

**Test Bank to Accompany  
Dornbusch / Fischer**

# **MACROECONOMICS**

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**Fifth Edition**

**JUERGEN FLECK**

Hollins College

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Test Bank to Accompany  
Dornbusch/Fischer:

MACROECONOMICS

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MACROECONOMICS

Fifth Edition

by Rudiger Dornbusch  
and Stanley Fischer

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## PREFACE

This new edition of the test bank to "Macroeconomics" by Dornbusch and Fischer has been substantially revised from the previous edition. Many questions have been changed and others have been added. Each chapter now has between 35 and 40 multiple choice questions with varying degrees of difficulty. These questions reflect the material that is covered in the textbook with changes in emphasis congruent to those in the text.

The correct answer, degree of difficulty, and scramble range are indicated in the line preceding each question. The level of difficulty ranges from 1, which involves simple analysis or recall, to 3, which involves more complex analysis or problem-solving skills. The scramble range indicates the answer choices that may be safely scrambled. The final entry of the line preceding each chapter refers to the figure, if any, associated with the question. If the entry carries a number other than zero, it refers to a specific figure at the end of the test bank volume. The first two digits refer to the chapter in the textbook and the last two digits to the specific table or graph. If the entry is a zero, then there is no figure associated with the question.

Instructors who have access to an IBM-compatible personal computer may want to contact their McGraw-Hill representative for the Brownstone Diploma System version of this test bank. This system contains all the questions in the test bank in the same order as in this volume. It is an easy-to-use system that allows instructors to add their own questions, prepare examinations and save the examinations on a disk so they can be edited and used again at a later point. If you use the Brownstone Diploma System to prepare an examination, the entries indicating the topic, level of difficulty and correct answer will not appear in your examination.

I hope that this test bank is a useful tool for instructors who use multiple choice questions. I welcome any suggestions for improvement and hope users will inform me about any mistakes they may discover.

Juergen Fleck

## CONTENTS

Preface	v
Chapter 1 Introduction	1
Chapter 2 National Income Accounting	10
Chapter 3 Income and Spending	21
Chapter 4 Money, Interest, and Income	32
Chapter 5 Fiscal Policy, Crowding Out, and the Policy Mix	43
Chapter 6 International Linkages	55
Chapter 7 Aggregate Supply and Demand: An Introduction	66
Chapter 8 Consumption and Saving	77
Chapter 9 Investment Spending	90
Chapter 10 The Demand for Money	99
Chapter 11 The Fed, Money, and Credit	109
Chapter 12 Stabilization Policy: Prospects and Problems	119
Chapter 13 Aggregate Supply: Wages, Prices, and Employment	129
Chapter 14 Inflation and Unemployment	140
Chapter 15 The Tradeoffs between Inflation and Unemployment	151
Chapter 16 Budget Deficits and the Public Debt	162
Chapter 17 Money, Deficits, and Inflation	173
Chapter 18 Macroeconomics: The Interaction of Events and Ideas	184
Chapter 19 Long-Term Growth and Productivity	194
Chapter 20 International Interdependence and Adjustment	204

Multiple Choice

Correct: D      Difficulty: 1      Scramble Range: A-D

1. If we measure the market value of total output in our economy using prices that correspond exactly to the time when production took place, the resulting figure is the
- A) real GDP
  - B) real GNP
  - C) constant GNP
  - D) nominal GNP
  - E) none of the above

Correct: C      Difficulty: 1      Scramble Range: ALL

2. Changes in nominal GNP reflect
- A) only changes in prices
  - B) only changes in output
  - C) changes in prices and/or output
  - D) only changes in the composition (mix) of outputs
  - E) changes in product prices, output and wealth

Correct: C      Difficulty: 1      Scramble Range: A-D

3. If you look at the trends of real GNP and nominal GNP you will realize that before 1982, real GNP is greater than nominal GNP, but after 1982, nominal GNP is greater than real GNP. Why is that?
- A) inflation has increased since 1982
  - B) inflation has decreased since 1982
  - C) 1982 is the base year
  - D) productivity increased sharply after 1982
  - E) none of the above

Correct: C      Difficulty: 1      Scramble Range: A-D

4. Real GNP for this year is
- A) a physical count of the output produced this year
  - B) a reflection of both output and currently prevailing prices for that output
  - C) a measure of the value of this year's output using prices which prevailed in a given year
  - D) more than nominal GNP if we use 1982 as the base year
  - E) none of the above

