky versus flexible wages and prices
 3. Determinants of aggregate supply
- C. Macroeconomic equilibrium
 1. Real output and price level
 2. Short and long run
 3. Actual versus full-employment output
 4. Business cycle and economic fluctuations

IV. Financial Sector (15%–20%)

- A. Money, banking and financial markets
 - 1. Definition of financial assets: money, stocks, bonds
 - 2. Time value of money (present and future value)
 - 3. Measures of money supply
 - 4. Banks and creation of money
 - 5. Money demand
 - 6. Money market
 - 7. Loanable funds market
- B. Central bank and control of the money supply
 - 1. Tools of central bank policy
 - 2. Quantity theory of money
 - 3. Real versus nominal interest rates

V. Inflation, Unemployment and Stabilization Policies (20%–25%)

- A. Fiscal and monetary policies
 - 1. Demand side effects
 - 2. Supply side effects
 - 3. Policy mix
 - 4. Government deficits and debt
- B. Inflation and unemployment
 - 1. The Phillips curve: short run versus long run
 - 2. Role of expectations

VI. Economic Growth and Productivity (5%–10%)

- A. Investment in human capital
- B. Investment in physical capital
- C. Research and development, and technological progress
- D. Growth policy

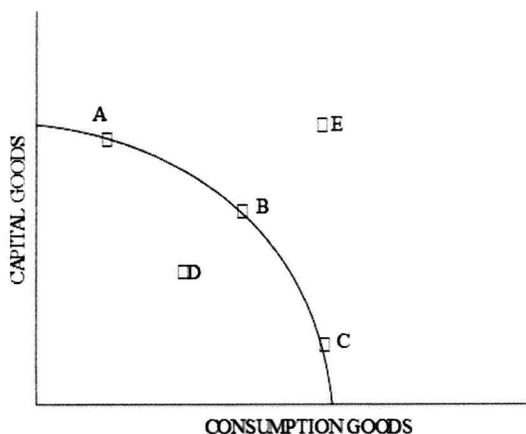
VII. Open Economy: International Trade and Finance (9%–13%)

- A. Balance of payments accounts
 - 1. Balance of trade
 - 2. Current account
 - 3. Financial account (formerly called capital account)
- B. Foreign exchange market
 - 1. Demand for and supply of foreign exchange
 - 2. Exchange rate determination
 - 3. Currency appreciation and depreciation
 - 4. Exchange rate policies
- C. Inflows, outflows and restrictions
 - 1. Net exports and capital flows
 - 2. Links to financial and goods markets
 - 3. Tariffs and quotas

Sample Test Questions

The following sample questions do not appear on an actual CLEP examination. They are intended to give potential test-takers an indication of the format and difficulty level of the examination and to provide content for practice and review. Knowing the correct answers to all of the sample questions is not a guarantee of satisfactory performance on the exam.

Directions: Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case.



1. An economy that is fully employing all its productive resources but allocating less to investment than to consumption will most likely be at which of the following positions on the production possibilities curve shown above?

- (A) A
- (B) B
- (C) C
- (D) D
- (E) E

2. Assume that land can be used either for producing grain or for grazing cattle to produce beef. The opportunity cost of converting an acre from cattle grazing to grain production is the

- (A) market value of the extra grain that is produced
- (B) total amount of beef produced
- (C) number of extra bushels of grain that are produced
- (D) amount by which beef production decreases
- (E) profits generated by the extra production of grain

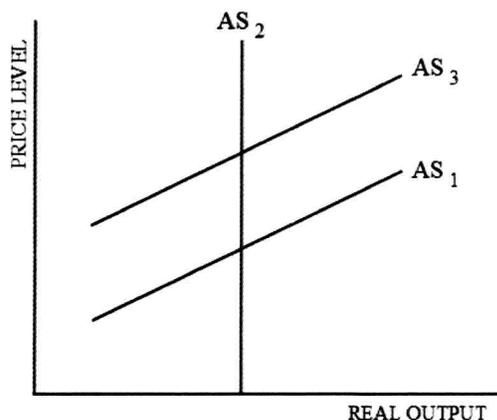
3. Which of the following will occur as a result of an improvement in technology?

- (A) The aggregate demand curve will shift to the right.
- (B) The aggregate demand curve will shift to the left.
- (C) The aggregate supply curve will shift to the right.
- (D) The aggregate supply curve will shift to the left.
- (E) The production possibilities curve will shift inward.

