**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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **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

**Unit 2 Multiple Choice Practice Questions**

**Unemployment, Balance of Payments, the Public Sector, Economic Objectives and Macroeconomic Performance**

1. The participation rate is defined as
2. The proportion of the working age population at work or actively seeking work
3. The proportion of people who participated in work for at least one hour during the week in which the ABS completed its employment survey
4. The proportion of the civilian population who are either at work or actively seeking work
5. The proportion of the population who participate in the labour force
6. Assume the current unemployment rate is 4.5 per cent. This means that:
7. 4.5 per cent of the population cannot find work
8. 95.5 per cent of the population were in paid work for at least one hour in the survey week
9. 4.5 per cent of people over the age of 15 years cannot find work
10. 4.5 per cent of the labour force are unemployed
11. Stephanie is a baroque cellist in a world demanding to hear music played on an electric cello. She cannot find suitable employment, so she is
12. Cyclically unemployed
13. Frictionally unemployed
14. Structurally unemployed
15. Voluntarily unemployed
16. If the population is 20 million, 10 million are employed and 1 million are unemployed, then the unemployment rate would equal
17. 10%
18. 9%
19. 50%
20. 3%
21. The major cause of frictional unemployment in our economy is
22. Capital for labour substitution in the production process
23. Changing patterns in consumer demand for some products
24. Lower levels of spending in a trough
25. Imperfect information about labour market conditions
26. A small amount of structural unemployment may be beneficial to the economy because
27. Outdated capital equipment and technology needs to be replaced with new equipment
28. This type of unemployment is a result of the decline in the primary industry workforce over the years
29. The skill level of the workforce is improved by workers who retrain and move from sectors in decline to sectors which are growing
30. Younger workers take over the jobs from which older workers have been displaced
31. The main cost of unemployment is
32. Welfare payments such as the Job Search allowance
33. The services which the government could have provided with the money it was forced to spend on welfare payments
34. The negative impact of unemployment on business confidence
35. Lost output and income
36. The short-run Phillips curve illustrates \_\_\_\_\_\_\_\_\_\_\_\_\_ relationship between the unemployment rate and the inflation rate
37. A positive
38. A negative
39. A cyclical
40. No
41. Free foreign trade may benefit the residents of a nation via
42. Higher real incomes for its people
43. Lower consumer prices
44. More efficient utilisation of resources
45. All of the above
46. A nation will gain if
47. Exports increase and imports decrease
48. Exports decrease and imports increase
49. Both exports and imports increase
50. Both exports and imports decrease
51. Which of the following is not an important determinant of a country’s exports?
52. It’s rate of economic growth
53. Its rate of exchange
54. Its inflation rate
55. The rate of growth of trading partners
56. Australia’s top two trading partners are
57. Japan and the United States
58. China and the United States
59. Japan and India
60. China and Japan
61. In 2017, Australia’s largest export was
62. Iron ore
63. Natural gas
64. Tourism
65. Coal
66. Australia’s largest category of exports is
67. Rural
68. Services
69. Manufactures
70. Minerals and fuels
71. In 2017, Australia’s largest import was
72. Motor vehicles
73. Crude petroleum
74. Personal trade services
75. Refined petroleum
76. Australia’s largest category of imports is
77. Consumer foods
78. Intermediate goods
79. Services
80. Capital goods
81. The ranking of Australia’s major export sectors, from largest to smallest is
82. Services, manufacturing, resources, rural
83. Resources, services, rural, manufacturing
84. Manufacturing, resources, services, rural
85. Resources, manufacturing, services, rural
86. Which of the following statements relating to Australia’s trade over the last decade is correct?
87. The total value of non-mineral exports has fallen
88. While Asia has become Australia’s major market for export, Europe has maintained its position as Australia’s main source of imports
89. Mineral exports have increased as a proportion of total exports
90. Iron ore and gold have been Australia’s largest exports by value
91. Which of the following development does not explain the change in direction of Australia’s pattern of trade in recent years?
92. The Asia-Pacific region has achieved higher rates of economic growth than Europe
93. The discovery and development of major natural gas reserves in Australia in expanding
94. Lower transport costs have given Australia an advantage when exporting to the Asia-Pacific region compared with Europe
95. China has become a more significant participant in world trade
96. Australia’s main source of imports by value is \_\_\_\_\_\_\_\_\_\_, while the largest service export is \_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_ is the largest service import.
97. China, personal travel, transport services
98. Japan, tourism, transport services
99. China, education, tourism
100. United States, education, tourism
101. In the theory of international trade
102. Exports are more important than imports
103. Imports are more important than exports
104. Both exports and imports are equally important
105. Exports increase economic welfare but imports decrease it
106. The balance of payments is a record of
107. A country’s purchases and sales of goods and services on world markets
108. The value of goods and service bought and sold on world markets
109. A country’s economic transactions with other countries
110. All investment flow between countries
111. Which of the following statement(s) is correct

