Grade 12 Economics Model Question

1. What is the main difference between microeconomics and macroeconomics?

   A) Microeconomics studies the individual decision-making behavior of different economic units, while macroeconomics studies the overall or aggregate behavior of the economy.

   B) Microeconomics studies the overall or aggregate behavior of the economy, while macroeconomics studies the individual decision-making behavior of different economic units.

   C) Microeconomics studies the structure and performance of national economies, while macroeconomics studies the policies that governments use to affect economic performance.
2. When did macroeconomics emerge as a distinct branch of economics? A) After the publication of Adam Smith's book The Wealth of Nations in 1776. B) After the publication of John Maynard Keynes' book The General Theory of Employment, Interest and Money in 1936. C) After the publication of Milton Friedman's book A Monetary History of the United States in 1963.
3. What is the main focus of macroeconomics? A) The study of the structure and performance of national economies and of the policies that governments use to try to affect economic performance. B) The study of the behavior and interaction of individual agents within the economy, such as consumers, producers, and markets. C) The study of the allocation of scarce resources among competing ends and the efficiency and equity of economic outcomes.
4. What are some of the central macroeconomic questions that the study of macroeconomics helps us understand and try to find answers to? A) What factors determine the flow of total output produced in the economy over time? B) How can a nation increase its rate of economic growth? C) Why do outputs and employment sometimes fail? D) All of the above
5. What are some of the macroeconomic goals that a country may pursue? A) Achieving economic growth, full employment, and price stability. B) Reducing budget or balance of payment deficit and ensuring fair distribution of income in society. C) Increasing the standard of living, reducing unemployment, and controlling inflation. D) All of the above

6. What is the meaning of economic growth? A) An increase in the total output of goods and services produced in an economy over a period of time. B) An increase in the average income or well-being of the population in an economy over a period of time. C) An increase in the quality and quantity of the factors of production available in an economy over a period of time.
7. What is the meaning of full employment? A) A situation where everyone who wants to work can find a job at the prevailing wage rate. B) A situation where there is no involuntary unemployment, i.e., no one who is willing and able to work at the current wage rate is unemployed. C) A situation where there is only frictional and structural unemployment, i.e., no one who is unemployed due to cyclical or demand-deficient reasons. D. These types of unemployment are called frictional and structural unemployment, respectively.
8. What is the meaning of price stability? A) A situation where the general level of prices in the economy does not change over time. B) A situation where the general level of prices in the economy changes at a low and predictable rate over time. C) A situation where the general level of prices in the economy changes at a high and variable rate over time.
9. What is the meaning of budget deficit? A) The excess of government spending over government revenue in a given period of time. B) The excess of government revenue over government spending in a given period of time. C) The difference between the total public debt and the total public assets in a given period of time.
10. What is the meaning of balance of payment deficit? A) The excess of the value of imports over the value of exports in a given period of time. B) The excess of the value of exports over the value of imports in a given period of time. C) The difference between the total inflows and outflows of foreign exchange in a given period of time.
11. What is the meaning of distribution of income? A) The way in which the total income of an economy is divided among different groups of income earners, such as households, firms, and governments. B) The way in which the total income of an economy is divided among different factors of production, such as land, labor, capital, and entrepreneurship. C) The way in which the total income of an economy is divided among different segments of the population, such as rich and poor, urban and rural, male and female, etc.

12. What is the meaning of the standard of living? A) The level of material well-being or consumption of goods and services enjoyed by an individual or a group of people in an economy. B) The level of non-material well-being or quality of life enjoyed by an individual or a group of people in an economy. C) The level of both material and non-material well-being or welfare enjoyed by an individual or a group of people in an economy.
13. What is the meaning of unemployment? A) The situation where a person is not working and is actively looking for work. B) The situation where a person is not working and is not actively looking for work. C) The situation where a person is working but is underemployed, i.e., working less than they would like to or in a job that does not match their skills or qualifications.
14. What is the meaning of inflation? A) The increase in the general level of prices in the economy over a period of time. B) The decrease in the general level of prices in the economy over a period of time. C) The change in the general level of prices in the economy over a period of time
15. What are some of the causes of economic growth? A) An increase in the quantity and quality of the factors of production, such as land, labour, capital, and technology. B) An increase in the efficiency and productivity of the factors of production, such as through better education, training, innovation, and institutions. C) An increase in the demand for goods and services, such as through higher consumption, investment, government spending, and net exports. D) All of the above
16. What are some of the causes of unemployment? A) A decrease in the demand for labour, such as due to a recession, a decline in a specific industry, or a technological change that makes some workers redundant. B) A mismatch between the supply and demand for labour, such as due to a lack of skills, education, or mobility among workers, or a geographical or sectoral imbalance in the labour market. C) A distortion in the labour market, such as due to minimum wages, trade unions, taxes, or regulations that create a gap between the equilibrium and the actual wage rate. D) All of the
17. What are some of the causes of inflation? A) An increase in the cost of production, such as due to higher wages, raw materials, taxes, or subsidies. B) An increase in the money supply, such as due to expansionary monetary policy, printing money, or borrowing from abroad. C)

An increase in the aggregate demand, such as due to expansionary fiscal policy, higher consumer confidence, or a depreciation of the exchange rate. D) All of the above

18. What are some of the effects of economic growth? A) An increase in the standard of living, as measured by per capita income, consumption, or human development indicators. B) An increase in environmental degradation, as measured by pollution, resource depletion, or ecological footprint. C) An increase in income inequality, as measured by the Gini coefficient, the Lorenz curve, or the income quintiles. D) All of the above
19. What are some of the effects of unemployment? A) A decrease in the output and income of the economy, as measured by the GDP, the GDP gap, or Okun's law. B) A decrease in the well-being and welfare of the unemployed, as measured by the poverty rate, the social costs, or the psychological effects. C) A decrease in the government revenue and an increase in the government expenditure, as measured by the tax collection, the unemployment benefits, or the fiscal balance. D) All of the above
20. What are some of the effects of inflation? A) A decrease in the purchasing power and the real value of money, as measured by the nominal and real interest rates, the money illusion, or the shoe-leather costs. B) A decrease in the certainty and predictability of the future, as measured by the inflation expectations, the menu costs, or the uncertainty costs. C) A decrease in the competitiveness and the balance of trade of the economy, as measured by the exchange rate, the terms of trade, or the net exports. D) All of the above
21. What are some of the policies that governments can use to affect economic performance? A) Fiscal policy, which involves the use of government spending and taxation to influence the level of aggregate demand and output in the economy. B) Monetary policy, which involves the use of money supply and interest rates to influence the level of aggregate demand and output in the economy. C) Supply-side policy, which involves the use of incentives, regulations, and reforms to influence the level of aggregate supply and potential output in the economy. D) All of the above
22. What are some of the challenges that governments face when implementing macroeconomic policies? A) The trade-off between different macroeconomic goals, such as between inflation and unemployment, or between growth and equality. B) The time lag between the recognition, implementation, and impact of the policies, which may reduce

their effectiveness and relevance. C) The crowding-out effect, which occurs when an expansionary fiscal policy leads to higher interest rates and lower private investment, or when an expansionary monetary policy leads to a higher exchange rate and lower net exports. D) All of the above