4. Increases in real income per capita are made possible by

- (A) improved productivity
- (B) a high labor/capital ratio
- (C) large trade surpluses
- (D) stable interest rates
- (E) high protective tariffs

5. Which of the following is an example of "investment" as used in economics?
- (A) A schoolteacher purchases 10,000 shares of stock in an automobile company.
 - (B) Newlyweds purchase a previously owned home.
 - (C) One large automobile firm purchases another large automobile firm.
 - (D) A farmer purchases \$10,000 worth of government securities.
 - (E) An apparel company purchases 15 new sewing machines.
6. The United States Department of Labor defines an individual as unemployed if the person
- (A) does not hold a paying job
 - (B) has been recently fired
 - (C) works part time but needs full time work
 - (D) is without a job but is looking for work
 - (E) wants a job but is not searching because he or she thinks none is available
7. Assume that a country with an open economy has a fixed exchange-rate system and that its currency is currently overvalued in the foreign exchange market. Which of the following must be true at the official exchange rate?
- (A) The quantity of the country's currency supplied is less than the quantity demanded.
 - (B) The quantity of the country's currency supplied exceeds the quantity demanded.
 - (C) The demand curve for the country's currency is horizontal.
 - (D) The supply curve for the country's currency is horizontal.
 - (E) The domestic interest rate is equal to the interest rate in the rest of the world.
8. Which of the following workers is most likely to be classified as structurally unemployed?
- (A) A high school teacher who is unemployed during the summer months
 - (B) A recent college graduate who is looking for her first job
 - (C) A teenager who is seeking part-time employment at a fast-food restaurant
 - (D) A worker who is unemployed because his skills are obsolete
 - (E) A person who reenters the job market after relocating
9. According to the classical model, an increase in the money supply causes an increase in which of the following in the long run?
- I. Real gross domestic product
 - II. Nominal gross domestic product
 - III. Nominal wages
- (A) I only
 - (B) II only
 - (C) III only
 - (D) II and III only
 - (E) I, II, and III



10. The diagram above shows aggregate supply curves AS_1 , AS_2 , and AS_3 . Which of the following statements is true?

- (A) AS_2 reflects wage and price rigidity.
- (B) AS_1 reflects greater wage and price flexibility than AS_2 .
- (C) AS_2 reflects greater wage and price flexibility than AS_1 and AS_3 .
- (D) The shift from AS_1 to AS_3 is due to a decrease in nominal wages.
- (E) The shift from AS_3 to AS_1 is due to an increase in oil prices.

11. An increase in which of the following would cause the long-run aggregate supply curve to shift to the right?

- (A) Corporate income tax rates
- (B) Aggregate demand
- (C) Labor productivity
- (D) The average wage rate
- (E) The price level

12. As income level increases from \$500 to \$1,000, consumption increases from \$700 to \$1,100. The marginal propensity to consume is equal to

- (A) 1.10
- (B) 0.80
- (C) 0.70
- (D) 0.50
- (E) 0.10

13. In the circular flow diagram of an economy, which of the following is true?

- (A) Businesses pay wages, rent, interest, and profits to households in return for use of factors of production.
- (B) Businesses purchase goods and services from households in return for money payments.
- (C) Households pay wages, rent, interest, and profits to businesses in return for use of factors of production.
- (D) The relationship between households and businesses exists only in a traditional society.
- (E) The relationship between households and businesses exists only in a command economy.

14. Which of the following would most likely lead to a decrease in aggregate demand?

- (A) A decrease in taxes
- (B) A decrease in interest rates
- (C) An increase in household savings
- (D) An increase in household consumption
- (E) An increase in business firms' purchases of capital equipment from retained earnings

15. According to the Keynesian model, equilibrium output of an economy may be less than the full-employment level of output because at full employment

- (A) sufficient income may not be generated to keep workers above the subsistence level
- (B) there might not be enough demand by firms and consumers to buy that output
- (C) workers may not be willing to work the hours necessary to produce the output
- (D) interest rates might not be high enough to provide the incentive to finance the production
- (E) banks may not be willing to lend enough money to support the output

16. If the Federal Reserve lowers reserve requirements, which of the following is most likely to happen to interest rates and nominal gross domestic product?

