TEST BANK I

Macro-Economics

TWELFTH EDITION

CAMPBELL R. McCONNELL

STANLEY L. BRUE

Test Bank I
to Accompany

Macro-
Economics

TWELFTH EDITION

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McGraw-Hill, Inc.

New York   St. Louis   San Francisco   Auckland   Bogotá   Caracas
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TEST BANK I to accompany Macroeconomics

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MACROECONOMICS

PREFACE

Test Bank I to accompany Macroeconomics contains over 2800 multiple-choice and true-false questions. We have refined and carried over approximately 2100 questions from earlier versions that accompanied *Economics* by McConnell and Brue. In addition, we have prepared 700 new questions for this edition.

We have attempted in a variety of ways to make *Test Bank I* more functional and "user friendly."

1. *New questions* All new questions are identified by the letter "N" which is attached to the question number. This will provide an easily identified group of fresh questions for instructors who have used past editions of *Economics* and *Test Bank I*.
2. *Grouping by topic* The questions within each chapter have been grouped by topic and sequenced in the same order as the text chapter. A table at the beginning of each *Test Bank I* chapter lists the topics and corresponding question numbers. By making it easier to locate appropriate questions, this sequencing should reduce the time required to prepare examinations and should ease the task of providing balanced coverage in examinations.
3. *Coding* Each test item contains a code identifying the particular type of question; for example, A = Application of concept; D = Definitional question; G = Graphical analysis, and so forth. These codes are identified on the page following this preface, while the coding itself is found above each item in the test bank. We trust that instructors will find this coding useful in blending an optimal mix of examination questions and also in identifying types of questions missed by students.
4. *Page referencing* Corresponding text page numbers are also listed above each test item. This listing will permit the instructor to direct students to the appropriate page(s) of the text that addresses the fact or concept underlying each question.

All the multiple-choice and true-false questions appearing in this Test Bank are available on computerized test-generation systems for IBM-PCs and compatibles, and for Macintosh computers. Contact your local McGraw-Hill representative for more details.

Test Bank II prepared by William Walstad of the University of Nebraska is also available on these computerized test generating systems, as is *Test Bank III* by Professor Walstad and Joyce Gleason of Nebraska Wesleyan University. We wish to thank Professor Mark Lovewell of Ryerson Polytechnical Institute for undertaking the tedious task of coding each new question in the test banks and identifying the corresponding page numbers in the text.

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CODING SYSTEM FOR TEST BANK I

Codes located above each question (one code per question):

A = Application of concept
A question which tests for the student's understanding of a definition or concept.

C = Complex analysis
A question in which the student must apply more than one concept to discover the correct answer.

D = Definition
A straightforward question testing the student's ability to recognize a definition.

E = Equation
A question in which the student must identify and work out one or more equations to properly solve the test item. Many of these questions are designated as advanced analysis in the test bank.

F = Factual
A problem which tests the student's ability to recall some fact or data.

G = Graphical
This designation indicates that graphical analysis is involved and that the student has to demonstrate some working facility with graphs.

T = Table
A test item requiring the student to handle data in tabular form or to put data meaningfully in such form.

Corresponding test page numbers are also listed above each question.

Code attached to the question number:

N = New question
A question which is new to this edition of the test bank.

Test Bank I
to Accompany
MACROECONOMICS

Contents

CHAPTER 1

The Nature and Method of Economics

Multiple-Choice Questions

D, p. 1
1.   Economics may best be defined as:
   (a)   the interaction between macro and micro considerations.
   *(b)   the study of the behavior of people and institutions in the production, distribution, and consumption of scarce goods.
   (c)   the empirical testing of value judgments through the use of induction and deduction.
   (d)   the use of policy to refute facts and hypotheses.

D, p. 1
N2.   The study of economics is primarily concerned with:
   (a)   keeping private businesses from losing money.
   (b)   demonstrating that capitalistic economies are superior to socialistic economies.
   *(c)   choices which are made in seeking to use scarce resources efficiently.
   (d)   determining the most equitable distribution of society's output.

D, p. 3
3.   Economic theories:
   (a)   are useless because they are not based upon laboratory experimentation.
   (b)   which are true for individual economic units are never true for the economy as a whole.
   *(c)   are generalizations based upon a careful observation of facts.
   (d)   are abstractions and therefore of no application to real situations.