23. What are some of the factors that affect the interaction of the domestic economy with the rest of the world? A) The exchange rate, which is the price of one currency in terms of another currency, and which affects the competitiveness and the balance of trade of the economy. B) The balance of payments, which is the record of all the transactions between the residents of the economy and the rest of the world, and which affects the net foreign assets and liabilities of the economy. C) The international trade, which is the exchange of goods and services between the economy and the rest of the world, and which affects the output, income, and welfare of the economy. D) All of the above

24. What are some of the benefits and costs of international trade for the domestic economy? A) The benefits include the increase in the variety, quality, and quantity of goods and services available for consumption, the increase in the efficiency and productivity of the factors of production, and the increase in the economic growth and development of the economy. B) The costs include the loss of domestic jobs and industries due to foreign competition, the loss of domestic sovereignty and autonomy due to foreign dependence, and the loss of domestic stability and security due to foreign shocks. C) The benefits and costs depend on the comparative advantage and the terms of trade of the economy, as well as the trade barriers and the trade agreements that the economy faces. D) All of the above

25. What is GDP? A) Gross Domestic Product B) General Development Process C) Governmental Domestic Protocol

26. Which of the following is NOT a macroeconomic variable? A) GDP B) Unemployment rate C) Individual income D. All

28 How is GNP calculated? A) GDP + NFI B) GDP – NFI C) GDP / NFI

29 What are the three approaches to measuring GDP/GNP? A) Product approach, expenditure approach, and income approach B) Production approach, export approach, and inflation approach C) Profit approach, exchange approach, and interest approach

30 What is the difference between nominal GDP and real GDP? A) Nominal GDP is measured in actual market prices, while real GDP is measured in constant prices of a base year. B) Nominal GDP is measured in constant prices of a base year, while real GDP is measured in actual market prices. C) Nominal GDP is measured in current dollars, while real GDP is measured in purchasing power parity dollars

31 What are some of the focus areas of macroeconomics? A) National income, employment, money, general price level, economic growth, and international trade B) Supply, demand, elasticity, utility, production, and cost C) Scarcity, choice, opportunity cost, efficiency, and equity

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42 Unemployed, where the labor force is the sum of the employed and the unemployed.

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actual market prices. C) Nominal GDP is measured in current dollars, while real GDP is measured in purchasing power parity dollars..

44 . What is the difference between GDP and GNP? A) GDP is the total value of final goods and services produced within a country in a given year, while GNP is the total value of final goods and services produced by the residents of a country in a given year, regardless of their location. B) GDP is the total value of final goods and services produced by the residents of a country in a given year, regardless of their location, while GNP is the total value of final goods and services produced within a country in a given year. C) GDP is the total value of final goods and services produced within a country in a given year, plus net factor income from abroad, while GNP is the total value of final goods and services produced within a country in a given year, minus net factor income from abroad.

45 . What are the three approaches to measuring GDP/GNP? A) Product approach, expenditure approach, and income approach B) Production approach, export approach, and inflation approach C) Profit approach, exchange approach, and interest approach

46 . What is included in the product approach to calculating GDP? A) Only the market value of final goods and services produced by each sector of the economy. B) Only the market value of intermediate goods and services produced by each sector of the economy. C) The market value of both final and intermediate goods and services produced by each sector of the economy.

47 . What is included in the expenditure approach to calculating GDP? A) Only government expenditures. B) Expenditures on intermediate goods. C) All expenditures on final goods and services.

48 . What is included in the income approach to calculating GDP? A) Only wages and salaries. B) Only profits and rents. C) All incomes accruing to factors of production.

49 . What is the meaning of aggregate demand and supply? A) The total amount of goods and services that buyers are willing and able to purchase at different price levels in an economy. B) The total amount of goods and services that sellers are willing and able to produce at different price levels in an economy. C) Both A and B

50 . What are the components of aggregate demand? A) Personal consumption of households (C), Gross private domestic investment (I), Government purchases of goods and services

(G), and Net exports (NE). B) Personal consumption of households (C), gross private domestic investment (I), government budget (B), and net factor income (NFI). C) Personal consumption of households (C), gross national product (GNP), government budget (B), and net exports (NE).

51 . What are the determinants of aggregate supply? A) The quantity and quality of the factors of production, such as land, labor, capital, and technology. B) The efficiency and productivity of the factors of production, such as through better education, training, innovation, and institutions. C) Both A and B

52 . What is the equilibrium level of national income? A) The level of income where aggregate demand equals aggregate supply. B) The level of income where aggregate demand equals aggregate expenditure. C) Both A and B

53 . What is the meaning of economic growth rate? A) The percentage change in the real GDP of an economy over a period of time. B) The percentage change in the nominal GDP of an economy over a period of time. C) The percentage change in the GNP of an economy over a period of time.

54 . What are the sources of economic growth? A) An increase in the quantity and quality of the factors of production, such as land, labor, capital, and technology. B) An increase in the efficiency and productivity of the factors of production, such as through better education, training, innovation, and institutions. C) Both A and B

55 . What are the benefits and costs of economic growth? A) The benefits include an increase in the standard of living, a reduction in poverty, an improvement in health and education, and an enhancement in environmental quality. B) The costs include the increase in income inequality, the depletion of natural resources, the pollution of the environment, and the loss of cultural and social values. C) Both A and B

56 . What is the meaning of inflation? A) The increase in the general level of prices in the economy over a period of time. B) The decrease in the general level of prices in the economy over a period of time. C) The change in the general level of prices in the economy over a period of time.

57 What is the definition of economic growth? A) An increase in the capacity of an economy to produce goods and services B) An increase in the population of an economy C) An increase in the price level of an economy.

58 What is the main factor that determines the economic growth rate of a country? A) The amount and productivity of factors of production B) The level of government spending and taxation C) The degree of openness and trade balance

59 .What is the difference between real GDP and nominal GDP? A) Real GDP is adjusted for inflation, while nominal GDP is not B) Real GDP is measured in physical units, while nominal GDP is measured in value terms C) Real GDP is the ratio of GDP to population, while nominal GDP is the total GDP

60 . Why real income in developing countries generally understated compared to that of developed countries? A) Because developing countries have a large informal sector that is not correctly reported B) Because developing countries have a high rate of inflation that erodes the purchasing power of income C) Because developing countries have a low quality of life that is not reflected in income

61 . What is the limitation of using per capita income as an indicator of development? A) It does not take into account the distribution of income and other aspects of quality of life B) It does not take into account the environmental and social costs of economic growth C) It does not take into account the differences in prices and exchange rates across countries

62.. What is the difference between gross national product (GNP) and gross domestic product (GDP)? A) GNP is the value of output produced by the residents of a country, while GDP is the value of output produced within the borders of a country B) GNP is the value of output produced within the borders of a country, while GDP is the value of output produced by the residents of a country C) GNP is the value of output produced by the government of a country, while GDP is the value of output produced by the private sector of a country

63. What is the main reason why inflation has to be taken into account while measuring economic growth in real terms? A) Because inflation reduces the purchasing power of money and distorts the value of output B) Because inflation increases the cost of production and reduces the profitability of output C) Because inflation creates uncertainty and instability in the economy and affects the expectations of output