Correct: D      Difficulty: 1      Scramble Range: ALL

5. If real GNP has increased, which of the following can NOT be true?
- A) output has increased and prices have decreased
  - B) nominal GNP has increased and prices have decreased
  - C) nominal GNP has remained the same and prices have decreased
  - D) output has remained the same and prices have increased
  - E) output has increased less than prices

Correct: C      Difficulty: 2      Scramble Range: ALL

6. The unemployment rate is defined as
- A) The number of unemployed divided by total population
  - B) the number of people not looking for jobs divided by the labor force
  - C) the fraction of the labor force that cannot find jobs
  - D) the fraction of total population that cannot find jobs
  - E) total population minus the number of employed workers

Correct: A      Difficulty: 1      Scramble Range: ALL

7. The GNP gap may be either positive or negative
- A) and shows the deviation of actual output from potential output
  - B) and will be positive if actual output exceeds potential output
  - C) and increases as the unemployment rate decreases
  - D) and becomes negative if the labor force grows faster than actual output
  - E) and increases as actual GNP grows faster than potential GNP

Correct: D      Difficulty: 1      Scramble Range: A-C

8. Okun's Law
- A) is a relationship between real growth and changes in the unemployment rate
  - B) states that for every 1.0 percent growth in real GNP above the trend rate of 2.5 percent, the unemployment rate will fall by 0.4 percent
  - C) is a useful policy rule of thumb in estimating the time required for achieving a target level of unemployment
  - D) all of the above
  - E) none of the above

Correct: B      Difficulty: 3      Scramble Range: A-D

9. Suppose the growth rate of real GNP is 5.0 percent and unemployment declined during the year by 1 percent. Recalling Okun's Law we estimate that
- A) the nominal growth rate was 12.5 percent
  - B) the trend rate of growth is about 2.5 percent
  - C) the rate of inflation is declining and will, in time, reach 5.0 percent
  - D) unemployment will disappear in just over 4 years
  - E) none of these

Correct: C      Difficulty: 3      Scramble Range: A-D

10. If the target of economic policy is to lower the unemployment rate by 2 percent over a 2-year period, an economy with a trend growth rate of 2.5 percent per year would have to grow each of the following years by
- A) 3.5%
  - B) 6.0%
  - C) 5.0%
  - D) 10.0%
  - E) none of these

Correct: C      Difficulty: 2      Scramble Range: ALL

11. Since 1960 in the U.S. the inflation rate
- A) has increased steadily
  - B) has remained remarkably constant
  - C) has fluctuated but almost always been positive
  - D) has declined
  - E) has always increased as the unemployment rate has gone up

Correct: C      Difficulty: 1      Scramble Range: A-D

12. Looking at how the rate of inflation and unemployment behaved over the last three decades we can see that
- A) unemployment and inflation have always increased together
  - B) unemployment always increased when inflation decreased
  - C) there is no simple relationship between unemployment and inflation
  - D) low unemployment always implies high inflation
  - E) none of the above

Correct: B      Difficulty: 1      Scramble Range: ALL

13. The Phillip's curve shows the relationship between
- A) the price level (index) and unemployment in a year
  - B) the rate of inflation and unemployment over time
  - C) employment and GNP
  - D) the change in the rate of inflation and unemployment
  - E) unemployment and GNP growth

Correct: D      Difficulty: 1      Scramble Range: ALL

14. If national income goes down but the price level goes up then
- A) the AD-curve must have shifted to the right
  - B) the AD-curve must have shifted to the left
  - C) the AS-curve must have shifted to the right
  - D) the AS-curve must have shifted to the left
  - E) the AD-curve and the AS-curve must have shifted to the right.

Correct: D      Difficulty: 1      Scramble Range: ALL

15. Activist policies tend to have great appeal

- A) to monetarists
- B) to the New Classicals
- C) to those who believe the government is too large and should be cut back
- D) when the economy is in a deep recession
- E) when actual output (Y) is near its potential (Y\*)

Correct: E      Difficulty: 1      Scramble Range: A-D

16. The New Classicals believe that

- A) households and firms make rational decisions
- B) individuals' expectations are rational
- C) markets always clear
- D) all unemployment must be voluntary
- E) all of the above

Correct: A      Difficulty: 2      Scramble Range: ALL

17. In order for real GNP to exceed nominal GNP

- A) the price level for the year in question must be less than the price level in the base year
- B) the economy must be growing
- C) the economy must be in recession or decline
- D) there must be extensive growth in the money supply
- E) the price level for the year under study must exceed 1.0 or 100%

Correct: C      Difficulty: 2      Scramble Range: ALL

18. If an increase in aggregate demand (AD) has no impact upon the price level

- A) actual output is equal to potential output
- B) output is probably above potential output
- C) aggregate supply (AS) must be horizontal
- D) aggregate supply (AS) must be vertical
- E) aggregate demand (AD) must be vertical