<u>Interest Rates</u>	<u>Nominal Gross Domestic Product</u>
(A) Increase	Decrease
(B) Increase	Increase
(C) Decrease	Decrease
(D) Decrease	Increase
(E) No change	No change

17. If the marginal propensity to consume is 0.9, what is the maximum amount that the equilibrium gross domestic product could change if government expenditures increase by \$1 billion?

- (A) It could decrease by \$9 billion.
- (B) It could increase by \$0.9 billion.
- (C) It could increase by \$1 billion.
- (D) It could increase by \$9 billion.
- (E) It could increase by \$10 billion.

18. Expansionary fiscal policy will be most effective in increasing real gross domestic product when

- (A) the aggregate supply curve is horizontal
- (B) the economy is at or above full-employment output
- (C) transfer payments are decreased, while taxes remain unchanged
- (D) wages and prices are very flexible
- (E) the Federal Reserve simultaneously increases the reserve requirement

19. Which of the following would increase the value of the simple spending multiplier?

- (A) An increase in government expenditure
- (B) An increase in exports
- (C) A decrease in government unemployment benefits
- (D) A decrease in the marginal propensity to consume
- (E) A decrease in the marginal propensity to save

20. Assume that the reserve requirement is 25 percent. If banks have excess reserves of \$10,000, which of the following is the maximum amount of additional money that can be created by the banking system through the lending process?

- (A) \$ 2,500
- (B) \$ 10,000
- (C) \$ 40,000
- (D) \$ 50,000
- (E) \$250,000

21. A reason for requiring commercial banks to maintain reserve balances with the Federal Reserve is that these balances

- (A) provide the maximum amount of reserves a bank would ever need
- (B) give the Federal Reserve more control over the money-creating operations of banks
- (C) ensure that banks do not make excessive profits
- (D) assist the Treasury in refinancing government debt
- (E) enable the government to borrow cheaply from the Federal Reserve's discount window

22. The purchase of government bonds from the public in the open market by the Federal Reserve will

- (A) increase the supply of money
- (B) increase the interest rate
- (C) increase the discount rate
- (D) decrease the number of Federal Reserve notes in circulation
- (E) decrease the reserve requirement

23. To counteract a recession, the Federal Reserve could

- (A) buy government securities on the open market and raise the reserve requirement
- (B) buy government securities on the open market and lower the reserve requirement
- (C) buy government securities on the open market and raise the discount rate
- (D) sell government securities on the open market and raise the discount rate
- (E) raise the reserve requirement and lower the discount rate

24. Total spending in the economy is most likely to increase by the largest amount if which of the following occur to government spending and taxes?

<u>Government Spending</u>	<u>Taxes</u>
(A) Decrease	Increase
(B) Decrease	No change
(C) Increase	Increase
(D) Increase	Decrease
(E) No change	Increase

25. According to the Keynesian model, an increase in the money supply affects output more if

- (A) investment is sensitive to changes in interest rates
- (B) money demand is sensitive to changes in interest rates
- (C) the unemployment rate is low
- (D) consumption is sensitive to the Phillips curve
- (E) government spending is sensitive to public opinion

26. Supply-side economists argue that

- (A) a cut in high tax rates results in an increased deficit and thus increases aggregate supply
- (B) lower tax rates provide positive work incentives and thus shift the aggregate supply curve to the right
- (C) the aggregate supply of goods can only be increased if the price level falls
- (D) increased government spending should be used to stimulate the economy
- (E) the government should regulate the supply of imports

27. Which of the following policies would most likely be recommended in an economy with an annual inflation rate of 3 percent and an unemployment rate of 11 percent?

- (A) An increase in transfer payments and an increase in the reserve requirement
- (B) An increase in defense spending and an increase in the discount rate
- (C) An increase in income tax rates and a decrease in the reserve requirement
- (D) A decrease in government spending and the open market sale of government securities
- (E) A decrease in the tax rate on corporate profits and a decrease in the discount rate

28. According to the monetarists, inflation is most often the result of

- (A) high federal tax rates
- (B) increased production of capital goods
- (C) decreased production of capital goods
- (D) an excessive growth of the money supply
- (E) upward shifts in the consumption function

29. An expansionary fiscal policy would most likely cause which of the following changes in output and interest rates?

<u>Output</u>	<u>Interest Rates</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	Increase
(D) Decrease	Decrease
(E) No change	Decrease