64. What is the main reason why population growth has to be taken into account while measuring economic growth in terms of per capita income? A) Because population growth affects the availability and quality of factors of production B) Because population growth affects the demand and supply of goods and services C) Because population growth affects the distribution and welfare of income
65. What is the main criticism of using per capita income as an index of development? A) It does not capture the multidimensional aspects of human development B) It does not reflect the environmental and social costs of economic growth C) It does not account for the differences in prices and exchange rates across countries
66. What are some of the other indicators of quality of life that a measure of development must take into account? A) Health, education, democracy, human rights, etc. B) Happiness, satisfaction, freedom, creativity, etc. C) Culture, religion, values, beliefs, etc.
67. What are some of the factors of production that can increase the economic growth rate of a country? A) Labour, land, capital, and technology B) Money, credit, interest, and inflation C) Demand, supply, price, and quantity
68. What are some of the institutional arrangements that can support the economic growth of a country? A) Rule of law, property rights, and contractual rights B) Democracy, human rights, and social justice C) Trade liberalization, foreign aid, and debt relief
69. What are some of the reasons why real income in developing countries is generally understated compared to that of developed countries? A) Subsistence farming, underreporting income, non-monetary sectors, price distortion, and environmental degradation B) Corruption, poverty, illiteracy, malnutrition, and disease C) War, conflict, violence, terrorism, and migration
70. What are some of the limitations of using per capita income as a measure of economic growth? A) It does not adjust for inflation and population growth B) It does not reflect the distribution and welfare of income C) Both A and B
71. What is the difference between economic growth and development? A) Economic growth is an increase in the capacity of an economy to produce goods and services, while development is a process of improving the quality of human life B) Economic growth is a

quantitative measure of output, while development is a qualitative measure of well-being C) Both A and B

72. What is the formula for calculating the real GDP growth rate of a country? A) (Real GDP in the current year - Real GDP in the previous year) / Real GDP in the previous year B) (Nominal GDP in the current year - Nominal GDP in the previous year) / Nominal GDP in the previous year C) (Real GDP in the current year - Nominal GDP in the current year) / Nominal GDP in the current year

73. What is the formula for calculating the real per capita income of a country? A) Real GDP / Population B) Nominal GDP / Population C) Real GDP / Nominal GDP ✓ Answer: A ✓ Reason: The real per capita income of a country is the ratio of the real GDP to the total population, as stated in the lesson. The formula is Real GDP / Population.

74. What is the difference between net GNP and gross GNP? A) Net GNP is the value of output produced by the residents of a country, while gross GNP is the value of output produced within the borders of a country B) Net GNP is the value of output produced within the borders of a country, while gross GNP is the value of output produced by the residents of a country C) Net GNP is the value of output after deducting the cost of depreciation, while gross GNP is the value of output before deducting the cost of depreciation

75. What are some of the factors that can affect the productivity of factors of production? A) Education, training, innovation, and technology B) Competition, regulation, taxation, and subsidies C) Consumption, saving, investment, and interest

76. What are some of the examples of institutional arrangements that can hinder the economic growth of a country? A) Corruption, bureaucracy, nepotism, and rent-seeking B) Democracy, human rights, social justice, and civil society C) Trade liberalization, foreign aid, debt relief, and globalization

77. What are some of the non-monetary indicators that are used to construct the Human Development Index (HDI)? A) Life expectancy, literacy rate, and gross enrollment ratio B) Infant mortality, maternal mortality, and immunization rate C) Poverty rate, income inequality, and gender gap dimension is measured by GDP per capita, as stated in the lesson.

78. What are some of the advantages of using the Human Development Index (HDI) over the per capita income as a measure of development? A) It captures the multidimensional aspects of human development B) It reflects the distribution and welfare of income C) Both A and
79. What are some of the limitations of using the Human Development Index (HDI) as a measure of development? A) It does not include some important aspects of human development such as democracy, human rights, and environmental sustainability B) It does not account for the differences in prices and exchange rates across countries C) Both A and B
80. What is the difference between the nominal GDP and the purchasing power parity (PPP) GDP of a country? A) Nominal GDP is the value of output at current prices, while PPP GDP is the value of output at constant prices B) Nominal GDP is the value of output at market exchange rates, while PPP GDP is the value of output at purchasing power parity exchange rates C) Nominal GDP is the value of output before deducting the cost of depreciation, while PPP GDP is the value of output after deducting the cost of depreciation
81. What is the advantage of using the purchasing power parity (PPP) GDP over the nominal GDP as a measure of economic growth and development? A) It adjusts for inflation and population growth B) It reflects the distribution and welfare of income C) It accounts for the differences in prices and exchange rates across countries
82. What are some of the statistical techniques that are used to construct the Human Development Index (HDI)? A) Mean, median, and mode B) Standard deviation, variance, and coefficient of variation C) Min-max normalization, geometric mean, and aggregation
83. What are some of the advantages of using the geometric mean over the arithmetic mean in calculating the dimension indices of the Human Development Index (HDI)? A) It gives equal weight to each indicator and reduces the substitutability between them B) It gives more weight to the lower indicators and increases the sensitivity to them C) Both A and B
84. What are some of the disadvantages of using min-max normalization in transforming the indicators of the Human Development Index (HDI)? A) It is sensitive to outliers and extreme values B) It is arbitrary and depends on the choice of minimum and maximum values C) Both A and B

85. What are some of the educational stocks and flows that are used to measure the education dimension of the Human Development Index (HDI)? A) Literacy rate, gross enrollment ratio, and mean years of schooling B) School enrollment, dropout rate, and graduation rate C) Teacher-student ratio, curriculum quality, and learning outcomes
86. What are some of the fertility and mortality rates that are used to measure the health dimension of the Human Development Index (HDI)? A) Life expectancy, infant mortality, and maternal mortality B) Birth rate, death rate, and natural increase rate C) Fertility rate, mortality rate, and population growth rate
87. What are some of the physical and social infrastructures that are used to measure the availability of basic services and amenities for human development? A) Roads, bridges, railways, and airports B) Electricity, water, sanitation, and telecommunications C) Hospitals, schools, libraries, and parks
88. What are some of the other indices of development that have been proposed to complement or supplement the Human Development Index (HDI)? A) Gender Development Index, Gender Inequality Index, and Multidimensional Poverty Index B) Environmental Performance Index, Ecological Footprint, and Happy Planet Index C) Both A and B
89. What is the difference between the gross enrollment ratio and the net enrollment ratio in measuring the education dimension of the Human Development Index (HDI)?A) The gross enrollment ratio is the total number of students enrolled in a level of education, regardless of age, divided by the population of the age group that officially corresponds to that level of education, while the net enrollment ratio is the number of students of the official age group enrolled in a level of education divided by the population of that age group B) The gross enrollment ratio is the number of students of the official age group enrolled in a level of education divided by the population of that age group, while the net enrollment ratio is the total number of students enrolled in a level of education, regardless of age, divided by the population of the age group that officially corresponds to that level of education C) The gross enrollment ratio is the number of students enrolled in a level of education divided by the total population, while the net enrollment ratio is the number of students enrolled in a level of education divided by the population of the relevant age group