D, p. 4
4.   Which of the following is a *correct* statement?
   (a)   Economic concepts or laws which are valid during depression are necessarily valid during prosperity.

1

*(b) Though not quantitatively exact, economic laws are useful because they allow us to predict and therefore control or adjust to events.

(c) Economics is as scientific as are physics and chemistry because economic laws are as quantitatively precise as the laws of physics or chemistry.

(d) Because economics is concerned with questions of "ought," it is a branch of applied ethics and not scientific.

D, p. 3

5. Generally speaking, it may be said that the inductive method:
(a) begins with hypotheses which are then tested against real-world facts.
(b) confuses correlation with cause and effect.
*(c) moves from facts to generalizations or theory.
(d) cannot be applied in economic analysis.

D, p. 3

6. The deductive method:
*(a) begins with hypotheses which are then tested against real-world facts.
(b) confuses correlation with cause and effect.
(c) begins with facts and moves to generalizations or theory.
(d) applies to the physical sciences, but not to social sciences.

D, p. 5

7. In constructing models, economists:
*(a) make simplifying assumptions.   (c) must use mathematical equations.
(b) include all available information.   (d) attempt to duplicate the real world.

D, p. 5

8. Economic models:
(a) are of limited use because they cannot be tested empirically.
(b) are limited to variables which are directly related to one another.
*(c) emphasize basic economic relationships by abstracting from the complexities of the real world.
(d) are unrealistic and therefore of no practical consequence.

D, p. 5

9. The term "ceteris paribus" means:
(a) that if event A precedes event B, A has caused B.
(b) that economics deals with facts, not values.
*(c) other things being equal.
(d) prosperity inevitably follows recession.

D, p. 5

10. The basic purpose of the ceteris paribus assumption is to:
*(a) allow one to reason about the relationship between variables X and Y without the intrusion of variable Z.
(b) allow one to focus upon micro variables by ignoring macro variables.
(c) allow one to focus upon macro variables by ignoring micro variables.
(d) determine whether X causes Y or vice versa.

A, p. 5

N11. Suppose an economist says that "Ceteris paribus, the lower the price of Wheaties, the larger the amount of Wheaties purchased." This statement indicates that:
(a) the quantity of Wheaties purchased determines the price of Wheaties.
*(b) all factors other than the price of Wheaties (for example, consumer tastes and incomes) are assumed to be constant.
(c) economists can conduct controlled laboratory experiments.

(d)   one cannot generalize about the relationship between the price of Wheaties and the quantity purchased.

D, p. 3
N12.   An "hypothesis" is:
(a)   a fundamental truth which all economists accept.
*(b)   a tentative, untested principle.
(c)   the same as a normative statement.
(d)   always the result of induction.

D, p. 5
N13.   The term "ceteris paribus" means that:
(a)   the associated statement is normative.
(b)   many variables affect the variable under consideration.
*(c)   a number of relevant variables are assumed to be constant.
(d)   when variable X increases so does related variable Y.

D, p. 5
14.   Microeconomics is concerned with:
(a)   the aggregate or total levels of income, employment, and output.
*(b)   a detailed examination of specific economic units which comprise the economic system.
(c)   the concealing of detailed information about specific segments of the economy.
(d)   the establishing of an overall view of the operation of the economic system.

D, p. 5
15.   Macroeconomics approaches the study of economics from the viewpoint of:
*(a)   the entire economy.
(b)   governmental units.
(c)   the operation of specific product and resource markets.
(d)   individual consumers.
(e)   individual firms.

A, p. 5
16.   Which of the following is associated with macroeconomics?
(a)   an examination of the incomes of Harvard Business School graduates
*(b)   an empirical investigation of the general price level and unemployment rates in the 1970s
(c)   a study of the trend of wheat prices since World War II
(d)   a case study of pricing and production in the textbook industry

A, p. 5
17.   Which of the following is a microeconomic statement?
(a)   The real domestic output increased by 2.5 percent last year.
(b)   Unemployment was 6.8 percent of the labor force last year.
*(c)   The price of wheat declined last year.
(d)   The general price level increased by 4 percent last year.

A, p. 5
18.   Which of the following is a macroeconomic statement?
*(a)   The gross profits of all American businesses were $182 billion last year.
(b)   The price of beef declined by 3 percent last year.
(c)   General Motors' profits increased in 1988.
(d)   The productivity of steelworkers increased by 1 percent in 1992.