30. Which of the following would result in the largest increase in aggregate demand?
- (A) A \$30 billion increase in military expenditure and a \$30 billion open market purchase of government securities
 - (B) A \$30 billion increase in military expenditure and a \$30 billion open market sale of government securities
 - (C) A \$30 billion tax decrease and a \$30 billion open market sale of government securities
 - (D) A \$30 billion tax increase and a \$30 billion open market purchase of government securities
 - (E) A \$30 billion increase in social security payments and a \$30 billion open market sale of government securities
31. Which of the following measures might be used to reduce a federal budget deficit?
- I. Increasing taxes
 - II. Decreasing federal spending
 - III. Decreasing interest rates
- (A) I only
 - (B) II only
 - (C) III only
 - (D) I and III only
 - (E) I, II, and III
32. Which of the following would most likely be the immediate result if the United States increased tariffs on most foreign goods?
- (A) The United States standard of living would be higher.
 - (B) More foreign goods would be purchased by Americans.
 - (C) Prices of domestic goods would increase.
 - (D) Large numbers of United States workers would be laid off.
 - (E) The value of the United States dollar would decrease against foreign currencies.
33. Which of the following policies is most likely to encourage long-term economic growth in a country?
- (A) An embargo on high-technology imports
 - (B) A decrease in the number of immigrants to the country
 - (C) An increase in government transfer payments
 - (D) An increase in the per capita savings rate
 - (E) An increase in defense spending
34. Which of the following would occur if the international value of the United States dollar decreased?
- (A) United States exports would increase.
 - (B) More gold would flow into the United States.
 - (C) United States demand for foreign currencies would increase.
 - (D) The United States trade deficit would increase.
 - (E) United States citizens would pay less for foreign goods.
35. If exchange rates are allowed to fluctuate freely and the United States demand for Indian rupees increases, which of the following will most likely occur?
- (A) The dollar price of Indian goods will increase.
 - (B) The rupee price of United States goods will increase.
 - (C) The United States balance-of-payments deficits will increase.
 - (D) The dollar price of rupees will fall.
 - (E) The dollar price of Indian goods will fall.

36. A revenue-neutral replacement of some portion of the federal personal income tax with a general sales tax would most likely result in
- (A) greater overall progressivity in the tax structure
 - (B) smaller overall progressivity in the tax structure
 - (C) stronger automatic stabilization through the business cycle
 - (D) a larger budget deficit
 - (E) a smaller federal budget deficit
37. A deficit in the United States trade balance can be described as
- (A) an excess of the value of imports over the value of exports
 - (B) an excess of the value of exports over the value of imports
 - (C) an excess of payments to foreigners over receipts from foreigners
 - (D) an almost complete depletion of the gold stock
 - (E) an excess of receipts from foreigners over payments to foreigners
38. Problems faced by all economic systems include which of the following?
- I. How to allocate scarce resources among unlimited wants
 - II. How to decentralize markets
 - III. How to decide what to produce, how to produce, and for whom to produce
 - IV. How to set government production quotas
- (A) I only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III only
 - (E) I, II, III, and IV
39. An increase in which of the following will cause an increase in the demand for a certain good?
- (A) The price of the good
 - (B) The number of sellers of the good
 - (C) The price of a complementary good
 - (D) The cost of purchasing the good
 - (E) The number of buyers of the good
40. If the exchange rate changes from 1 United States dollar = 100 yen to 1 United States dollar = 80 yen, which of the following will happen?
- (A) United States goods will become more expensive to Japanese consumers.
 - (B) Japanese goods will become less expensive to United States consumers.
 - (C) United States exports to Japan will increase.
 - (D) Japanese exports to the United States will increase.
 - (E) Japanese imports from the United States will decrease.
41. An increase in which of the following is most likely to cause demand-pull inflation?
- (A) Rental price of capital
 - (B) Fuel costs
 - (C) Consumer spending
 - (D) Income taxes
 - (E) Imports of capital goods
42. Assume that last year the consumer price index (CPI) was 150 and a household's nominal income was \$30,000. If the CPI this year is 160, to be as well off as last year, the household should have an increase in nominal income of
- (A) \$1,800
 - (B) \$1,875
 - (C) \$2,000
 - (D) \$3,000
 - (E) \$4,800

43. The natural rate of unemployment can be defined as the unemployment rate that exists when the economy
- (A) is neither growing nor shrinking
 - (B) has zero inflation
 - (C) has only cyclical and structural unemployment
 - (D) has no trade deficit or government deficit
 - (E) produces at the full-employment output level

44. A fully anticipated expansionary fiscal policy will cause the price level and real output to change in which of the following ways in the long run?