90. What is the difference between the life expectancy at birth and the healthy life expectancy at birth in measuring the health dimension of the Human Development Index (HDI)? A) The life expectancy at birth is the average number of years that a newborn can expect to live, while the healthy life expectancy at birth is the average number of years that a newborn can expect to live in good health B) The life expectancy at birth is the average number of years that a newborn can expect to live in good health, while the healthy life expectancy at birth is the average number of years that a newborn can expect to live without any major illness or disability C) The life expectancy at birth is the average number of years that a newborn can expect to live without any major illness or disability, while the healthy life expectancy at birth is the average number of years that a newborn can expect to live in good health
91. What is the difference between the income dimension and the inequality-adjusted income dimension of the Human Development Index (HDI)? A) The income dimension is the logarithm of the gross national income per capita, while the inequality-adjusted income dimension is the income dimension multiplied by the income inequality index B) The income dimension is the logarithm of the gross national income per capita, while the inequality-adjusted income dimension is the income dimension multiplied by the income equality index C) The income dimension is the logarithm of the gross national income per capita, while the inequality-adjusted income dimension is the income dimension multiplied by the income inequality discount factor
92. What is the definition of inflation? A) A regular and continuous rise in the general price level B) A regular and continuous fall in the general price level C) A regular and continuous change in the general price level
93. What is the definition of deflation? A) A regular and continuous rise in the general price level B) A regular and continuous fall in the general price level C) A regular and continuous change in the general price level
94. What is the rate of inflation? A) The rate of growth or decline of the price level from one year to the next B) The rate of growth or decline of the money supply from one year to the next C) The rate of growth or decline of the real GDP from one year to the next

95. What is the effect of inflation on the purchasing power of money? A) It increases the purchasing power of money B) It decreases the purchasing power of money C) It does not affect the purchasing power of money

96. What is the effect of inflation on the cost of living? A) It increases the cost of living B) It decreases the cost of living C) It does not affect the cost of living

97. What is the meaning of indexing contracts, wage levels, and interest rates to inflation? A) It means that they will increase when inflation increases to retain purchasing power B) It means that they will decrease when inflation decreases to retain purchasing power C) It means that they will adjust according to the inflation rate to retain purchasing power

98. What happens to the real wage rate when wages do not rise as price levels rise? A) It increases B) It decreases C) It stays the same

99. What happens to the standard of living when wages do not rise as price levels rise? A) It increases B) It decreases C) It stays the same

100. Why is inflation the major concern of macroeconomic policymakers throughout the world? A) Because it affects the economic growth and stability of countries B) Because it affects the income distribution and social welfare of people C) Because it affects both the economic growth and stability of countries and the income distribution and social welfare of people

101. What is the term for the average price of goods and services in an economy? A) The general price level B) The consumer price index C) The gross domestic product deflator

102. What is the term for the measure of inflation based on the prices of a fixed basket of goods and services purchased by a typical consumer? A) The general price level B) The consumer price index C) The gross domestic product deflator

103. What is the term for the measure of inflation based on the prices of all goods and services produced in an economy? A) The general price level B) The consumer price index C) The gross domestic product deflator

104. What is the mathematical formula for calculating the rate of inflation using the CPI? A) CPI in the current year - CPI in the base year/CPI in the base year - 100 B) CPI in the current year - CPI in the previous year/CPI in the previous year × 100 C) CPI in the current year - CPI in the next year/CPI in the next year × 100

105. What is the mathematical formula for calculating the rate of inflation using the GDP deflator? A) GDP deflator in the current year - GDP deflator in the base year/GDP deflator in the base year × 100 B) GDP deflator in the current year - GDP deflator in the previous year/GDP deflator in the previous year × 100 C) GDP deflator in the current year - GDP deflator in the next year/GDP deflator in the next year × 100

106. What is the difference between the CPI and the GDP deflator as measures of inflation? A) The CPI includes only the goods and services purchased by a typical consumer, while the GDP deflator includes all the goods and services produced in an economy B) The CPI includes only the goods and services produced in an economy, while the GDP deflator includes all the goods and services purchased by a typical consumer C) The CPI and the GDP deflator include the same goods and services, but they use different weights to calculate the average price level

107. What does CPI stand for? A) Consumer Price Index B) Current Price Indicator C) Constant Price Index

108. How is the rate of inflation or deflation calculated? A) Current Date CPI / Past Date CPI B) (Current Date CPI – Past Date CPI) / Past Date CPI x 100% C) Current Date CPI + Past Date CPI x 100%

109. What does a higher Consumer Price Index indicate? A) Deflation B) Inflation C) Stable prices

110. If the current date CPI is 25 and the past date CPI is 20, what is the inflation rate? A) 5% B) 25% C) 50%

111. 20. What is the primary purpose of calculating CPI? A) To measure economic growth B) To track changes in the price level of a market basket of consumer goods and services C) To calculate the unemployment rate

112. Which of the following is a potential cause of inflation? A) Decreased demand for goods and services B) Increased production costs C) A reduction in taxes

113. What effect does inflation have on purchasing power? A) Increases it B) Decreases it C) No effect

114. Which of the following groups is most likely to benefit from inflation? A) Savers B) Borrowers C) Fixed income earners

115. How can a country's central bank attempt to control inflation? A) By increasing government spending B) By reducing the money supply C) By decreasing interest rates

116. What is a common tool used to combat inflation? A) Price controls B) Wage increases C) Monetary policy

117. If the price of a kilo of wheat is 4 Birr and the price of a liter of oil is 20 Birr in year X, what would be the total cost for 40 kg of wheat and 8 liters of oil? A. 320 Birr B. 280 Birr C. 160 Birr

118. If in year Y, the consumer price index (CPI) was calculated to be 110, what was it in percentage terms? A. 100% B. 110% C. 120%

119. Calculate the inflation rate if CPI in year Z was found to be 140% and it was 120% in the previous year. A. 16.67% B. 20% C. 18.33%

120. In a given year W, if a consumer buys only two types of goods: wheat and oil with prices being $6 per kilo for wheat and $25 per liter for oil respectively, what will be the total expense for buying 70kg wheat and 15 liters oil? A. $675 B. $725 C. $750

121. If CPI increased from 160% to 190% over two consecutive years, calculate the inflation rate. A. 18.75% B. 20% C. 25%

122. What is the primary cause of inflation? A. Increase in money supply B. Decrease in money supply C. Stable money supply

123. What is 'creeping inflation'? A. Inflation rate of 10 to 20% per year B. Inflation rate of 3% or less per year C. Inflation rate of more than 50% a month

124. Which term describes an inflation rate of 3 to less than 10% per year? A. Creeping inflation B. Walking inflation C. Running inflation

125. What is 'running inflation'? A. Prices rise at a rate of less than 3% per year B. Prices rise at a rate of 3 to less than 10% per year C. Prices rise rapidly at the rate of 10 to 20% per year

126. What is 'galloping or jumping inflation'? A. Inflation with a monthly rate of more than 50% B. Inflation with a rapid rate for a short period C. Inflation with a slow rate for a long period

127. What is 'hyperinflation'? A. Inflation with a monthly rate of more than 50% B. Inflation with a yearly rate of more than 100% C. Inflation with a daily rate of more than 10%

128. What is 'demand-pull' inflation? A. Inflation caused by an increase in demand for goods and services B. Inflation caused by a decrease in demand for goods and services C. Inflation caused by stable demand for goods and services

129. What is 'cost-push' inflation? A. Inflation caused by increased production costs B. Inflation caused by decreased production costs C. Inflation caused by stable production costs

130. What is 'seinorage'? A. The process of reducing money supply B. The process of increasing money supply by printing money C. The process of stabilizing money supply

131. What is the effect of inflation on the real value of money? A. Increases the real value B. Decreases the real value C. Does not affect the real value

