# *Principles of Macroeconomics 3rd edition Shapiro Test Bank*

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TEST BANK



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# Principles of Macroeconomics 3e

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## Chapter 1 Test Bank

## Multiple Choice Questions

**1.** In countries like _____ the command economy predominates.

A. China and Vietnam
B. Cuba and North Korea
C. South Africa and Kenya
D. Germany and France

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Remember

**2.** In which of the following countries will the national government have the greatest influence with respect to the nation's economy?

A. China
B. Cuba
C. Canada
D. Chile

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Analyze

**3.** In a command economy, the _____ either makes most economic decisions itself or at least strongly influences how the decisions are made.

A. government
B. market
C. firm
D. business sector

Answer: A

Reference:

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Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**4.** Because of their relatively small national economies, which of the following is most likely considered to be the most important factor for Belgium, Korea, and Canada to take full advantage of specialization?

A. division of labour
B. international trade
C. economies of scale
D. command economy

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Analyze

**5.** In a discussion of economics, which of the following would exert the most influence on an individual firm's decision to hire workers?

A. wage levels
B. the macroeconomy
C. the firm's income
D. household income

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Analyze

**6.** In a _____, most economic decisions about what to produce, how to produce it, and for whom to produce it are made by buyers and sellers.

A. market-oriented economy
B. macroeconomy
C. microeconomy
D. command economy

Answer: A

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Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

**7.** Which of the following best denotes the reason for the existence of substantial black markets?

A. a market-oriented economy
B. a command economy
C. government laws and rules
D. the microeconomy

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

**8.** Which of the following is generally accepted as a valid criticism of the production of useful goods and services?

A. government involvement
B. the black market
C. environmental pollution
D. economic freedom

Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Evaluate

**9.** In the first chapter of The Wealth of Nations, Smith introduces the idea of the _____, which means the way in which the work required to produce a good or service is divided into a number of tasks that are performed by different workers.

A. division of labor
B. interconnected economy
C. task economy
D. modern economy

Answer: A

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Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Analyze

**10.** If macroeconomics looks at the economy as a whole, it focuses on which of the following?

A. households
B. business firms
C. unemployed people
D. the division of labor

Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**11.** In the _____, households work and receive payment from firms.

A. financial investment market
B. financial capital market
C. labor market
D. savings market

Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**12.** In the _____, households receive goods and services and pay firms for them.

A. labor market
B. financial capital market
C. goods and services market
D. savings market

Answer: C

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Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**13.** Which of the following best describes a monetary policy tool?

A. interest rates
B. taxes
C. household savings
D. government spending

Answer: A

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Remember

**14.** Which of the following best describes a fiscal policy tool?

A. government spending
B. bank lending
C. financial capital markets
D. household spending

Answer: A

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Remember

**15.** The two main tools of macroeconomic policy include monetary policy, and fiscal policy, which involves _____ spending.

A. business
B. government
C. household
D. capital market

Answer: B

Reference:

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Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

**16.** When nations desire a healthy macroeconomy, they typically focus on three goals, one of these being:

A. balanced budget
B. prudent monetary policy
C. low inflation
D. assuring competition between firms

Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

**17.** The basic difference between macroeconomics and microeconomics is:

A. microeconomics concentrates on individual markets while macroeconomics focuses primarily on international trade.
B. microeconomics concentrates on the behaviour of individual consumers while macroeconomics focuses on the behaviour of firms.
C. microeconomics concentrates on the behaviour of individual consumers and firms while macroeconomics focuses on the performance of the entire economy.
D. microeconomics explores the causes of inflation while macroeconomics focuses on the causes of unemployment.

Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**18.** Which of the following is most likely a topic of discussion in macroeconomics?

A. an increase in the price of a hamburger
B. a decrease in the production of DVD players by a consumer electronics company
C. an increase in the wage rate paid to automobile workers
D. a decrease in the unemployment rate

Answer: D

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Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Analyze

**19.** Which of the following statements most likely lies within the realm of microeconomics?

A. Unemployment rises during a recession and falls during an expansion.
B. An increase in government spending will increase the aggregate demand for goods and services in the economy.
C. A rapid acceleration of the supply of money may create inflation.
D. An increase in labor costs will increase the additional cost of producing another bus.

Answer: D

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Analyze

**20.** Macroeconomic topics do not usually include:

A. the profit maximizing decisions of an individual manufacturer.
B. the rate of inflation.
C. the rate of unemployment.
D. economic growth.