<u>Price Level</u>	<u>Real Output</u>
(A) Increase	Increase
(B) Increase	Not change
(C) Not change	Not change
(D) Decrease	Increase
(E) Decrease	Decrease

45. If the nominal gross domestic product is \$8 trillion and the money supply is \$2 trillion, the velocity of money is
- (A) 2
 - (B) 4
 - (C) 6
 - (D) 10
 - (E) 16

46. Which of the following is NOT true of the Federal Reserve?
- (A) It serves as a lender of last resort for member banks.
 - (B) It supervises member banks.
 - (C) It provides check-clearing services.
 - (D) It issues debit cards.
 - (E) It controls the money supply.

47. Which of the following best describes crowding out?

- (A) Competition between the government and private borrowers for loanable funds results in an increase in interest rates.
- (B) Increases in the costs of inputs lead to decreases in domestic production.
- (C) The Federal Reserve's open-market operations decrease the amount of funds banks have available for lending.
- (D) Reductions in the government's budget deficit lead to fewer Treasury bonds being issued.
- (E) The scarcity of funds forces Congress to decrease spending on critical public works programs.

48. Suppose that the economy is operating at full employment. If the government wants to discourage consumption spending, stimulate investment spending, and maintain full-employment output, which of the following combinations of monetary and fiscal policies would most likely achieve these goals?

<u>Monetary Policy</u>	<u>Fiscal Policy</u>
(A) Increase money supply	Increase government spending
(B) Increase money supply	Increase personal income taxes
(C) Decrease money supply	Increase government spending
(D) Decrease money supply	Increase personal income taxes
(E) Decrease money supply	Decrease personal income taxes

49. If the Federal Reserve suddenly increases the growth rate of the money supply from 4 percent to 8 percent per year, interest rates, aggregate demand, and nominal gross domestic product (GDP) will most likely change in which of the following ways in the short run?

	<u>Interest Rates</u>	<u>Aggregate Demand</u>	<u>Nominal GDP</u>
(A)	Increase	Increase	Increase
(B)	Increase	Decrease	Increase
(C)	Decrease	Increase	Increase
(D)	Decrease	Increase	Decrease
(E)	Decrease	Decrease	Increase

50. The United States federal government budget deficits tend to be large when which of the following is low?

- (A) The interest rate on government bonds
- (B) The growth rate of the economy
- (C) The unemployment rate
- (D) The inflation rate
- (E) The international value of the United States dollar

51. Using the same amount of resources, Betaland can produce 80 tons of corn or 80 tons of wheat and Alphaland can produce 40 tons of corn or 20 tons of wheat. Which of the following statements is true?

- (A) The opportunity cost of producing a ton of corn in Betaland is two tons of wheat.
- (B) The opportunity cost of producing a ton of corn in Betaland is a ton of wheat.
- (C) The opportunity cost of producing a ton of corn in Alphaland is two tons of wheat.
- (D) Betaland has both the absolute and comparative advantage in producing corn.
- (E) Alphaland has the comparative advantage in producing wheat.

52. If the required reserve ratio is 0.20 and the Federal Reserve buys \$200 worth of securities, the maximum increase in the money supply will be

- (A) \$ 200
- (B) \$ 400
- (C) \$ 600
- (D) \$ 800
- (E) \$1,000

<u>Assets</u>	<u>Liabilities</u>
Reserves \$4,000	Demand deposits \$10,000
Loans \$6,000	

53. The table above shows the T-account entries of a bank. If the required reserve ratio is 0.20, what is the maximum amount of additional loans that this bank can make?

- (A) \$ 0
- (B) \$ 2,000
- (C) \$ 2,500
- (D) \$ 4,000
- (E) \$10,000

54. Hyperinflation is usually associated with which of the following?

- (A) An increase in labor productivity
- (B) An increase in exports
- (C) A decrease in total spending
- (D) Appreciation of the domestic currency
- (E) Rapid growth of the money supply

55. According to the short-run Phillips curve, which of the following will occur when the Federal Reserve increases the money supply?