132. What historical event holds the record for the highest monthly inflation rate? A. Hyperinflation in Zimbabwe in 2007-2009 B. Hyperinflation in Hungary in July 1946 C. Hyperinflation in Germany in the 1920s

133. What is a common consequence of wars on a country's economy? A. Deflation B. Stagflation C. Inflation

134. What can lead to a government's resort to printing money? A. Surplus budget B. Balanced budget C. Large budget deficits

135. What was the response of the Zimbabwean government to hyperinflation? A. They reduced the money supply B. They adopted the US dollar C. They increased taxes

136. What is the impact of tax evasion on inflation? A. It reduces inflation B. It has no impact on inflation C. It contributes to inflation

137. What inflation type is characterized by a single-digit annual rate? A. Creeping inflation B. Walking inflation C. Running inflation

138. Which inflation occurs at a rate of 10 to 20% per year? A. Creeping inflation B. Walking inflation C. Running inflation

139. What is the result of governments printing money to finance expenditure? A. Decrease in money supply B. Increase in money supply C. Stable money supply

140. What does 'seinorage' resemble? A. A tax reduction B. A tax on holding money C. A government subsidy.

141. What was the monthly inflation rate in Hungary in July 1946? A. 41.9 quadrillion percent B. 50 percent C. 100 percent

142. What is a consistent economic pattern associated with wars? A. Deflation B. Inflation C. Economic stability

143. What can large budget deficits lead to? A. Economic growth B. Inflation C. Economic stability

144. What was the response to hyperinflation in Zimbabwe? A. Printing more money B. Adopting a foreign currency C. Increasing interest rates

145. What is the impact of tax evasion on a government's budget? A. It leads to a surplus B. It has no impact C. It leads to a deficit

146. What is the traditional definition of hyperinflation? A. Inflation exceeding 10% per year B. Inflation exceeding 50% per month C. Inflation exceeding 100% per day

147. What inflation type is characterized by rapid price increases for a short period? A. Galloping inflation B. Creeping inflation C. Walking inflation

148. What is the effect of printing money on inflation? A. It decreases inflation B. It increases inflation C. It has no effect on inflation

149. What is the effect of a fall in export prices on a country's economy? A. It leads to economic growth B. It leads to inflation C. It leads to economic stability

150. What is the impact of political stalemate on a country's economy? A. It leads to economic growth B. It leads to deflation C. It leads to inflation

151. What is the relationship between investor confidence and government debt? A. High confidence leads to more printing of money B. Low confidence leads to more printing of money C. Confidence has no impact on printing of money

152. Who is considered employed? A. A person working at a paid job B. A person looking for a job C. A full-time student

153. What age group is termed as economically active in Ethiopia? A. Under 14 years old B. 14 to 60 years old C. Over 60 years old

154. What does the unemployment rate represent? A. Percentage of employed people B. Percentage of unemployed people in the labour force C. Total number of unemployed people

155. What is the opportunity cost of unemployment? A. The income that the unemployed workers could have earned B. The output that the unemployed workers could have produced C. The welfare benefits that the unemployed workers receive

156. What is the labour-force participation rate? A. The percentage of the adult population that is in the labour force B. The percentage of the labour force that is employed C. The percentage of the labour force that is unemployed

157. What is the difference between being unemployed and not in the labor force? A. Unemployed people are looking for a job, while people not in the labor force are not B. Unemployed people are on temporary layoff, while people not in the labor force are not C. Unemployed people are of working age, while people not in the labor force are not

158. What is the formula for calculating the labor force? A. Labor Force = Number of Employed + Number of Unemployed B. Labor Force = Number of Employed - Number of Unemployed C. Labor Force = Number of Unemployed / Number of Employed

159. What is the formula for calculating the unemployment rate? A. Unemployment Rate = (Number of Unemployed / Labor Force) x 100 B. Unemployment Rate = (Number of Unemployed / Adult Population) x 100 C. Unemployment Rate = (Number of Employed / Labour Force) x 100

160. What is the formula for calculating the labour force participation rate? A. Labour Force Participation Rate = (Labour Force / Adult Population) x 100 B. Labour Force Participation Rate = (Labour Force / Number of Employed) x 100 C. Labour Force Participation Rate = (Labour Force / Number of Unemployed) x 100

161. What is the main economic cost of unemployment to society? A. The loss of tax revenue from the unemployed workers B. The increase in government spending on welfare programs C. The underutilization of economic resources

162. What is the main economic benefit of low unemployment to society? A. The increase in output and income from the employed workers B. The decrease in inflation and interest rates from the low demand C. The improvement in social and psychological well-being from the job satisfaction

163. What is the main economic challenge of low unemployment to society? A. The risk of labor shortages and wage pressures B. The risk of environmental degradation and resource depletion C. The risk of social unrest and political instability

164. What is the main economic goal of economic policymakers regarding unemployment? A. To keep workers employed B. To keep workers productive C. To keep workers happy

165. What is the main economic tool of economic policymakers to address unemployment? A. Fiscal policy B. Monetary policy C. Both fiscal and monetary policy

166. What is the main economic indicator of economic performance regarding unemployment? A. Gross domestic product (GDP) B. Consumer price index (CPI) C. Both GDP and CPI

167. What is the main economic assumption of economic theory regarding unemployment? A. People are rational and self-interested B. Markets are competitive and efficient C. Both people are rational and self-interested and markets are competitive and efficient

168. What is the main economic concept of economic analysis regarding unemployment? A. Opportunity cost B. Comparative advantage C. Both opportunity cost and comparative advantage

169. What is the main economic term of economic jargon regarding unemployment? A. Labour market B. Labour force C. Both labour market and labour force

170. What is the main economic factor of economic environment regarding unemployment? A. Technology B. Institutions C. Both technology and institutions

171. What is the main economic perspective of economic thinking regarding unemployment? A. Positive B. Normative C. Both positive and normative

172. Suppose the adult population of a country is 100 million, the number of employed is 60 million, and the number of unemployed is 10 million. What is the labour force of this country? A. 50 million B. 70 million C. 80 million

173. Suppose the labour force of a country is 80 million, and the number of unemployed is 8 million. What is the unemployment rate of this country? A. 1% B. 10% C. 20%

174. Suppose the adult population of a country is 120 million, and the labour force is 90 million. What is the labour force participation rate of this country? A. 66.67% B. 75% C. 133.33%

175. What type of unemployment occurs when workers are temporarily between jobs or searching for their first job? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

176. What type of unemployment occurs when there is a lack of aggregate effective demand due to business cycles or international factors? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

177. What type of unemployment occurs when there is a mismatch between the skills of the workers and the skills required by the labor market? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

178. What is the term for the situation in which a person is forced by unemployment to take a job that is not suitable for his/her purpose or training? A) Underemployment B) Disguised unemployment C) Open unemployment

179. Underemployment is a form of unemployment that occurs when a person is employed below his/her potential or qualification. For example, a college graduate may have to work as a waiter due to a lack of job opportunities.