Correct: D      Difficulty: 1      Scramble Range: A-D

19. As the economy goes into a recession, we should expect that

- A) inflation will decrease while output will increase
- B) inflation will increase while unemployment will decrease
- C) inflation will increase while output will increase
- D) inflation will decrease while unemployment will increase
- E) none of the above



Correct: D      Difficulty: 1      Scramble Range: A-D

20. The GNP may be defined as

- A) the monetary value of all goods and services, final and intermediate, produced in a given year
- B) the monetary value of all wealth that is accumulated in a given year
- C) the national income minus all nonincome charges against output
- D) the monetary value of all final goods and services produced in a given year.
- E) none of the above

Correct: E      Difficulty: 1      Scramble Range: A-D

21. Monetarists believe that

- A) unstable monetary growth is primarily responsible for economic fluctuations
- B) excessive monetary growth causes inflation
- C) activist policies can destabilize the economy
- D) restrictive monetary policy helps to reduce inflation
- E) all of the above

Correct: E      Difficulty: 1      Scramble Range: A-D

22. If real GNP has decreased, which of the following can NOT be true

- A) nominal GNP has increased
- B) prices have increased
- C) prices have increased but output has decreased
- D) prices and output have both decreased
- E) none of the above can be true

Correct: C      Difficulty: 1      Scramble Range: ALL

23. If the AS-curve is vertical and the AD-curve shifts to the left then

- A) prices and output both decrease
- B) prices and output both increase
- C) prices decrease but output remains the same
- D) output decreases but prices remain the same
- E) output increases but prices decrease

Correct: A      Difficulty: 1      Scramble Range: ALL

24. If an increase in aggregate demand has little effect on prices but causes output to increase significantly then

- A) the AS-curve must be very flat
- B) the AS-curve must be very steep
- C) the AD-curve and the AS-curve must both be very steep
- D) the AS-curve must be vertical
- E) the AS-curve must be horizontal

Correct: A      Difficulty: 2      Scramble Range: ALL

25. If nominal GNP, prices and population all increase but real GNP remains the same then
- A) real GNP per capita decreases
  - B) real GNP per capita increases
  - C) real GNP per capita does not change
  - D) we cannot tell what happens to real GNP per capita
  - E) the standard of living for each person in this economy increases

Correct: C      Difficulty: 1      Scramble Range: ALL

26. In 1988, nominal GNP was \$4,864 billion, real GNP was \$3,996 billion and the size of the U.S. population was 246 million. How large was the U.S. GNP per capita?
- A) \$22,484
  - B) \$12,368
  - C) \$16,244
  - D) \$9,680
  - E) we can't tell from this information

Correct: E      Difficulty: 1      Scramble Range: ALL

27. Potential GNP
- A) is the value of GNP that could be calculated if there were no measurement errors
  - B) is the value of GNP if the unemployment rate were zero
  - C) is the value of GNP if the inflation rate were zero
  - D) is the value of GNP minus depreciation
  - E) is the value of GNP operating at full employment and with the capital stock working at full capacity

Correct: B      Difficulty: 1      Scramble Range: A-D

28. Stabilization policies
- A) are always initiated by Congress or the President
  - B) are designed to moderate fluctuations in the rate of growth, inflation and unemployment
  - C) cannot be undertaken by the Federal Reserve
  - D) are always designed to reduce the rate of unemployment
  - E) none of the above

Correct: D      Difficulty: 1      Scramble Range: ALL

29. As the economy enters a boom we should most likely expect that
- A) inflation will decrease with little change in the unemployment rate
  - B) unemployment will increase and inflation will decrease
  - C) nominal GNP will increase but real GNP will decrease due to lower prices
  - D) inflation will increase and the unemployment rate will decrease
  - E) output will increase with little change in unemployment or inflation

Correct: A      Difficulty: 2      Scramble Range: A-D

30. The average growth rate in the U.S. over the last decade was
- A) greater for nominal GNP than for real GNP
  - B) greater for real GNP than for nominal GNP
  - C) greater for real GNP per capita than for nominal GNP
  - D) greater for real GNP per capita than for nominal or real GNP
  - E) none of the above

Correct: D      Difficulty: 1      Scramble Range: A-D

31. Assume an economy that is currently at the full employment level of income. If there is a decrease in aggregate demand, what should we most likely expect?
- A) a decrease in potential GNP
  - B) an increase in unemployment and inflation but no change in potential GNP
  - C) a decrease in unemployment and inflation
  - D) an increase in unemployment and a decrease in inflation
  - E) none of the above