(i) a current account deficit will be balanced by a capital/financial account surplus

(ii) a capital/financial account surplus will be balanced by a current account surplus

(iii) a capital/ financial account deficit will be balanced by a current account surplus

1. ( I ) only
2. ( ii ) only
3. ( I ) and ( iii ) only
4. ( I ), ( ii ) and ( ii )
5. The largest item by value in Australia’s current account is
6. The value of goods imported
7. The value of services exported
8. The interest payments associated with foreign debt
9. The value of direct foreign investment in Australia
10. Australia has recorded a current account deficit in its balance of payments
11. Far less frequently than it’s has experienced surpluses
12. Only because of persistent merchandise deficits
13. In every year from the 1980s until the present
14. In only two of the last 20 years
15. Which of the following would be a credit items in the current account
16. An Australian tourist spending while on holiday in Singapore
17. An Australian firm hires a non-resident Indonesian citizen
18. An Australian firm invests overseas
19. An Australian firm sells computer software overseas
20. Which of the following purchases by an Australian resident would be recorded as a service import in the current account
21. A foreign newspaper
22. Computer software from the U.S
23. Shares in an overseas company
24. A flight on a foreign airline

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|  | **$billions** |
| **Exports** | 400 |
| **Imports** | 430 |
| **Net services** | -20 |
| **Net income** | -50 |

1. Which of the following statements is correct
2. The capital and financial account has a deficit of $100 billion
3. The current account has a deficit of $50 billion
4. The balance on net goods is a surplus of $30 billion
5. The capital and financial account has a surplus of $100 billion
6. The payment of dividends by an Australian company to a foreign investor will appear in Australia’s balance of payments as a
7. Credit item in the current account
8. Debit item in the financial account
9. Debit item in the services account
10. Debit item in the primary income account
11. The balance on goods and services
12. Must be zero
13. Must be positive
14. Must be negative
15. Must be negative, positive or zero
16. The financial account of the balance of payments show the
17. Value of net foreign investment
18. Interest repayment on borrowing from overseas
19. Inflow of pensions and migrant funds
20. Net trade in goods and services
21. Which of the following is included in the capital and financial account of the Australian balance of payments
22. Dividends paid to foreigners
23. Expenditure by Australian tourists overseas
24. Expenditure by Japanese tourists overseas
25. Purchases of share in Australian companies by foreign residents
26. If the value of imports exceeds the value of exports, a country will record a:
27. Balance of payments deficit
28. Current account deficit
29. Financial account deficit
30. Balance of trade deficit
31. When an Australian buys shares in an American company, this would be recorded in our balance of payments as a
32. A credit on Australia’s current account
33. A debit on Australia’s current account
34. A debit on Australia’s financial account
35. A credit on Australia’s primary income account
36. When an Australia purchases a New Zealand financial asset
37. Australia’s balance of goods and services decreases
38. Australia’s capital and financial account surplus is reduced
39. Australia’s current account deficit increases
40. Australia’s capital and financial account surplus is increased
41. Which of the following statements is correct?
42. A country will have a current account surplus if it imports more than it exports
43. A country will have a capital and financial account deficit if it imports more than it exports
44. A country that has a current account deficit will borrow savings from the rest of the world
45. A current account deficit is an indication that a country has excessively high level of imports
46. In the balance of payments, in what account is foreign investment into Australia recorded
47. The current account
48. The capital account
49. The financial account
50. The income account
51. The current account balance is equal to
52. The trade balance + net foreign investment
53. Net goods + net services + net income + net investment
54. Net goods + net services + net income
55. Net goods + net services

|  |  |
| --- | --- |
|  | **$billion** |
| **Exports of goods** | 275 |
| **Imports of goods** | 265 |
| **Net services** | -2 |
| **Primary Income** | -56 |
| **Secondary Income** | 6 |

1. Which of the following statements is correct
2. The trade balance is $10bn
3. The net income balance is $50bn
4. The net goods and services balance is in deficit
5. The current account is in deficit by $42bn

