InstantCert
ESTABLISHED IN 2002

Free Principles of Macroeconomics CLEP Practice Test

10 questions from InstantCert's 329-card Principles of Macroeconomics study guide

How to use this PDF

Each of these questions is a sentence with one blank and four choices. Pick the best fit, mark it, and keep going. The answer key with explanations starts after question 10, so do all 10 before you look. The key includes the graph or chart for 7 of the 10 answers. No timer. On the real exam you get about 67 seconds per question, so if you want a challenge, give yourself 11 minutes for the set. One caveat before you start: the real exam often puts a graph in the question and asks what happens when a curve shifts, which a blank cannot do. This set also has nothing on exchange rates, the balance of payments, or the Phillips curve.

What your score means

0 to 4 correct

The Principles of Macroeconomics CLEP runs on terms and on how those terms move each other, and a score in this range usually means the terms are not there yet. Ten questions is a sample, not a diagnosis. Read the explanations, graphs included, then take Round 2 on the page linked at the end before you decide how much work is ahead of you.

5 to 7 correct

Right in the middle. Close enough to the line to be worth studying for, and not close enough to walk in cold on an exam that more than 1 in 4 civilian test takers and more than half of military test takers do not pass. Take Round 2 and see if the number holds.

8 to 10 correct

You know the production possibilities curve, the output gaps, and the multiplier. Keep in mind that ten questions with no clock is a sample, that the real exam is about 80 questions at about 67 seconds each, and that this set has nothing on exchange rates, the balance of payments, or the Phillips curve. The real exam also puts the graph in the question, and these questions only ask for the term. Take Round 2, then read the explanation on anything you missed.

Questions

QUESTION 1 OF 10 | BASIC ECONOMIC CONCEPTS

The shape of the production possibilities curve is concave, and this reflects the notion of _____ opportunity costs.

A. decreasing
B. increasing
C. unchanging
D. controllable

QUESTION 2 OF 10 | MEASUREMENT OF ECONOMIC PERFORMANCE

To avoid double counting, GDP includes only the market value of final goods and ignores transactions involving _____ goods.

A. consumer
B. durable
C. utility
D. intermediate

QUESTION 3 OF 10 | MEASUREMENT OF ECONOMIC PERFORMANCE

Okun's Law states that for every 1% the actual unemployment rate exceeds the natural (frictional + structural) unemployment rate, a _____% GDP gap occurs.

A. 1.0
B. 2.5
C. 3.5
D. 5.0

QUESTION 4 OF 10 | NATIONAL INCOME AND PRICE DETERMINATION

The long-run aggregate supply (LAS) curve, is _____ at potential GDP.

A. horizontal
B. flat
C. parallel
D. vertical

QUESTION 5 OF 10 | NATIONAL INCOME AND PRICE DETERMINATION

When equilibrium real GDP exceeds potential GDP, there is an _____ gap.

A. inflationary
B. recessionary
C. output
D. credibility

QUESTION 6 OF 10 | NATIONAL INCOME AND PRICE DETERMINATION

The multiplier equals a change in _____ expenditure divided by a change in aggregate expenditure.

A. revenue
B. capital
C. equilibrium
D. labor

QUESTION 7 OF 10 | FINANCIAL SECTOR

When the Federal Reserve purchases securities it _____ the banks' reserves.

A. decreases
B. increases
C. eliminates
D. reduces

QUESTION 8 OF 10 | INFLATION, UNEMPLOYMENT, AND STABILIZATION POLICIES

Keynesian economic theories believe monetary policy is a relatively _____ tool for stabilizing the economy.

A. weak
B. strong
C. reliable
D. consistent

QUESTION 9 OF 10 | ECONOMIC GROWTH AND PRODUCTIVITY

The _____ rule states that an x percent increase in capital per hour of work brings a 1/3 of x percent increase in output per hour of work.

A. eighty-twenty
B. at risk
C. one-third
D. exclusionary

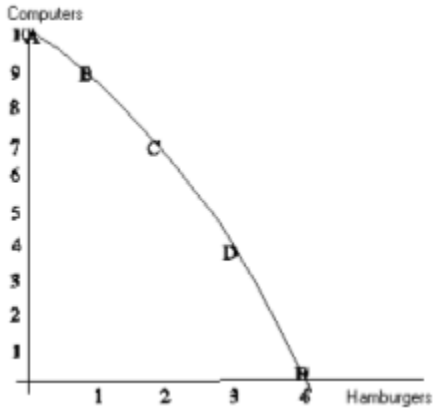
QUESTION 10 OF 10 | BASIC ECONOMIC CONCEPTS

_____ tariffs increase the domestic price of a good and the increased revenue goes to the domestic government.

A. Free Trade
B. Fixed Exchange Rate
C. Random
D. Protective

Answer Key

1. B increasing



The cost to produce the first 100,000 hamburgers is 1000 computers (move from point A to Point B)

The cost to produce the next 100,000 hamburgers is 2000 computers (move from point B to point C)

The cost to produce the next 100,000 hamburgers is 3000 computers (move from point C to point D)

The cost to produce the next 100,000 hamburgers is 4000 computers (move from point D to point E)

As we move down the curve, the cost of producing one more unit of product X results in a larger decrease in production of product Y. The reason this occurs is that not all resources are equally well adaptable to producing hamburgers and computers.