- (A) Both the unemployment rate and the inflation rate will increase.
- (B) Both the unemployment rate and the inflation rate will decrease.
- (C) The unemployment rate will increase, and the inflation rate will decrease.
- (D) The unemployment rate will decrease, and the inflation rate will increase.
- (E) The inflation rate will increase, but the unemployment rate will remain constant.

56. Which of the following is true if there is a current account deficit in the United States balance-of-payments accounts?

- (A) There is a corresponding deficit in the financial account.
- (B) There is a corresponding surplus in the financial account.
- (C) There is an offsetting surplus in the government's budget.
- (D) There is an offsetting increase in net exports.
- (E) The United States dollar appreciates in the foreign exchange market.

57. An increase in national saving will cause the real interest rate and investment spending to change in which of the following ways?

<u>Real Interest Rate</u>	<u>Investment</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) Increase	Not change
(D) Decrease	Increase
(E) Decrease	Not change

58. To raise its long-run rate of economic growth, a country should design and implement policies that do which of the following?

- (A) Encourage current consumption over saving
- (B) Encourage saving and investment
- (C) Increase the price level and profits
- (D) Promote equity through income redistribution
- (E) Limit business activities to protect the environment

59. With a constant money supply, an increase in the demand for money will affect interest rates and bond prices in which of the following ways?

<u>Interest Rates</u>	<u>Bond Prices</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) Increase	Not change
(D) Decrease	Increase
(E) Not change	Increase

60. According to the quantity theory of money, an increase in the money supply results in an increase in which of the following?

- (A) Interest rate
- (B) Unemployment
- (C) Nominal gross domestic product
- (D) The government's budget deficit
- (E) The value of the dollar on the foreign exchange market

61. Which of the following policies will most likely lead to a reduction in the natural rate of unemployment?

- (A) Increasing government purchases of goods and services
- (B) Providing more job-training programs to help the less skilled
- (C) Increasing the duration of unemployment compensation
- (D) Raising the minimum wage
- (E) Increasing the money supply

62. Assume that an economy produces only two goods, computers and gasoline. The quantity and price of each are given in the table below.

Year	Price of Computers	Quantity of Computers (in millions)	Price of Gasoline	Quantity of Gasoline (in millions)
2000	\$1,000	5	\$1	500
2004	\$500	10	\$2	250

If the base year is 2000, how do nominal and real gross domestic product (GDP) change between 2000 and 2004?

- | <u>Nominal GDP</u> | <u>Real GDP</u> |
|--------------------|-----------------|
| (A) No change | Increase |
| (B) No change | Decrease |
| (C) Increase | No change |
| (D) Increase | Increase |
| (E) Increase | Decrease |
63. Assuming that the expected inflation rate is stable, an increase in interest rates will lead to
- (A) an increase in bond prices
 - (B) an increase in the demand for money as an asset
 - (C) an increase in aggregate demand
 - (D) a decrease in private investment
 - (E) a decrease in capital inflows
64. A bank has demand deposits of \$100,000 and actual reserves of \$27,000. If the reserve requirement is 10 percent, the bank can loan out a maximum of
- (A) \$ 7,000
 - (B) \$ 17,000
 - (C) \$ 27,000
 - (D) \$100,000
 - (E) \$170,000

65. Which of the following is true of the long-run Phillips curve?
- (A) It shows the trade-off between the price level and the money supply.
 - (B) It shows that lower unemployment can be gained only at the expense of higher inflation.
 - (C) It shows that unemployment is a monetary issue.
 - (D) It is vertical at the natural rate of unemployment.
 - (E) It is U-shaped over all possible ranges of unemployment.
66. Economics is best defined as the study of how
- (A) markets allocate resources efficiently
 - (B) businesses make investments to maximize profits
 - (C) public goods and services are produced
 - (D) society chooses to allocate its scarce resources
 - (E) the invisible hand of the market works
67. Human capital refers to which of the following?
- (A) The acquisition of plant and equipment by workers
 - (B) The amount of financial investment made by individuals
 - (C) The labor force requirement for sustained economic growth
 - (D) The education and experience of the labor force
 - (E) The technology available to individual workers
68. Which of the following will lower inflationary expectations?
- (A) The government's announcement that it will increase spending on infrastructure
 - (B) The Federal Reserve's announcement that it will steadily raise the federal funds rate
 - (C) An increase in the value of stocks
 - (D) An increase in consumer and business optimism
 - (E) An increase in the money supply

69. An increase in national saving will affect the supply of loanable funds and the real interest rate in which of the following ways?