D, p. 5
19.   Microeconomics:
(a)   is the basis for the "after this, therefore because of this" fallacy.
(b)   is not concerned with details, but only with the overall "big picture" of the economy.

*(c)   is concerned with individual economic units and specific markets.
(d)   describes the aggregate flows of output and income.

A, p. 5
N20.   The problems of aggregate inflation and unemployment are:
*(a)   major topics of macroeconomics.
(b)   not relevant to the United States economy.
(c)   major topics of microeconomics.
(d)   peculiar to socialistic economies.

A, p. 5
N21.   Which of the following statements pertains to macroeconomics?
(a)   Because the minimum wage was raised, Mrs. Beepath decided to enter the labor force.
(b)   A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.
*(c)   The national productivity rate grew by 1.4 percent last year.
(d)   The Broken Bow State Bank increased its interest rate on consumer loans by
1 percent.

D, p. 5
N22.   Macroeconomics can best be described as the:
(a)   analysis of how a consumer tries to spend income.
*(b)   study of the large aggregates of the economy or the economy as a whole.
(c)   analysis of how firms attempt to maximize their profits.
(d)   study of how supply and demand determine prices in individual markets.

D, p. 6
23.   A normative statement is one which:
(a)   is based on the law of averages.   (c)   pertains only to macroeconomics.
(b)   pertains only to microeconomics.   *(d)   is based upon value judgments.

A, p. 6
24.   Which of the following is a normative statement?
(a)   The temperature is high today.   *(c)   It is too hot to play tennis today.
(b)   The humidity is high today.   (d)   It will cool off later this evening.

D, p. 6
25.   A positive statement is one which is:
(a)   derived by induction.
(b)   derived by deduction.
(c)   subjective and is based upon a value judgment.
*(d)   objective and is based upon facts.

A, p. 6
26.   Which of the following is a positive statement?
(a)   The humidity is too high today.
(b)   It is too hot to jog today.
*(c)   The temperature is 92 degrees today.
(d)   I enjoy summer evenings when it cools off.

D, p. 6
27.   Normative statements are concerned with:
(a)   facts and theories.   (c)   what is.
*(b)   what ought to be.   (d)   rational choice involving costs and benefits.

D, p. 6
28.   A positive statement is concerned with:
(a)   some goal which is desirable to society.
(b)   what should be.

*(c)   what is.
(d)   the formulation of economic policy.

A, p. 6
29.   Ideally, value judgments are involved at the:
(a)   levels of facts, theory, and policy.   (c)   level of facts only.
(b)   levels of facts and theory only.   *(d)   level of policy only.

A, p. 6
30.   Most of the disagreement among economists involves:
(a)   facts.   (c)   positive statements.
(b)   theories.   *(d)   normative statements.

A, p. 6
N31.   "Economics is concerned with using scarce productive resources efficiently in attempting to satisfy society's material wants." This statement is:
(a)   positive, but incorrect.   (c)   normative, but incorrect.
*(b)   positive and correct.   (d)   normative and correct.

A, p. 6
N32.   Ben says that "The imposition of a tax on beer will raise its price." Holly argues that "Taxes should be imposed on beer because college students drink too much." We can conclude that:
(a)   Ben's statement is normative, but Holly's is positive.
*(b)   Holly's statement is normative, but Ben's is positive.
(c)   Both statements are normative.
(d)   Both statements are positive.

A, p. 6
33.   Most of the disagreement among economists involves:
(a)   the use of statistics.   (c)   generalizing upon facts.
(b)   the gathering of facts.   *(d)   policy economics.

A, p. 7
34.   With respect to the basic economic goals of society, i.e., economic growth, full employment, economic efficiency, price level stability, economic freedom, distributional equity, and economic security, it can be said that:
(a)   all are accepted and assigned similar priorities in every industrialized society.
(b)   all are precisely measurable.
*(c)   some goals are complementary and others are conflicting.
(d)   all are conflicting goals.
(e)   all are mutually compatible goals.

A, p. 7
35.   The achieving of full employment is most likely to conflict with the goal of:
*(a)   price level stability.   (c)   an equitable distribution of income.
(b)   economic growth.   (d)   economic security.

A, p. 7
36.   Assume the relationship between unemployment and inflation is such that a low rate of unemployment results in a high rate of inflation and vice versa. On the basis of this relationship we can say that:
(a)   the goals of full employment and price level stability are compatible.
*(b)   the goals of full employment and price level stability are conflicting.
(c)   society should seek to eliminate inflation even if it means a high level of unemployment.
(d)   society should seek to eliminate unemployment even if it means a high rate of inflation.