As society tries to increase hamburger production it becomes necessary for it to use some of its "computer" resources to do so. The resources used for making computers are not easily adapted to making hamburgers and thus as more hamburgers are produced the more resources intended for computer making need to be modified.

Almost every productive resource is better at producing some things than others. Some machines are good at digging holes and others are better at moving dirt, some land is good for farming and some is best for mining. This lack of perfect flexibility or interchangeability is what defines the law of increasing opportunity costs.

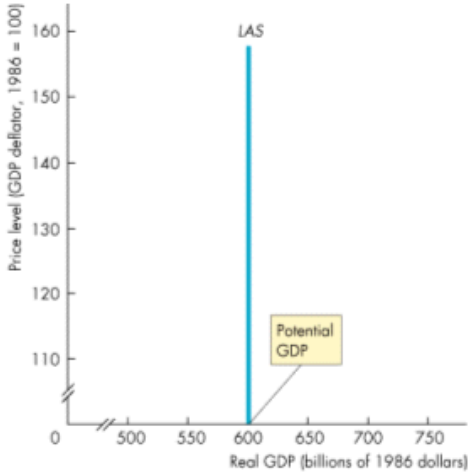
2. D intermediate

By final goods we mean goods and services purchased for final use and not for resale or for use in further manufacturing processes. Intermediate goods are those that are used to produce other goods that will eventually be sold. In making bread, flour is used as a basic input. When the baker buys the flour from the miller, we do not count this transaction as a sale of a final good. When we sell the bread to the customer who eats it, we count that transaction as the sale of a final good.

3. B 2.5

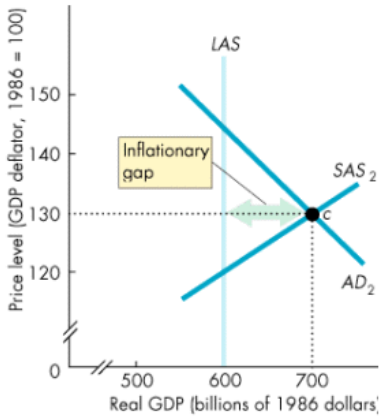
By using this law, the output an economy sacrifices to unemployment can be calculated. Example: if unemployment in 2000 is 10% and natural unemployment is 6%, then the excess unemployment is 4%. This 4% is then multiplied by Okun's figure of 2.5 and we get a GDP gap of 10%. If 2000's GDP was $450 billion, then the economy sacrificed $45 billion to cyclical unemployment.

4. D vertical



Because both the price level and the money wage rate change, the real wage rate remains constant. The real wage rate remains at the level that achieves full employment of labor. Remember, real wage rate refers to buying power -- in other words, if the price of goods doubles, but your wage rate doubles as well, then your real wage rate is still the same.

5. A inflationary



(c) Above full-employment equilibrium

The GDP level that the market economy dictates is well beyond the current capacity, this creates high pricing and competition for product. In this example the inflationary gap is $100 billion. There is a need for $100 billion more product and service than can be provided.

6. C equilibrium

	Y	AE_0	AE_1
a	500	567	667
b	600	600	700
c	700	633	733
d	750	650	750
e	900	700	800

Change in Y ÷ Change in AE

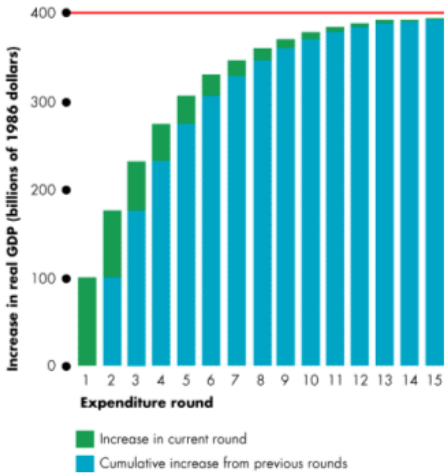
(750 - 600) ÷ (700 - 600)

150 ÷ 100

Multiplier = 1.5

AE increases 100 billion and the multiplier is 1.5, therefore the change in Equilibrium GDP = 100 * 1.5 = 150.

