Macroeconomics for engineers NAME:…………………………………….

NEPTUN ID:………………………………..

Practice exercises for the topics:

Introduction to Macroeconomics, Output and Aggregate Demand, Fiscal Policy and Foreign Trade (Test A)

A. Multiple choice questions

Instructions: Please fill in the table! Each question in section A is worth 2 points each. Choose the one alternative that best completes the statements or answers the question! (If there is seemingly more than one correct answer – the answer should be e.)

A/1	A/2	A/3	A/4	A/5	A/6	A/7	A/8	A/9	A/10	A/11	A/12	A/13	A/14	A/15

1. When investment demand falls, the aggregate demand schedule …
   a.) shifts down and equilibrium output falls by an equal amount.
   b.) shifts down and equilibrium output falls by a larger amount.
   c.) shifts up and equilibrium output rises by an equal amount.
   d.) shift up, but equilibrium output rises by a larger amount.
   e.) None of the above.

2. For a given government spending (G), a higher net tax rate (t) …
   a.) reduces both equilibrium output and the budget deficit.
   b.) increases both equilibrium output and the budget deficit.
   c.) reduces the equilibrium output but raises the budget deficit.
   d.) reduces the budget deficit and raises the equilibrium output.
   e.) None of the above.

3. Initially the net export is equal to zero. Higher export demand …
   a.) raises both domestic output (eq. income) and the trade deficit.
   b.) reduces both domestic output (eq. income) and the trade surplus.
   c.) raises both domestic output (eq. income) and the trade surplus.
   d.) reduces domestic output (eq. income) but raises the trade deficit.
   e.) None of the above.

4. The structural budget …
   a.) shows what the budget would be if output is at actual output
   b.) shows what the budget would be if government spending are at the level of taxes
   c.) shows what the budget would be if exports are at the level of imports
   d.) shows what the budget would be if output is at potential output
   e.) None of the above.

5. In itself, the budget deficit …
   a.) is always a good measure of the government's fiscal stance.
   b.) can never change for reasons unconnected with fiscal policy.
   c.) may be a poor measure of the government's fiscal stance.
   d.) is necessarily bad.
   e.) None of the above.

6. For a given net tax rate (t), higher government spending on goods and services
   a.) reduces both equilibrium output and the budget deficit.
   b.) increases both equilibrium output and the budget deficit.
   c.) reduces the equilibrium output but raises the budget deficit.
   d.) reduces the budget deficit and raises the equilibrium output.
   e.) None of the above.

7. Initially the net export is equal to zero. A higher marginal propensity to import …
   a.) raises both domestic output (eq. income) and the trade deficit.
   b.) reduces domestic output (eq. income) but raises the trade surplus.
   c.) raises both domestic output (eq. income) and the trade surplus.
   d.) reduces domestic output (eq. income) but raises the trade deficit.
   e.) None of the above.

8. Unplanned inventory reductions or frustrated customers act as a signal to firms …
   a.) to cut output when actual output exceeds aggregate demand
   b.) to raise output when actual output exceeds aggregate demand
   c.) to raise output when aggregate demand exceeds actual output.
   d.) to cut output when aggregate demand exceeds actual output
   e.) None of the above.

9. In an economy with only two sectors (firms and households) actual investment …
   a.) always equals planned investment, as a matter of definition.
   b.) always equals planned savings, as a matter of definition.
   c.) always equals actual savings, as a matter of definition.
   d.) always equals potential output less planned consumption, as a matter of definition
   e.) All of the above.

10. The multiplier …
    a.) is the ratio of the change in equilibrium output to the change in autonomous spending that caused the change.
    b.) is reduced if the marginal propensity to import rises (all other things are held constant).
    c.) is increased if the marginal propensity to consume rises (all other things are held constant).
    d.) is reduced if the net tax rate is raised by the government (all other things are held constant).
    e.) All of the above.

11. The balanced budget multiplier says that a rise in government spending plus an equal rise in taxes leads to …
    a.) a higher budget deficit.
    b.) higher output.
    c.) higher investment demand.
    d.) a lower trade deficit.
    e.) All of the above.

12. In the absence of taxation, national income Y …
    a.) and potential income are the same
    b.) is always higher than disposable income
    c.) is always lower than potential income
    d.) and disposable income are the same
    e.) None of the above.

13. The labour force is …
    a.) people at work. (It excludes people that are looking for work.)
    b.) people at work or looking for work.
    c.) people looking for work. (It excludes people that are currently working.)
    d.) is the fraction of the population without a job.
    e.) None of the above.

14. Real gross national product (GNP) …
    a.) measures the income of an economy, the quantity of goods and services the economy can afford to purchase.
    b.) measures the output made in the domestic economy, regardless of who owns the production inputs.
    c.) measures how much the economy can spend or save, after setting aside enough resources to maintain the capital stock intact by offsetting depreciation.
    d.) is a weighted average of the prices households pay for goods and service.
    e.) None of the above.

15. Automatic fiscal stabilizers are always at work. At given tax rates and given benefit levels, a fall in income and output
    a.) raises tax revenue and reduces payments of benefits.
    b.) raises tax revenue and payments of benefits.
    c.) reduces payments of benefits and tax revenue.
    d.) raises payments of benefits and reduces tax revenue.
    e.) None of the above.

B. <u>True or false questions</u>

Instructions: Please decide if the following statements are true ('T') or false ('F'), and fill in the table! Each question in section B is worth 1 point each.

B/1	B/2	B/3	B/4	B/5	B/6	B/7	B/8	B/9	B/10

1. The increase in the quantity of goods and services which the economy as a whole can afford to purchase is known as economic growth.
2. Gross domestic product at basic prices is equal to gross domestic product at market prices *plus* net indirect taxes.
3. Gross national product at *current* prices is a measure of real economic activity.
4. Depreciation is an economic cost because it measures being resources used up in the production process.
5. Short-run equilibrium occurs when spending plans are not frustrated by a shortage of goods and when firms do not produce more output than they can sell.
6. In a closed economy with no government, the slope of the aggregate demand schedule depends only on the level of autonomous consumption.
7. Income tax, VAT, and unemployment benefit are important automatic stabilizers.
8. The effect of net taxes is to steepen the relationship between consumption and national income.
9. In a world with significant inflation, it is sensible to count only the real interest rate times the outstanding government debt as an item of expenditure contributing to the overall government deficit.
10. Unplanned inventory changes are the signal to firms that there is disequilibrium.