1. Australia is classified as a modified market economy because
2. The government produces the public goods that the economy needs, in competition with private sector providers
3. The size of the government sector has grown to become larger than the public sector
4. Regulation govern the activities of firms providing all goods and services
5. The government intervenes to correct for market shortcomings
6. Which of the following is an example of a public good
7. A new car
8. A footpath
9. Health services
10. A natural resource such as fishery or forest
11. An example of a merit good is
12. A public hospital
13. A private fee-paying secondary school
14. Free-to-air radio and television transmission
15. The taxi industry
16. One important feature that distinguishes a public good from a private good is that
17. Only the government can produce public goods
18. If you pay for a unit of a public good, you are guaranteed sole consumer
19. It is impossible to prevent a person from enjoying the benefits of a public good
20. If you consume a unit of a public good, there is one unit less for someone else
21. The ‘optimum’ amount of government intervention in a modified market economy is
22. That which provides all public and merit goods not provided by the public sector
23. That which reduces the free-rider problem associated with public goods
24. That which protects the environment and society’s standard of living
25. That where the marginal costs of intervention are equal to the marginal benefits of intervention
26. Which of the following statements best defines a proportional tax?
27. The dollar amount of tax increases as income increases
28. The dollar amount of tax paid is proportional to income
29. The rate of tax is constant at all levels of income
30. Tax payments place more burden on low than high income earners
31. Consider a proposal to charge no income tax until income reached $25,000 per annum, then 20% each dollar earned after that. The proposal would:
32. Be proportional
33. Hurt high income earners
34. Make the tax system simpler and fairer
35. Reduce the average rate of tax
36. Progressive taxes are intended to improve
37. Equity
38. Efficiency
39. Simplicity
40. Certainty
41. Two examples of Australian Commonwealth taxes that are indirect and regressive are:
42. Income tax and excise tax on fuel
43. The GST and excise tax
44. Company tax and sales tax
45. Stamp duty and company tax
46. On a Lorenz Curve showing distribution of income, the diagonal line between the lower left and upper right of the curve represents
47. Perfect income inequality
48. A society in which wealth is concentrated in the hands of a few people
49. Complete equality of income
50. A Gini co-efficient close to 1
51. Which of the following would be more likely to redistribute income effectively?
52. An indirect tax such as excise on fuel or alcohol
53. A company tax, because funds are diverted from business owners to workers
54. A direct and progressive tax
55. Taxes on property, wealth transfer in families
56. To help redistribute income in the Australian economy, the Common government uses
57. Excise taxes and pension payments
58. Income taxes and transfer payment
59. Company taxes and unemployment benefits
60. Sales taxes and Medicare
61. A society that wished to reduce the degree of income inequality would have a \_\_\_\_\_\_\_\_\_\_ income tax system and \_\_\_\_\_\_\_\_\_\_ wealth taxes
62. Progressive, low
63. Proportional, low
64. Progressive, high
65. Proportional, low
66. The term ‘sustainable economic growth’ refers to a rate of economic growth
67. That is not high enough to drive up price levels
68. At which the economy stays close to the natural rate of unemployment
69. That can be maintained without creating problems in the future
70. That does not deplete natural resources or harm the environment
71. During a downturn in the economy such as which occurred in the GFC, we would expect that
72. Inflation and cyclical unemployment would both increase
73. Frictional and structural unemployment would both fall
74. The level of unemployment would be close to the ‘natural rate’
75. Cyclical unemployment would rise, and total unemployment would be above the ‘natural rate’
76. Lagging indicators
77. Confirm trends after they have been established
78. Predict changes in the business cycle
79. Typically follow coincident indicators by about 6 months
80. Are influenced by exogenous factors such as gold price
81. Which of the following statements about economic events between 2008 and 2017 is FALSE?
82. The impact of the GFC on the Australian economy was less than it might have been because of rising Chinese demand for Australian commodity exports
83. After the mining boom the terms of trade decreased which increased demand for Australian exports
84. During the mining boom, the terms of trade increased meaning Australians could buy more imports for any given quantity of exports
85. The Australian government introduced stimulus measures to boost spending shortly after the onset of the GFC
86. A possibly problem arising from higher levels of house debt is
87. Some households will come under financial stress if interest rates on mortgage rise
88. The RBA is under pressure to raise interest rates to give better return to savers
89. The savings rate would fall
90. House prices will continue to rise as householders try to sell expensive houses to purchase cheaper ones
91. Policies that help promote full employment conflict with the objective of
92. Economic growth
93. Price stability
94. Equitable income distribution
95. Higher living standards