Equilibrium GDP moves from 600 billion to 750 billion



The multiplier takes a while to work itself out and for the economy to get back to equilibrium GDP .

7. B increases

When the Fed purchases a bond / security it then gives the individual or institution that sold the bond some money in return for the bond. This money is then immediately deposited into the banking system. This then gives more reserves for the bank to make more loans and to therefore expand the total amount of deposits held by the bank system, in the same manner as any new deposit in the bank. The purchase of a bond by the Fed will have an expansionary effect on the money supply.

8. A weak

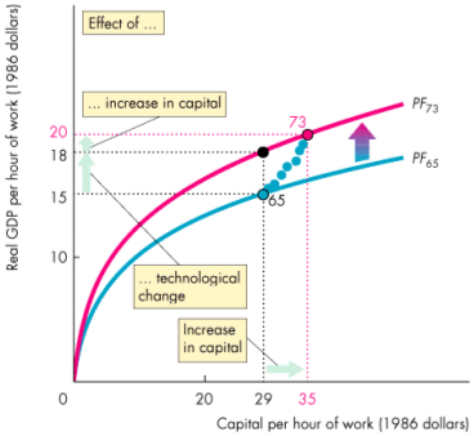
The monetary transmission mechanism for Keynesians is:

Change in monetary policy	⇒	Change in bank reserves	⇒	Change in money supply	⇒	Change in interest rates	⇒	Change in investment	⇒	Change in real GDP

They contend there are loose links in the chain of events that lead a change in the money supply to a change in demand. They feel that investment is not always sensitive to changes in the interest rate and that a change in interest rates will not necessarily lead to a change in demand.

They question whether banks will always be anxious to lend and whether the public will always be eager to borrow based on interest rates alone.

9. C one-third

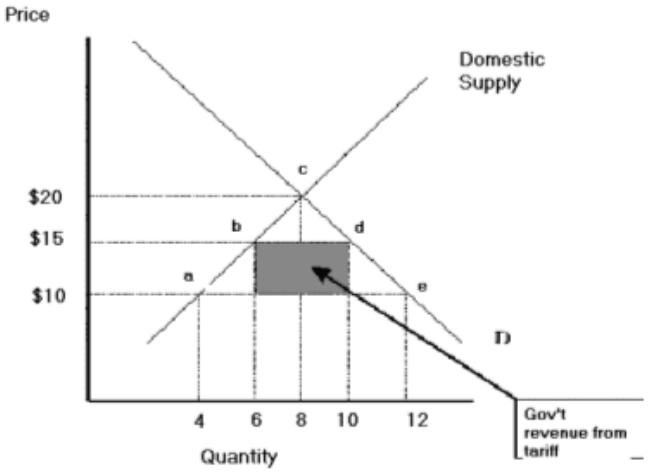


(a) 1965 to 1973

The remaining increase in output per hour of work is attributed to technological change (and unidentified factors).

10. D Protective

Example: Tariff protection for blue jeans - adding taxes to imported goods.



The figure above shows the effect that a tariff will have on the domestic market for jeans. Without foreign imports, jeans sell for $20, at point c. With trade foreign importers are able to bring in jeans for $10 per pair and the demand would be 12 million pairs, shown as point e. Domestic producers would only make 4 million pairs of jeans at that price level (a) while foreigners would bring in 8 million pairs. There would be a drop of production and loss of jobs associated with jean production in the domestic nation.

The government can protect the domestic blue jean industry by imposing tariffs on imported goods. If they decide to impose a $5 tariff on each pair of jeans (a 50% tariff rate), then domestic producers would still make 6 million pairs of jeans (b), and foreigners would bring in an additional four million pairs for a total supply of 10 million pairs (d). Fewer jobs are lost in the blue jean industry, and the government earns revenue of $20 million dollars. Of course, this is ultimately paid for by the buyers of blue jeans who pay more than the world price for jeans and the resulting increased revenue goes to the government.

Want 10 more? Take Round 2 online

Round 2 is 10 more questions from the same 329 cards. It covers a GDP calculation from the four spending components, real vs. nominal income, the multiplier and saving, the money market, the Keynesian aggregate supply curve, the monetarists, and import quotas. Take Round 1 on the page below, enter your email on the score screen, and the Round 2 link follows.

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The full Principles of Macroeconomics study guide

329 Principles of Macroeconomics flashcards, each one with an explanation of why the answer is right, and a graph or chart wherever the idea is a picture, plus the Specific Exam Feedback forum on DegreeForum.net, where members post what was on their exam. $20/month, cancel anytime. 30-day money-back guarantee. 92% of InstantCert students who reported a Principles of Macroeconomics score passed (623 of 678), against a civilian pass rate of 72% and a military pass rate of 47%.

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