Correct: C      Difficulty: 1      Scramble Range: ALL

32. Which of the following countries do you expect to have the highest average growth rate in real GNP per capita in this century?
- A) Argentina
  - B) China
  - C) France
  - D) Ghana
  - E) India

Correct: E      Difficulty: 2      Scramble Range: A-C

33. The New Keynesians believe that
- A) all unemployment is voluntary
  - B) markets always clear
  - C) active stabilization policies are always ineffective
  - D) all of the above
  - E) none of the above

Correct: C      Difficulty: 2      Scramble Range: ALL

34. Which of the following is the most important variable for judging an economy's long-run performance?
- A) growth in nominal GNP
  - B) growth in real GNP
  - C) growth in real GNP per capita
  - D) growth in potential GNP
  - E) growth in the capital stock

Correct: A      Difficulty: 2      Scramble Range: ALL

35. Assume the long-run trend in economic growth is 2.5 percent and the government wants to reduce the unemployment rate by 0.4 percent. What should the actual rate of economic growth be to accomplish this?
- A) 3.5 percent
  - B) 2.5 percent
  - C) 5.0 percent
  - D) 1.0 percent
  - E) 2.0 percent

Correct: D      Difficulty: 2      Scramble Range: ALL

36. Assume the long-run economic growth rate is 2.5 percent and the actual growth rate is 6.5 percent. What reduction in the unemployment rate would you expect to see?
- A) 2.0 percent
  - B) 0.4 percent
  - C) 1.0 percent
  - D) 1.6 percent
  - E) 0.8 percent

Correct: C      Difficulty: 2      Scramble Range: ALL

37. Assume that the actual growth rate in real GNP is 2.5 percent. How much would you expect the unemployment rate to change?
- A) an increase of 1.0 percent
  - B) an increase of 0.4 percent
  - C) the unemployment rate would remain unchanged
  - D) a decrease of 0.4 percent
  - E) a decrease of 1.0 percent

Correct: E      Difficulty: 1      Scramble Range: NONE

38. Assume the GNP gap has increased. Which of the following can be responsible for this?
- A) an increase in potential GNP
  - B) a decrease in actual GNP
  - C) a decrease in aggregate demand
  - D) only a) and b)
  - E) all of the above

Correct: D      Difficulty: 1      Scramble Range: ALL

39. If you define the so-called "discomfort index" as the sum of the inflation rate and the unemployment rate, in which year would you expect this index to have been highest?
- A) 1963
  - B) 1970
  - C) 1972
  - D) 1980
  - E) 1983

Correct: A      Difficulty: 1      Scramble Range: ALL

40. If you define the so-called "discomfort index" as the sum of the inflation rate and the unemployment rate, in which of the following years would you expect this index to be lowest?

- A) 1963
- B) 1970
- C) 1974
- D) 1980
- E) 1983

Multiple Choice

Correct: B      Difficulty: 2      Scramble Range: ALL

1. If nominal GNP increased from \$4,000 billion in the base year to \$4,200 billion in the following year, and real GNP stayed the same, which would be true?
- A) the GNP-deflator increased from 100 to 110
  - B) prices increased on average by 5 percent
  - C) prices increased on average by 10 percent
  - D) prices have remained the same
  - E) the GNP-deflator increased from 100 to 120

Correct: C      Difficulty: 2      Scramble Range: A-D

2. The difference between gross investment and net investment is
- A) the same as the difference between GNP and disposable income
  - B) the same as the difference between gross consumer income and net consumer income
  - C) equal to capital consumption allowances
  - D) the same as the difference between net and gross exports
  - E) none of the above

Correct: D      Difficulty: 2      Scramble Range: ALL

3. Which of the following statements about the relationship between GNP and NNP is true?
- A) NNP is greater than GNP if prices are falling
  - B) NNP is greater than GNP if prices are rising
  - C) NNP can be greater than GNP if prices are rising
  - D) NNP cannot be greater than GNP
  - E) NNP must be greater than GNP

Correct: E      Difficulty: 2      Scramble Range: ALL

4. If GNP was \$4,000 billion in Year 1 and \$4,250 billion in Year 2 and prices were higher in Year 2 than they were in Year 1, then
- A) real GNP was larger in Year 1 than it was in Year 2
  - B) real GNP was larger in Year 2 than it was in Year 1
  - C) real NNP was smaller in Year 2 than it was in Year 1
  - D) GDP must have been smaller in Year 2 than it was in Year 1
  - E) we cannot say in which year either real GNP, NNP, or GDP was larger