D, p. 8

37.   The "fallacy of composition" states that:
        (a)   because economic systems are comprised of so many diverse economic units economic
               laws are necessarily inexact.
        (b)   the anticipation of a particular event can affect the nature or composition of that event
               when it occurs.
       *(c)   what is true for the individual must necessarily be true for the group.
        (d)   because event A precedes event B, A is necessarily the cause of B.

D, p. 9

38.   The "after this, because of this" fallacy states that:
       *(a)   because event A precedes event B, A is necessarily the cause of B.
        (b)   the very attempt to accomplish a certain objective may create conditions which
               prohibit the achievement of that goal.
        (c)   events may drastically alter plans; one's intentions and actual accomplishments may
               differ considerably.
        (d)   generalizations which are accurate at the level of microeconomics may be inaccurate at
               the level of macroeconomics.

A, p. 8

39.   The safest way for an individual to leave a burning theater is to run for the nearest exit; it is
        therefore also the best means of escape for a large audience. This illustrates:
        (a)   the "after this, therefore because of this" fallacy.
        (b)   Wagner's law.
       *(c)   the fallacy of composition.
        (d)   the fallacy of limited decisions.

D, pp. 8–9

N40.   Which of the following has to do with the notion that generalizations which apply to
        individuals are also always valid for a group?
        (a)   the law of large numbers
        (b)   the law of averages
       *(c)   the fallacy of composition
        (d)   the *post hoc, ergo propter hoc* fallacy
        (e)   the fallacy of limited decisions

A, p. 7

41.   The achieving of full employment is most likely to conflict with the goal of:
       *(a)   price level stability.   (c)   an equitable distribution of income.
        (b)   economic growth.   (d)   economic security.

A, p. 7

N42.   Assume that a reduction in the unemployment rate is always accompanied by a reduction in
        income inequality. On the basis of this we can say that:
        (a)   full employment and greater income equality are conflicting goals.
       *(b)   full employment and greater income equality are compatible goals.
        (c)   reduced income inequality is a more important goal than is achieving full employment.
        (d)   achieving full employment is a more important goal than reducing income inequality.

D, pp. 8–9

N43.   The "fallacy of composition" states that:
        (a)   generalizations relevant to microeconomics never pertain to macroeconomics.
        (b)   expectations give rise to self-fulfilling prophesies.
       *(c)   generalizations pertaining to individuals always pertain to the group.
        (d)   quantifiable economic goals are always incompatible with one another.

D, p. 9
N44.   The "after this, because of this" fallacy states that:
              (a)   positive statements are always followed by normative judgments.
              (b)   positive statements can never be proven true or false.
              (c)   if one acts on one's expectations, those expectations will always be fulfilled.
           *(d)   cause and effect can be determined merely by observing the sequence of events.

A, pp. 8–9
N45.   "If you leave a football game at the end of the third quarter, you will avoid traffic and get
              home more quickly. Therefore, everyone should leave the game early." This illustrates the:
              (a)   moral hazard problem.
              (b)   adverse selection problem.
              (c)   fallacy of limited decisions.
           *(d)   fallacy of composition.
              (e)   problem of normative criteria.

D, p. 9
  46.   Which of the following has to do with the problem of distinguishing cause and effect in
              economic reasoning?
              (a)   the law of large numbers   *(d)   the *post hoc, ergo propter hoc* fallacy
              (b)   the law of averages   (e)   the fallacy of composition
              (c)   the fallacy of limited decisions

D, p. 9
  47.   Which of the following best illustrates the *post hoc, ergo propter hoc* fallacy?
              (a)   Because it was 90 degrees today, I worked up a sweat playing tennis.
           *(b)   I took the day off work to go to the beach and that's why it rained.
              (c)   Because it rained at the football game, my new sweater got wet.
              (d)   Because I have studied diligently this semester, my grade average has improved.

D, p. 8
  48.   The fallacy of composition is essentially the error of:
              (a)   omitting relevant variables in constructing a model.
              (b)   reasoning from the general to the particular.
              (c)   confusing cause and effect in economic relationships.
              (d)   using induction, when deduction is required.
           *(e)   generalizing from the particular to the general.