180. What is the term for the situation in which a person is working full time but earning very little to rise above the poverty level? A) Underemployment B) Disguised unemployment C) Open unemployment

181. What is the term for the situation in which a person is not working and actively looking for work? A) Underemployment B) Disguised unemployment C) Open unemployment

182. What is the main cause of frictional unemployment? A) Lack of aggregate effective demand B) Lack of perfect mobility of workers C) Lack of necessary skills for a particular job

183. What is the main cause of cyclical unemployment? A) Lack of aggregate effective demand B) Lack of perfect mobility of workers C) Lack of necessary skills for a particular job ✓ Answer: A) Lack of aggregate effective demand

184. What is the main cause of structural unemployment? A) Lack of aggregate effective demand B) Lack of perfect mobility of workers C) Lack of necessary skills for a particular job

185. What is the main solution to reduce frictional unemployment? A) Increasing aggregate effective demand B) Improving labour market information and mobility C) Providing education and training ✓ Answer: B) Improving labour market information and mobility ✓ Reason:

186. What is the main solution to reduce cyclical unemployment? A) Increasing aggregate effective demand B) Improving labour market information and mobility C) Providing education and training

187. What is the main solution to reduce structural unemployment? A) Increasing aggregate effective demand B) Improving labour market information and mobility C) Providing education and training

188. Which type of unemployment is likely to increase during a boom? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

189. 37. Which type of unemployment is likely to increase during a recession? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

190. Which type of unemployment is likely to increase due to technological innovation? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

191. Which type of unemployment is likely to decrease due to technological innovation? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

192. Which type of unemployment is considered to be voluntary? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

193. Which type of unemployment is considered to be involuntary? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment D) B and C

194. Which type of unemployment is usually short-term? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

195. Which type of unemployment is usually long-term? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

196. Which type of unemployment is usually associated with underdeveloped countries? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

197. Which type of unemployment is usually associated with developed countries? A) Frictional unemployment B) Cyclical unemployment C) Structural unemployment

198. What is a business cycle? A) A single phase of economic growth B) Fluctuations in economic activities C) A constant economic growth rate

199. Which of the following is NOT a phase of the business cycle? A) Expansion B) Stability C) Peak

200. What happens during the expansion phase? A) Economic growth B) Full employment C) Increase in unemployment D) A & B

201. What happens during the peak phase? A) Economic growth B) Full employment C) Increase in inflation D) B & C

202. What happens during the contraction phase? A) Economic growth B) Full employment C) Increase in unemployment

203. What happens during the trough phase? A) Economic growth B) Full employment C) Decrease in inflation D) A and C

204. What is the long-term growth trend of the economy? A) The average rate of economic growth over time B) The highest level of economic output achieved C) The lowest level of economic output achieved

205. What causes short-run fluctuations in the economy? A) Changes in aggregate demand and supply B) Changes in technology and productivity C) Changes in population and labor force

206. What is a model in economics? A) A simplified representation of a system B) A complex description of a system C) A realistic depiction of a system

207. What policy levers can policymakers use to control the business cycle? A) Fiscal policy and monetary policy B) Trade policy and environmental policy C) Social policy and education policy

208. What is the difference between a recession and a depression? A) A recession is a mild contraction and a depression is a severe contraction B) A recession is a short contraction and a depression is a long contraction C)

A recession is a moderate contraction and a depression is a deep contraction

209. What is the difference between a boom and a recovery? A) A boom is a rapid expansion and a recovery is a slow expansion B) A boom is a high expansion and a recovery is a low expansion C) A boom is a peak expansion and a recovery is a rising expansion

210. What is the difference between a correction and a trough? A) A correction is a mild contraction and a trough is a severe contraction B) A correction is a short contraction and a trough is a long contraction C) A correction is a falling contraction and a trough is a bottom contraction

211. What is the relationship between the business cycle and the aggregate demand and supply model? A) The business cycle is determined by the shifts in aggregate demand and supply B) The business cycle is independent of the shifts in aggregate demand and supply C) The business cycle is the cause of the shifts in aggregate demand and supply

212. What is the relationship between the business cycle and the long-run economic growth? A) The business cycle is determined by the long-run economic growth B) The business cycle is independent of the long-run economic growth C) The business cycle is superimposed on the long-run economic growth

213. What is the phase of the business cycle characterized by increasing employment, economic growth, and upward pressure on prices? A) Contraction B) Expansion C) Trough

214. Which of the following represents the lowest point in a business cycle? A) Peak B) Trough C) Expansion

215. What follows immediately after a peak in a business cycle? A) Recovery (Expansion) B) Depression (Trough) C) Contraction (Recession)

216. Which term also refers to "business cycle"? A) Economic pendulum B) Trade swing C) Boom-bust cycle

217. Can policymakers completely avoid recessions? A) Yes, always B) No, but they can mitigate their effects C) It’s unpredictable ✓ Answer: B) No, but they can mitigate their effects

218. What is the balance of trade? A) The difference between the export and the import of goods and services of a country for a given period B) The systematic record of a nation’s financial transactions with the outside world C) The volume of private foreign investment and public grants and loans that flow into and out of a country over a given period D) The sum of interest payments and repayments of principal on external debt

219. What is the balance of payment? A) The difference between the export and the import of goods and services of a country for a given period B) The systematic record of a nation’s financial transactions with the outside world C) The volume of private foreign investment and public grants and loans that flow into and out of a country over a given period D) The sum of interest payments and repayments of principal on external debt

220. What is the capital account? A) The difference between the export and the import of goods and services of a country for a given period B) The systematic record of a nation’s financial transactions with the outside world C) The volume of private foreign investment and public grants and loans that flow into and out of a country over a given period D) The sum of interest payments and repayments of principal on external debt

221. What is debt service? A) The difference between the export and the import of goods and services of a country for a given period B) The systematic record of a nation’s financial transactions with the outside world C) The volume of private foreign investment and public grants and loans that flow into and out of a country over a given period D) The sum of interest payments and repayments of principal on external debt

222. What is the trade balance? A) The difference between the export and the import of goods and services of a country for a given period B) The systematic record of a nation’s financial transactions with the outside world C) The volume of private foreign investment

and public grants and loans that flow into and out of a country over a given period D) The gap between a nation’s dollar value of exports and imports

223. What is a trade deficit? A) When imports exceed exports B) When exports exceed imports C) When exports and imports are equal D) When exports and imports are both zero

224. What is a trade surplus? A) When imports exceed exports B) When exports exceed imports C) When exports and imports are equal D) When exports and imports are both zero

225. What is a balanced trade? A) When imports exceed exports B) When exports exceed imports C) When exports and imports are equal D) When exports and imports are both zero

226. Which country had a trade deficit of about US$10.7 billion in 2020? A) Ethiopia B) China C) Mexico D) Thailand

227. Which country had a trade surplus of about US$535 billion in 2020? A) Ethiopia B) China C) Mexico D) Thailand

228. What happens when trade is out of balance and large trade surpluses or deficits exist? A) Many nations seek trade surpluses B) Some degree of trade deficit is economically tolerable for countries C) A series of financial crises can lead economies into deep recessions D) All of the above

229. When is a trade deficit economically tolerable for countries? A) When it reflects the importing of capital equipment B) When it reflects the exporting of consumer goods C) When it reflects the borrowing of foreign currency D) When it reflects the lending of domestic currency

230. What is the name of the economic illness that affected several countries in East Asia in 19971998? A) The Asian financial crisis B) The Asian currency crisis C) The Asian debt crisis D) The Asian trade crisis

231. Which country's GDP fell by 8.1% in 1995 due to a financial crisis triggered by a large trade deficit? A) Ethiopia B) China C) Mexico D) Thailand

232. What are the economic benefits of foreign trade? A) Diversity in production possibilities B) Economies of scale C) Decreasing costs as the volume of output expands D) All of the above

