**Unit 2 Multiple Choice Practice Questions**

**Macroeconomic Activity, The Business Cycle, Economic Growth & Inflation**

1. In the circular flow model, the money households receive come from:
2. The sale of labour resources by households to firms
3. The sale of capital resources by households to firms
4. The sale of land resources by houses to firms
5. All of the above
6. Which of the following is an injection into the circular flow of income?
7. An increase in the level of household saving
8. An increase in the level of investment
9. A reduction in government spending on infrastructure
10. An increase in taxes with government expenditure held constant
11. Saving
12. Is that part of current income which is not spent on consumer goods and services
13. Is undertaken by those who make investment decisions
14. That part of current income which is spent on goods to be used immediately
15. Is the difference between income and taxation
16. Which of the following statements are true
17. Income flows because everyone’s income is someone else’s investment
18. Income flows because everyone’s spending is someone else’s income
19. Investment increase the flow of income
20. Saving reduces the flow of income
21. I and ii
22. I, ii and iii
23. Ii, iii and iv
24. All four statements
25. When overseas firms make long term investments in Australian industry, the effect on the circular flow is similar to
26. Increases in direct taxation by the government
27. An increase in household spending on imports
28. Increased savings by the household sector
29. Increases in investment
30. If savings exceeds investment (assuming there is no government and no overseas sectors), then
31. Total production will fall
32. Household spending, and employment will rise
33. investment will automatically increase to match saving
34. There is an expansionary effect on the circular flow
35. In the circular flow model, the equilibrium level of income
36. Will increase if households increase their spending on imports
37. Represents the ideal level of income in the economy
38. Occurs when there are no unplanned changes in inventories held by firms
39. Will decrease if the government reduces its budget surplus
40. In a particular period of time, Y=4,000, C=3,000, S=800 and I=1,000, then it is likely that:
41. There will be no change in the level of output in the next period
42. The amount of income earned in the next period will fall
43. The amount of income earned in the next period will remain the same
44. The amount of output produced in the next period will rise
45. When an economy is in ‘equilibrium’, it can be assumed that
46. Total spending, output and investment are equal
47. Net exports are zero
48. The government’s budget is balanced
49. Total spending, output and income are equal

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| --- | --- | --- | --- | --- |
| **Country** | **A** | **B** | **C** | **D** |
| **Income** | 70 | 80 | 90 | 100 |
| **Consumption** | 53 | 60 | 67 | 74 |
| **Savings** | 17 | 20 | 23 | 26 |
| **Investment** | 19 | 20 | 23 | 25 |