Answer: A

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**21.** Macroeconomics primarily examines:

A. the behaviour of individual households and firms.
B. how prices are determined within individual markets.
C. broad issues such as national output, employment and inflation.
D. the output levels that maximize the profits of business firms

Answer: C

Reference:

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Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**22.** Specialization:

A. leads to greater self-sufficiency.
B. can lead to an increase in overall production.
C. allows workers to develop skills by working on a large number of tasks
D. is always the result of an inefficient use of resources

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Understand

**23.** In a market-oriented economy, the amount of a good that is produced is primarily decided by the interaction of:

A. all consumers.
B. buyers and sellers.
C. producers and input suppliers.
D. producers and government planning committees.

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

**24.** Which of the following statements most likely lies within the realm of macroeconomics?

A. An increase in the price of automobiles will lead to a decrease in the quantity of automobiles demanded.
B. Due to process innovations in computer chip manufacturing, the market supply of computers increased.
C. Due to an economic recession, manufacturing firms began implementing layoffs of their workforces.
D. Anticipating that the benefits would outweigh costs involved, an undergraduate student purchases the course textbook.

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Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Analyze

**25.** Which of the following lies primarily within the realm of macroeconomics?

A. a study of the demand for gasoline
B. a study of how tax cuts stimulate aggregate production
C. an analysis of supply and demand conditions in the electricity market
D. a study of the impact of "mad cow" disease on the price of beef worldwide

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Analyze

**26.** Macroeconomics:

A. is concerned with the expansion of a small business into a large corporation.
B. is narrower in scope than microeconomics.
C. analyzes mergers and acquisitions between firms.
D. is concerned with the expansion and contraction of the overall economy.

Answer: D

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**27.** The basic difference between macroeconomics and microeconomics is that:

A. microeconomics looks at the forest (aggregate markets) while macroeconomics looks at the trees (individual markets).
B. macroeconomics is concerned with groups of individuals while microeconomics is concerned with single countries.
C. microeconomics is concerned with the trees (individual markets) while macroeconomics is concerned with the forest (aggregate markets).
D. macroeconomics is concerned with generalization while microeconomics is concerned with specialization.

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Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**28.** The circular flow diagram of economic activity is a model of the:

A. flow of goods, services, and payments between households and firms.
B. influence of government on business behaviour.
C. role of unions and government in the economy.
D. interaction among taxes, prices, and profits.

Answer: A

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

**29.** Which of the following best characterizes the circular flow of income?

A. Businesses buy resources from the government, and households buy goods and services from businesses.
B. Businesses buy resources from households, and households use their income from the sale of resources to buy goods and services from businesses.
C. The government purchases resources from businesses and households and then sells goods and services to businesses and households.
D. Households buy factors of production from businesses, and businesses buy goods and services from households.

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Medium Category: Understand

**30.** In the circular flow diagram model:

A. households receive income from businesses in exchange for providing inputs and use that income to buy goods and services from businesses.
B. businesses receive revenues from households in exchange for providing goods and

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services and use those revenues to buy inputs from households.
C. households receive revenue for selling goods and services to businesses, and use that revenue to buy inputs from businesses.
D. Both (a) and (b) are correct.

Answer: D

Reference:

Explanation:

Type: Multiple Choice Difficulty: Hard Category: Understand

**31.** Regardless of whether you are looking through the microeconomics microscope or the macroeconomics telescope, the fundamental subject material of the interconnected _____ doesn't change.

A. market
B. economy
C. production
D. firm

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

**32.** _____ - a term referring to the fact that for many goods, as the level of production increases, the average cost of producing each individual unit declines.

A. Skill
B. Specialization
C. Economies of scale
D. Division of labor

Answer: C

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Understand

**33.** Economic models like the _____ are not physical models, but instead are diagrams or graphs or even mathematical equations that represent

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economic patterns or theories.

A. financial capital market
B. circular flow diagram
C. financial investment market
D. Specialization Model

Answer: B

Reference:

Explanation:

Type: Multiple Choice Difficulty: Easy Category: Remember

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## Essay Questions

**1.** What is a black market, and under what economic condition is it most likely to thrive?

Reference:

Explanation: Even the most command-oriented economies operate with substantial black markets, or underground economies, which are markets where the buyers and sellers make transactions without the government's approval.

Type: Essay Difficulty: Medium Category: Understand

**2.** When nations desire a healthy macroeconomy, they typically focus on several goals:. Three are:

Reference:

Explanation: Growth in the standard of living, a low level of unemployment, low inflation, and a sustainable balance of trade between countries.