<u>Supply of Loanable Funds</u>	<u>Real Interest Rate</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) Increase	No change
(D) Decrease	Increase
(E) Decrease	Decrease

70. Which of the following will cause the short-run aggregate supply curve to shift to the left?

- (A) An increase in the price level
- (B) A decrease in the price level
- (C) An increase in trade deficits
- (D) An increase in nominal wages
- (E) An increase in productivity

71. Which of the following policies will most likely stimulate economic growth?

- (A) A tax credit on investment spending
- (B) Elimination of copyright and patent protection laws
- (C) A reduction in funding for education
- (D) Change of the Social Security retirement age from sixty-five to fifty-eight
- (E) Increased government regulations for research and development

72. The real interest rate for a consumer loan is 5 percent, and the expected inflation rate is 2 percent. What is the nominal interest rate on the consumer loan?

- (A) 2.5 percent
- (B) 3 percent
- (C) 5 percent
- (D) 7 percent
- (E) 10 percent

73. Which of the following groups is most likely to benefit from unanticipated inflation?

- (A) Creditors
- (B) Fixed income earners
- (C) Consumers
- (D) Debtors
- (E) Savers

74. Assume that there are only two countries □ Eland and Zland □ that produce only two goods □ X and Y. The table below shows units of each good that each country can produce using one hour of labor.

	<u>Good X</u>	or	<u>Good Y</u>
Eland	5		3
Zland	8	or	4

Which of the following statements is correct?

- (A) Eland has a comparative advantage in producing both goods.
- (B) Zland has an absolute advantage in producing both goods.
- (C) Eland's opportunity cost for good Y is 5 units of good X.
- (D) Zland's opportunity cost for good X is 2 units of good Y.
- (E) Zland should not trade with Eland because Eland produces both goods at lower costs.

75. If both the demand for and the supply of coffee increase, what will happen to the equilibrium price and quantity in the coffee market?

	<u>Price</u>	<u>Quantity</u>
(A)	Increase	Increase
(B)	Increase	Indeterminate
(C)	Decrease	Decrease
(D)	Decrease	Increase
(E)	Indeterminate	Increase

76. Which of the following would cause a country's production possibilities curve to shift outward?
- (A) A decrease in the unemployment rate
 - (B) A technological advance
 - (C) An increase in government transfer payments
 - (D) A reallocation of economic resources
 - (E) A decline in population
77. Which of the following is true about economic growth?
- (A) It occurs in big countries more often than it does in small countries.
 - (B) It occurs more often in countries with closed economies than in those with open economies.
 - (C) It is positively related to a country's investment in human capital.
 - (D) It is negatively related to a country's capital stock.
 - (E) It is negatively related to a country's standard of living.
78. The M1 measure of the money supply primarily consists of which of the following?
- (A) Checking accounts and credit cards
 - (B) Noncheckable savings and credit cards
 - (C) Currency in circulation and checkable bank deposits
 - (D) Noncheckable savings and small-denomination time deposits
 - (E) Savings bonds and savings accounts
79. If a country's consumer price index was 200 last year and is 190 this year, which of the following must be true for the country from last year to this year?
- (A) The quantity of goods produced has decreased.
 - (B) The average quality of the goods produced has increased.
 - (C) The inflation rate has increased by 5 percent.
 - (D) The price level has decreased by 5 percent.
 - (E) The unemployment rate has decreased by 5 percent.
80. The national debt of the United States is the
- (A) accumulated government spending, less the interest paid on bonds
 - (B) accumulation of all past government deficits
 - (C) difference between government tax revenues and government spending during a fiscal year
 - (D) money owed to the Federal Reserve for reimbursement of domestic bondholders
 - (E) annual amount borrowed by local, state, and federal governments to provide public goods to all citizens
81. Gross domestic product is defined as which of the following?
- (A) The total amount of output produced by an economy in a given time period
 - (B) The total market value of all output produced by an economy in a given time period
 - (C) The total market value of all final goods and services produced by an economy in a given time period
 - (D) The total value of all final goods and services sold in the domestic market in a given time period
 - (E) The total market value of all final goods and services produced by an economy minus the market value of final goods and services exported to other nations in a given time period