1. Other things being equal, which country will experience can increase in income in the future?
2. Country A
3. Country B
4. Country C
5. Country D
6. Aggregate expenditure is defined as
7. The sum of consumption and investment expenditure undertaken by private households, firms and government
8. The amount which households and firms plan to spend on goods and services
9. The aggregate (sum) of consumer expenditure, firms expenditure on capital items, government expenditure, and expenditure on net exports
10. Expenditure on new capital equipment which will not be used to produce final goods and services in the future
11. Of the following, which is the largest component of aggregate spending in the Australian economy
12. Consumer spending on non-durables
13. Consumer spending on services
14. Consumer spending on durables
15. Spending on government services
16. Which of the following would most likely lead to an increase in consumption?
17. A fall in disposable income
18. A rise in interest rates charged on borrowed funds
19. A fall in income tax rates
20. A rise in the exchange rate, so the Australian dollar buys more overseas goods
21. Investment expenditure is more volatile than consumption expenditure because
22. Investment expenditure is sensitive to changes in interest rates
23. Investment is influenced by levels of profit, whereas consumption is not
24. Consumption expenditure is not influenced by expectations about the future
25. Investment decisions involve risk and uncertainty
26. Which of the following factors is LEAST likely to affect the investment decisions of business firms
27. The level of real interest rates
28. The level of nominal interest rates
29. The current level of corporate profit
30. Business expectations
31. Imports are most likely to rise during which phase of the business cycle
32. The contraction
33. The expansion
34. The Trough
35. The period just after the end of a boom
36. Which of the following would NOT be classified as a leading indicator?
37. Consumer expectations
38. Consumer debt
39. New orders for manufacturing firms
40. Building approvals
41. Lagging indicators:
42. Reflect economic events sometime in the past
43. Predict changes in the business cycle
44. Typically following coincident indicator by about six months
45. Are influenced by exogenous factors such as changes in the gold price
46. At the start of an upswing of economic activity, which of the following pairs of events would most likely be occurring?
47. Falling employment AND rising interest rates
48. A reduction in inventory levels AND high levels of consumption of durable goods
49. Inflationary pressure AND excess capacity in manufacturing industry
50. Improving business expectations AND rising private investment
51. Which of the following pairs of events are more likely in the early stages of a downswing in economic activity?
52. Replacement of worn-out equipment AND inflationary pressure
53. Improvement economic sentiment AND rising investment
54. Investment falls due to previous increases in capital stock AND borrowers re-assess their credit limits
55. Firms become uncertain about the future AND retail sales rise
56. Economic growth is defined as
57. The rate of increase in an economy’s actual output
58. The rate of increase in an economy’s potential output
59. The rate of growth in employment of resources over time
60. The rate of increase in an economy’s potential real output over time
61. Under the production possibilities model (PPC), economic growth is illustrated by
62. A movement along the PPC
63. A movement from a point inside the PPC to the PPC
64. A leftward shift of the PPC
65. A rightward shift of the PPC
66. If population grows at a faster rate than real GDP, then
67. Income per head will increase
68. Income per head will decrease
69. Income per head will not change
70. It is not possible to determine
71. Generally, in developed economies, the main determinant of economic growth is an
72. Increase in land resources
73. Increase in the labour force
74. Increase in productivity
75. Increase in population
76. The term ‘capital deepening’ refers to
77. Public investment on infrastructure
78. A 5 per cent increase in the nation’s capital stock which accompanies a 5 per cent increase in other factors used in production
79. An increase in the stock of capital relative to the stock of other productive inputs
80. Investment in long term projects which are likely to show a positive return only after several years
81. Possible side effects of rapid economic growth are
82. Increased underemployment and reduced investment
83. Increased inflation and increased environmental damage
84. Reduced inflation and increased environmental damage
85. Increased inflation and reduced consumption of material goods
86. In June 2004, the CPI stood at 143.5. By September, the CPI had risen to 145. Thus the rate of inflation for the quarter was
87. 1.5%
88. 0.15%
89. 98.9%
90. 1.04%
91. The items in the Consumer Price Index (CPI) are weighted
92. According to the pattern of consumption of an average family
93. To offset changes in the items comprising the pattern of spending from year to year
94. To counteract differences in income between groups of consumers
95. According to the proportion of the national income spent on items in that group
96. The best evidence that inflation is due to cost-push factors would be that
97. Price increases are gradual but prolonged
98. Wages are rising faster than labour productivity
99. Output is above the capacity of the economy
100. Consumer borrowing has reached record levels
101. An economist would probably conclude that inflation was due to demand pressure rather than cost pressure if
102. The economy was in a boom phase of the business cycle
103. There was considerable under-utilisation of productive capacity in the economy
104. Wages are increasing at a faster rate than real output
105. There had been a recent fall in the exchange rate, meaning exports seem cheaper to overseas purchasers, whilst imports from overseas became more expensive
106. Which of the following combinations of events would probably have the greatest upward influence on price levels in Australia
107. Economic growth in the past year was less than 2% AND the level of industrial action in the workforce was at its lowest in five years
108. Full employment in a key sector of the economy AND the economy entering the trough phase of the business cycle
109. Structural reforms designed to reduce the costs of business were implemented AND interest rates were falling
110. Depreciation of the Australian currency AND high rates of inflation overseas
111. Which of the following statements best describes demand pull inflation
112. The price level is pushed up by higher costs of production
113. Continual inflation causes price rises to be factored in to all economic decisions
114. excess demand across the economy increases the level of prices
115. the rate of inflation is pulled up by rising unemployment
116. Which of the following would be UNLIKELY if moderate inflation was expected to continue
117. Unions would build inflationary expectations into their demands for pay rises
118. The belief that the rate of inflation in the future will continue at the same rate as it has in the past
119. People would ‘invest’ their excess funds in speculative rather than productive assets
120. The aggregate level of savings will increase
121. If the general price level falls while money incomes remain constant then
122. Income has been redistributed to debtors
123. The level of real income has increased
124. Income has been redistributed to importers
125. The cost of living has increased
126. Which one of the following is recognised as a result of inflation?
127. Business face less risk in making investment decisions
128. Government revenue falls unless the level of taxation is raised
129. The cost of living falls
130. People on fixed incomes face a decline in living standards
131. Economists consider inflation to be undesirable because
132. Inflation encourages consumers to buy domestic goods in preference to imports
133. Inflation increases the rate of saving
134. Inflation may lead to misallocation of resources
135. Inflation now means recession is around the corner