Type: Essay Difficulty: Medium Category: Remember

**3.** How does microeconomics relate to macroeconomics?

Reference:

Explanation: Microeconomics primarily examines the behaviour of individual households and firms, whereas macroeconomics concentrates on the behaviour of consumers and firms in the aggregate. Macroeconomics studies economic problems as they influence the whole of society.

Type: Essay Difficulty: Medium Category: Understand

**4.** Clem Oatley could grow wheat and barley. He could grow 75 bushels of wheat or 125 bushels of barley using the same resources on an acre of his land. The price of wheat is $2.00 per bushel and the price of barley $ 0.80. Show the benefits to Clem from specialization. What should he specialize in?

Reference:

Explanation: Clem could make $150 if he grew only wheat and just $100 if he grew only barley. By specializing in wheat production he will be better off. Even though he can produce more bushels of barley than he can bushels of wheat.

Type: Essay Difficulty: Hard Category: Apply

**5.** The two main tools of macroeconomic policy include monetary policy and fiscal policy.

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Briefly describe the main components of each.

Reference:

Explanation: The two main tools of macroeconomic policy include monetary policy, which involves policies that affect bank lending, interest rates and financial capital markets, and fiscal policy, which involves government spending and taxes.

Type: Essay Difficulty: Easy Category: Remember

**6.** Recent decades have seen a trend toward globalization, which means that buying and selling in markets have crossed national borders to an increasing extent. As a result, firms and workers from different countries are increasingly interconnected. Globalization has occurred for a number of reasons. List three reasons and briefly describe their effect contributing toward globalization.

Reference:

Explanation: Improvements in shipping and air cargo have driven down transportation costs. Innovations in computing and telecommunications have made it easier and cheaper to manage long-distance economic connections of production and sales. Many valuable products and services in the modern economy can take the form of information. These products and many others can be transported over telephones and computer networks at ever-lower costs. Finally, international agreements and treaties between countries have encouraged greater trade.

Type: Essay Difficulty: Hard Category: Understand

**7.** Each year, researchers at the Heritage Foundation and the Wall Street Journal look at 50 different categories of economic freedom for countries around the world. In each category, they give each nation a score based on extent of economic freedom in that category. What sorts of questions regarding the level of economic freedom might these researchers have asked within this survey which would help rank nations' economic freedom? Please list at least three questions.

Reference:

Explanation: Who's in control of economic decisions? Are people free to do what they want and to work where they want? Are businesses free to produce when they want and what they choose, and to hire and fire as they wish? Are banks free to choose who will receive loans? Or does the government control these kinds of choices?

Type: Essay Difficulty: Hard Category: Understand

**8.** How can a group of workers, each specializing in certain tasks, produce so much more than the same number of workers who try to produce the entire good or service by themselves? Adam Smith offered three reasons. List them and briefly describe the rationale behind each.

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Reference:

Explanation: First, specialization in a particular small job allows workers to focus on the types of production where they have an advantage. People have different skills, talents, and interests, so they will be better at some jobs than others. The particular advantages workers may be based on educational choices, which are in turn shaped by interests and talents: for example, only those with medical degrees qualify to become doctors. Second, workers who specialize in certain tasks often learn to produce more quickly and with higher quality. This pattern holds true for many workers, including assembly line laborers who build cars, stylists who cut hair, and doctors who perform heart surgery. Third, specialization allows economic agents, or actors, to take advantage of economies of scale, a term referring to the fact that for many goods, as the level of production increases, the average cost of producing each individual unit declines.

Type: Essay Difficulty: Hard Category: Understand

**9.** The formal study of economics began when Adam Smith (1723-1790) published his famous book The Wealth of Nations in 1776. In the first chapter of The Wealth of Nations, Smith introduces the idea of the division of labor. Define "division of labor" and illustrate with an example.

Reference:

Explanation: Division of labor means the way in which the work required to produce a good or service is divided into a number of tasks that are performed by different workers. To illustrate the division of labor, Adam Smith used the example of how the tasks of making a pin were divided in a pin factory. He counted the multiple tasks involved with making a pin, including the steps involved in drawing out a piece of wire, cutting it to the right length, straightening it, putting a head on one end and a point on the other, and packaging pins for sale. In observing pin factories, Smith counted 18 distinct tasks that were often done by different people. Students can use a restaurant example or a modern factory example as well.

Type: Essay Difficulty: Easy Category: Apply

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