233. What is the term used to describe the differences in endowments among countries? A) Comparative advantage B) Absolute advantage C) Factor abundance D) Factor intensity

234. What is the term used to describe the situation when the average cost of production falls as the scale of output increases? A) Economies of scale B) Diseconomies of scale C) Constant returns to scale D) Increasing returns to scale

235. What is the term used to describe the situation when the average cost of production rises as the scale of output increases? A) Economies of scale B) Diseconomies of scale C) Constant returns to scale D) Increasing returns to scale

236. What is the term used to describe the situation when the average cost of production remains constant as the scale of output increases? A) Economies of scale B) Diseconomies of scale C) Constant returns to scale D) Increasing returns to scale

237. What is the term used to describe the situation when the average cost of production falls more than proportionally as the scale of output increases? A) Economies of scale B) Diseconomies of scale C) Constant returns to scale D) Increasing returns to scale

238. What is the term used to describe the degree to which a production process uses a particular factor of production relative to other factors? A) Comparative advantage B) Absolute advantage C) Factor abundance D) Factor intensity

239. What is the term used to describe the ability of a country to produce a good at a lower opportunity cost than another country? A) Comparative advantage B) Absolute advantage C) Factor abundance D) Factor intensity

240. What is the term used to describe the ability of a country to produce a good at a lower cost than another country? A) Comparative advantage B) Absolute advantage C) Factor abundance D) Factor intensity

241. What is the term used to describe the satisfaction of different tastes/preferences for commodities from different countries? A) Consumer sovereignty B) Product differentiation C) Variety preference D) International demand

242. What is the term used to describe the 'holy grail' of energy that many nations seek to harness through nuclear fusion? A) Renewable energy B) Clean energy C) Green energy D) All of the above

243. Which economist is not associated with the classical school of thought? A. Adam Smith B. David Ricardo C. John Maynard Keynes D. Jean Baptiste Say

244. What is a key tenet of classical economic theory regarding policy intervention during a recession? A. Active fiscal policy is necessary B. Monetary policy can effectively manage the economy C. The economy will self-correct without intervention D. Government spending should be increased

245. According to classical economists, what is the effect of expansionary fiscal policy? A. It decreases the GDP B. It increases employment C. It causes inflation D. It has no effect on the economy

246. What does the Laffer curve illustrate? A. The relationship between tax rates and employment B. The relationship between tax rates and government spending C. The relationship between tax rates and tax revenue D. The relationship between tax rates and inflation

247. Which policy would supply-siders most likely support? A. Increasing government regulation B. Raising tax rates C. Cutting tax rates D. Expanding welfare programs

248. What is the classical economists' view on the role of monetary policy in the economy? A. It is crucial for managing inflation B. It has significant long-term effects on employment C. It only affects the price level, not real economic variables D. It should be used to stimulate the economy during recessions

249. Which of the following is a characteristic of neoclassical economics? A. Emphasis on government intervention B. Belief in self-regulating markets C. Focus on short-term economic fluctuations D. Support for expansionary fiscal policy

250. The 'Laffer Curve' is associated with which school of thought? A. Keynesian B. Monetarist C. Supply-side D. New Keynesian

251. According to classical theory, what is the result of a surplus of goods in the economy? A. Increase in government spending B. Rise in the general price level C. Decrease in prices leading to equilibrium D. Long-term unemployment

252. Who among the following is known for advocating tax cuts as a means to stimulate the economy? A. John Maynard Keynes B. Milton Friedman C. Arthur Laffer D. Irving Fisher

253. What was the classical economists' perspective on the separation of the real and monetary sectors? A. They should be integrated. B. They should be studied separately. C. They are irrelevant to economic analysis. D. They are always in equilibrium.

254. Which policy approach is implied by the classical view of the economy during a recession? A. Interventionist policy B. "Hands off" policy C. Expansionary fiscal policy D. Protectionist policy

255. What is the expected outcome of a tax cut according to supply-side economists? A. Decrease in government revenue B. Increase in government spending C. Increase in total tax revenue D. No change in economic variables

256. Which school of thought emphasizes the distorting effects of taxation and advises against government intervention? A. Keynesian B. Classical C. Supply-side D. Monetarist

257. According to classical theory, what is the effect of increasing government spending? A. It leads to full employment. B. It has no effect on employment and output. C. It reduces the interest rate. D. It increases the price level.

258. Who among the following economists is associated with the classical school of thought? A. Milton Friedman B. John Maynard Keynes C. Adam Smith D. Paul Krugman

259. What is the classical view on fiscal policy's effectiveness in affecting employment and output? A. It is highly effective. B. It is only effective in the short term. C. It is ineffective. D. It is effective if coupled with monetary policy.

260. Which of the following best describes the monetarist school of thought? A. It emphasizes the role of government spending in economic stability. B. It focuses on the long-term effects of monetary policy on inflation. C. It advocates for high tax rates to fund public services. D. It supports strong regulatory measures to control the economy.

261. The idea that 'an economy will return to a full employment level of GDP without intervention' is a concept from which school of thought? A. Keynesian B. Classical C. New Classical D. New Keynesian

262. What does the 'Laffer curve' suggest about the relationship between tax rates and work incentives? A. Higher tax rates always increase work incentives. B. There is no relationship between tax rates and work incentives. C. Lower tax rates may increase work incentives and productivity. D. Tax rates have an inverse relationship with work incentives.

263. Which economist is known for the statement 'Supply creates its own demand'? A. Irving Fisher B. Jean Baptiste Say C. John Stuart Mill D. David Hume

264. What is a likely result of a tax cut according to supply-siders, without a corresponding cut in government spending? A. Decrease in public debt B. Increase in inflation C. Increase in economic growth D. Decrease in total tax revenue

265. Which school of thought would most likely support a 'hands off' approach to economic policy? A. Keynesian B. Classical C. New Keynesian D. Monetarist

266. The belief that 'monetary policy has no effects on the real sphere of the economy' is associated with which school of thought? A. Keynesian B. Classical C. Monetarist D. New Classical

267. What is the primary policy recommendation of supply-side economists like Arthur Laffer? A. Increase government regulation B. Raise tax rates C. Cut tax rates D. Expand welfare programs

268. Who is considered the main contributor to neoclassical economics? A. John Maynard Keynes B. Adam Smith C. Alfred Marshall D. Karl Marx

269. What concept is central to neoclassical economics? A. The labor theory of value B. Marginal utility C. The multiplier effect D. Fiscal stimulus

270. Neoclassical economics emerged as a response to which of the following limitations? A. The limitations of Keynesian economics B. The limitations of classical doctrines, notably laissez-faire C. The limitations of Marxist economics D. The limitations of mercantilism

271. According to neoclassical economics, what determines the size of the economy? A. Government spending B. Potential GDP C. Current GDP D. Consumer demand

272. What is the neoclassical view on price and wage flexibility? A. Prices and wages are inflexible in the short run. B. Prices and wages will adjust flexibly to ensure the economy returns to potential GDP. C. Prices and wages should be controlled by the government. D. Prices and wages are irrelevant to economic analysis.