82. If central banks in Asia reduce the supply of their own currencies on the foreign-exchange market relative to the United States dollar, which of the following will occur?
- (A) Asian currencies will depreciate.
 - (B) The United States dollar will appreciate.
 - (C) Asian goods will be more expensive for United States consumers.
 - (D) United States goods will be more expensive for Asian consumers.
 - (E) United States private investment in Asia will increase.
83. Which of the following policy actions could the Federal Reserve use to combat inflation?
- (A) Selling government bonds to reduce the money supply
 - (B) Buying government bonds to reduce the amount of loanable funds
 - (C) Raising taxes to reduce the interest rate
 - (D) Cutting the reserve requirement to reduce the amount of excess reserves held by banks
 - (E) Cutting the discount rate to decrease the availability of loans to banks
84. Jamal lost his computer programming job when it was outsourced to a company abroad. After looking unsuccessfully for several months for another job, he gave up and returned to school to receive training to become a physical therapist. Currently Jamal is classified as
- (A) structurally unemployed
 - (B) frictionally unemployed
 - (C) cyclically unemployed
 - (D) underemployed
 - (E) not in the labor force
85. Which of the following will decrease gross domestic product by the greatest amount?
- (A) \$20 billion increases in both government spending and taxes
 - (B) \$20 billion decreases in both government spending and taxes
 - (C) A \$20 billion increase in taxes
 - (D) A \$20 billion decrease in government spending
 - (E) A \$20 billion increase in net exports

Study Resources

Most textbooks used in college-level introductory macroeconomics courses cover the topics in the outline given earlier, but the approaches to certain topics and the emphases given to them may differ. To prepare for the Principles of Macroeconomics exam, it is advisable to study one or more college textbooks, which can be found in most college bookstores. When selecting a textbook, check the table of contents against the knowledge and skills required for this test.

There are many introductory economics textbooks that vary greatly in difficulty. Most books are published in one-volume editions, which cover both microeconomics and macroeconomics; some are published in two-volume editions, with one volume covering macroeconomics and the other microeconomics. A companion study guide/workbook is available for most textbooks. The study guides typically include brief reviews, definitions of key concepts, problem sets and multiple-choice test questions with answers. Many publishers also make available companion websites, links to other resources or computer-assisted learning packages.

To broaden your knowledge of economic issues, you may read relevant articles published in the economics periodicals that are available in most college libraries □ for example, *The Economist*, *The Wall Street Journal* and *The New York Times*, along with local papers, may also enhance your understanding of economic issues.

Visit www.collegeboard.org/clepprep for additional macroeconomics resources. You can also find suggestions for exam preparation in Chapter IV of the Official Study Guide. In addition, many college faculty post their course materials on their schools' websites.

Answer Key

- | | |
|-------|-------|
| 1. C | 44. B |
| 2. D | 45. B |
| 3. C | 46. D |
| 4. A | 47. A |
| 5. E | 48. B |
| 6. D | 49. C |
| 7. B | 50. B |
| 8. D | 51. B |
| 9. D | 52. E |
| 10. C | 53. B |
| 11. C | 54. E |
| 12. B | 55. D |
| 13. A | 56. B |
| 14. C | 57. D |
| 15. B | 58. B |
| 16. D | 59. B |
| 17. E | 60. C |
| 18. A | 61. B |
| 19. E | 62. A |
| 20. C | 63. D |
| 21. B | 64. B |
| 22. A | 65. D |
| 23. B | 66. D |
| 24. D | 67. D |
| 25. A | 68. B |
| 26. B | 69. B |
| 27. E | 70. D |
| 28. D | 71. A |
| 29. A | 72. D |
| 30. A | 73. D |
| 31. E | 74. B |
| 32. C | 75. E |
| 33. D | 76. B |
| 34. A | 77. C |
| 35. A | 78. C |
| 36. B | 79. D |
| 37. A | 80. B |
| 38. B | 81. C |
| 39. E | 82. C |
| 40. C | 83. A |
| 41. C | 84. E |
| 42. C | 85. D |
| 43. E | |