Correct: B      Difficulty: 2      Scramble Range: A-D

5. Real GNP as contrasted with current or nominal GNP refers to
- A) nominal GNP minus depreciation
  - B) nominal GNP corrected for price changes
  - C) nominal GNP corrected for unemployment changes
  - D) nominal GNP minus indirect taxes
  - E) all of the above

Correct: D      Difficulty: 2      Scramble Range: ALL

6. If nominal GNP was \$4,410 billion and the GNP-deflator is 105, then real GNP is
- A) \$4,305 billion
  - B) \$4,630 billion
  - C) \$4,000 billion
  - D) \$4,200 billion
  - E) \$4,515 billion

Correct: C      Difficulty: 2      Scramble Range: ALL

7. If we were to include the value of steel, body parts, wheels, tires, workers' salaries and final car sales in calculating GNP, then we
- A) understated GNP by overlooking car dealers' profits
  - B) ignored the contribution of capital to output
  - C) overstated GNP through double counting
  - D) used the value added technique for calculating GNP
  - E) have to exclude any cars that are exported abroad

Correct: B      Difficulty: 2      Refer to: 0201      Scramble Range: A-D

8. Gross National Product in Table 2-1 is
- A) \$1610 B
  - B) \$1579 B
  - C) \$1641 B
  - D) \$1699 B
  - E) none of these

Correct: A      Difficulty: 1      Refer to: 0201      Scramble Range: A-D

9. If GNP in Table 2-1 were \$1650 B, net national product would be
- A) \$1530 B
  - B) \$1435 B
  - C) \$1555 B
  - D) \$1770 B
  - E) none of these

Correct: C      Difficulty: 1      Refer to: 0201      Scramble Range: A-D

10. If GNP in Table 2-1 were \$1680, national income would be
- A) \$1585 B
  - B) \$1573 B
  - C) \$1465 B
  - D) \$1505 B
  - E) none of these

Correct: C      Difficulty: 1      Refer to: 0202      Scramble Range: A-D

11. According to Table 2-2, in country A real GNP for 1986 was
- A) \$ 4 B
  - B) \$441 B
  - C) \$400 B
  - D) \$420 B
  - E) none of these

Correct: A      Difficulty: 2      Refer to: 0202      Scramble Range: A-D

12. According to Table 2-2, between 1986 and 1988, real GNP increased by
- A) 12.5 percent
  - B) 22.1 percent
  - C) 32.6 percent
  - D) 9.0 percent
  - E) none of these

Correct: D      Difficulty: 2      Scramble Range: ALL

13. Net exports is a negative figure when
- A) a nation's exports of goods and services exceed its imports
  - B) depreciation exceeds gross private domestic investment
  - C) the economy's stock of capital goods is declining
  - D) a nation's imports of goods and services exceed its exports
  - E) the sum of private and public spending is less than output

Correct: E      Difficulty: 2      Scramble Range: ALL

14. Which of the following identities is NOT true?
- A)  $Y \equiv C + I + G + NX$
  - B)  $YD \equiv Y - TA + TR$
  - C)  $YD \equiv C + S$
  - D)  $S - I \equiv (G + TR - TA) + NX$
  - E)  $S + TR - TA \equiv I + G + NX$



Correct: A      Difficulty: 1      Scramble Range: ALL

15. In calculating this year's GNP, national income accountants
- A) exclude the price paid for a used computer by a college student
  - B) include the value at the "farm" of California's marijuana crop
  - C) include an estimate for income from "illegal activities"
  - D) exclude the value of any repairs made on existing property
  - E) exclude pollution control equipment as nonproductive

Correct: B      Difficulty: 3      Scramble Range: ALL

16. If savings exceeds investment by \$10 billion and tax collections exceed government spending by \$5 billion, then we know that, in that year
- A) the trade deficit is \$15 billion
  - B) the trade surplus is \$15 billion
  - C) the trade deficit is \$5 billion
  - D) the trade surplus is \$5 billion
  - E) we cannot say anything about the international trade balances

Correct: D      Difficulty: 3      Scramble Range: ALL

17. Suppose exports = 30; imports = 40; taxes = 8; government spending = 10; saving = 15. Investment = \_\_\_\_\_ (all figures are in billions of dollars).
- A) 15
  - B) 8
  - C) 27
  - D) 23
  - E) 3

Correct: C      Difficulty: 2      Scramble Range: A-D

18. In a simple economy with no depreciation, government, or international trade, it is correct to say that for any specified time period (say the month of June)
- A) consumption equals income
  - B) consumption less investment equals saving
  - C) output less consumption equals investment
  - D)  $Y + C$  equals  $I + S$
  - E) all of the above