D, p. 10
  49.   The "economic perspective" refers to:
              (a)   macroeconomic phenomena, but not microeconomic phenomena.
              (b)   microeconomic phenomena, but not macroeconomic phenomena.
           *(c)   the rendering of rational decisions in a context of costs and benefits.
              (d)   unlimited resources in a context of limited material wants.

D, pp. 9–10
N50.   The "economic perspective" entails:
              (a)   rational behavior by individuals and institutions.
              (b)   a comparison of benefits and costs in decision making.
              (c)   the altering of behavior when benefits and costs change.
           *(d)   all of the above.

True-False Questions

D, p. 4

T *F   51. An economic model is an ideal or utopian type of economy for which society should strive through the use of economic policy.

D, p. 5

T *F   52. The fact that economic generalizations are abstract renders them impractical and useless.

A, p. 6

T *F   53. If economic theories are solidly based upon relevant facts, then there can be no question as to the character of appropriate economic policy.

D, p. 6

T *F   54. Normative statements are expressions of facts.

D, p. 6

T *F   55. Positive statements are expressions of value judgments.

D, p. 3

T *F   56. The primary objective of economic science is to help businesspersons operate their firms profitably.

D, p. 7

T *F   57. The basic goals of American capitalism are always complementary in that the achievement of any one goal simultaneously furthers the attainment of other basic goals.

D, p. 5

T *F   58. Macroeconomics explains the behavior of individual households and business firms; microeconomics is concerned with the behavior of aggregates or the economy as a whole.

Appendix to Chapter 1

D, p. 14

59.   If we say that two variables are directly related, this means that:
          (a)   the relationship between the two is purely random.
          (b)   an increase in one variable is associated with a decrease in the other variable.
        *(c)   an increase in one variable is associated with an increase in the other variable.
          (d)   the two graph as a downsloping line.

D, p. 14

60.   If we say that two variables are inversely related, this means that:
          (a)   the two graph as an upsloping line.
        *(b)   an increase in one variable is associated with a decrease in the other.
          (c)   an increase in one variable is associated with an increase in the other.
          (d)   the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.

D, p. 15

61.   Economists:
          (a)   always put the independent variable on the horizontal axis and the dependent variable on the vertical axis.
          (b)   always put the dependent variable on the horizontal axis and the independent variable on the vertical axis.

*(c)   are somewhat arbitrary in assigning independent and dependent variables to the horizontal and vertical axes.

(d)   measure the slope of a line differently than do mathematicians.

D, pp. 14–15

62.   Which of the following statements is correct?

(a)   The value of the independent variable is determined by the value of the dependent variable.

*(b)   The value of the dependent variable is determined by the value of the independent variable.

(c)   The dependent variable designates the "cause" and the independent variable the "effect."

(d)   Dependent variables graph as upsloping lines; independent variables graph as downsloping lines.

G, p. 14

Answer the next four questions on the basis of the following diagram:
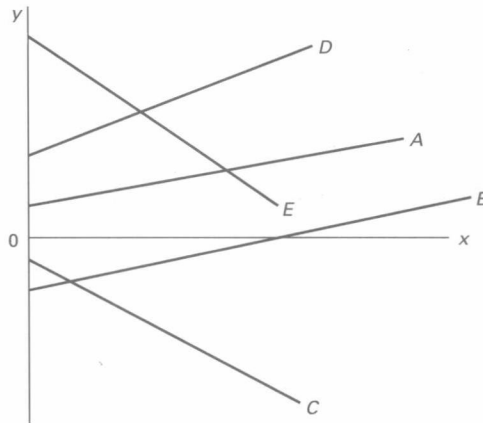
N63.   Which line(s) show(s) a positive relationship between x and y?

(a) A only   (d)   both C and E

(b)   both A and D (e)   all of the lines

*(c) A, B, and D

G, p. 14

N64.   Which line(s) show(s) a negative relationship between x and y?

(a) A only   (d) E only

(b)   both A and D *(e)   both C and E

(c) A, B, and D

G, p. 16

N65.   Which line(s) show(s) a positive vertical intercept?

(a) A and D only   (d) A, D, and B

(b) B and C only   (e)   all of the lines

*(c) A, D, and E

G, p. 16

N66.   Which line(s) show(s) a negative vertical intercept?

(a) C only   *(d)   both B and C

(b)   both C and E (e)   none of the lines

(c) B, C, and E