273. Which policy implication is emphasized by neoclassical economics? A. The need for active fiscal policy B. The focus on long-term growth and controlling inflation C. The importance of cyclical unemployment D. The role of government regulation in markets

274. Which economist is not associated with neoclassical economics? A. Léon Walras B. Vilfredo Pareto C. Milton Friedman D. Alfred Marshall

275. What does neoclassical economics accept as one method of presentation? A. Literary economics B. Mathematical economics C. Historical economics D. Behavioral economics

276. In neoclassical economics, what is the relationship between potential GDP and natural rate of unemployment? A. They are inversely related. B. They are directly related. C. The economy fluctuates around both in the long run. D. There is no relationship.

277. Which of the following best describes the neoclassical approach to macroeconomic analysis? A. It is primarily concerned with short-term economic fluctuations. B. It is focused on long-run analysis and is less concerned with short-term fluctuations. C. It advocates for strong government intervention in the economy. D. It emphasizes the role of central banks in managing the economy.

278. What did the Great Depression reveal about the classical theory's self-correcting market feature? A. It works under all economic conditions. B. It failed to work as expected. C. It was more effective than previously thought. D. It only applies to modern economies.

279. Which law was contradicted by the events of the Great Depression? A. Keynes's Law B. Say's Law C. Gresham's Law D. Murphy's Law III. What does Keynesian economics prescribe to alleviate weak aggregate demand? A. Active monetary policy B. Active fiscal policy C. Deregulation of markets D. Increased interest rates,

280. According to Keynesian economics, what determines real GDP? A. Aggregate supply B. Aggregate demand C. Interest rates D. Inflation rates

281. What causes recessions according to Keynesian theory? A. High inflation B. Low aggregate demand C. High interest rates D. Government intervention

282. What are 'sticky wages and prices' in Keynesian economics? A. Wages and prices that rapidly respond to demand changes B. Wages and prices that are fixed by government policy C. Wages and prices that do not respond quickly to demand changes D. Wages and prices that are determined by international markets

283. What happens to investment expenditure when consumer spending falls, according to Keynesian economics? A. It increases due to lower costs. B. It remains unchanged. C. It decreases due to reduced profitability expectations. D. It fluctuates unpredictably.

284. Why is monetary policy considered of little help in Keynesian economics during a recession? A. It leads to hyperinflation. B. It is absorbed by investors with little effect on interest rates. C. It only affects foreign exchange rates. D. It increases government debt.

285. What is the Keynesian view on the role of fiscal policy during a recession? A. It should be restricted to avoid debt. B. It is ineffective and should be avoided. C. It can stimulate aggregate demand and improve employment and output. D. It only works in conjunction with monetary policy

286. What does Keynesian economics focus on to minimize the effects of recessions? A. Reducing government spending B. Increasing interest rates C. Offering policy prescriptions for weak aggregate demand D. Promoting free-market policies

287. According to Keynesian economics, what is the relationship between potential GDP and real GDP during a recession? A. Real GDP is greater than potential GDP. B. Real GDP is equal to potential GDP. C. Real GDP is less than potential GDP. D. There is no relationship between the two.

288. What triggers a decrease in consumption expenditure in Keynesian economics? A. An increase in household wealth B. A decrease in household wealth C. A stable stock market D. A booming housing market

289. How does Keynesian economics view the adjustment of the macroeconomic to shifts in aggregate demand? A. It adjusts quickly and efficiently. B. It may adjust only slowly due to sticky wages and prices. C. It does not adjust at all. D. It adjusts based on government intervention.

290. What is the Keynesian prescription for a stock market crash's impact on the economy? A. Deregulate the stock market. B. Increase interest rates. C. Implement active fiscal policy measures. D. Leave the market to self-correct.

291. In Keynesian economics, what is the expected effect of increased government spending during a recession? A. It will lead to a budget surplus. B. It will have no effect on the economy. C. It will stimulate aggregate demand. D. It will cause deflation.

292. What does Keynesian economics suggest about the stability of aggregate demand? A. It is always stable. B. It is inherently unstable and can change unexpectedly. C. It is only stable in developed economies. D. It is stable as long as interest rates are controlled.

293. According to Keynesian economics, what should be the government's focus during a recession? A. Controlling inflation B. Reducing public debt C. Stimulating aggregate demand D. Increasing exports

294. What is the Keynesian explanation for why firms may not hire enough workers to reach full employment? A. There is a lack of skilled workers. B. Aggregate demand is not high enough to provide an incentive. C. Wages are too high. D. Government regulations are too restrictive.

295. How does Keynesian economics view the role of fiscal policy in affecting employment and output? A. It has a significant positive impact. B. It is only effective in conjunction with monetary policy. C. It is generally harmful to the economy. D. It has no impact on employment and output.

296. What is a key difference between Keynesian and classical economic theories regarding market corrections? A. Keynesian theory relies on government intervention, while classical theory does not. B. Classical theory relies on government intervention, while Keynesian theory does not. C. Both theories advocate for strong government intervention. D. Both theories believe in the self-correcting nature of markets.

297. Who is considered the main proponent of monetarism? A. John Maynard Keynes B. Adam Smith C. Milton Friedman D. Robert Lucas

298. What do monetarists believe is the primary tool for addressing macroeconomic problems? A. Fiscal policy B. Monetary policy C. Trade policy D. Regulatory policy

299. According to monetarists, what is the result of fiscal policy on private investment? A. It encourages private investment. B. It has no effect on private investment. C. It leads to strong crowding out of private investment. D. It reduces government investment.

300. What is the monetarist view on the effectiveness of fiscal policy in influencing employment and output? A. Highly effective B. Somewhat effective C. Ineffective D. Only effective in the short term ✓ Answer: C. Ineffective

301. Why do monetarists remain skeptical about the timing of monetary policy? A. They believe it always causes inflation. B. They think policymakers are poor at timing it correctly. C. They prefer fiscal policy. D. They see no need for any economic policy.

302. What did Milton Friedman suggest the central bank should follow? A. A variable growth rule B. A constant growth rule for some monetary aggregate C. No growth rule at all D. A fiscal policy rule

303. Who are considered the modern-day classical economists? A. New Keynesians B. Monetarists C. New Classicals D. Supply-siders ✓ Answer: C. New Classicals

304. What concept do new classicals strongly endorse? A. Fiscal stimulus B. Rational expectations C. Government intervention D. Fixed prices and wages

305. What is the 'policy ineffectiveness proposition' associated with new classical economics? A. Policymakers can effectively use countercyclical policy. B. Policymakers cannot or should not use countercyclical policy. C. Fiscal policy is the only effective policy. D. Monetary policy should be used aggressively.

306. Which school of thought is the natural successor of classical economists? A. Monetarist B. New Classical C. New Keynesian D. Supply-side

307. What do new Keynesians accept from the rational expectation hypothesis? A. Everything B. Nothing C. Only the parts that align with perfect markets D. The hypothesis itself but stress the existence of nominal rigidities

308. What invalidates the policy ineffectiveness proposition according to new Keynesians? A. Perfect competition B. Nominal rigidities C. Rational expectations D. Efficient markets

309. Which of the following is a focus of the most recent wave of new Keynesian economics? A. Perfect competition B. Imperfect competition and coordination failures C. Laissez-faire policies D. The gold standard

310. What do monetarists believe about the interest sensitivity of investment? A. It is very low. B. It is moderate. C. It is very high. D. It is irrelevant.

311. According to new classicals, what causes observable fluctuations in the economy? A. Government intervention B. Nominal rigidities C. Rational agents responding to incentives D. Inflation

312. What is a key difference between new classicals and new Keynesians regarding market efficiency? A. New classicals believe in market efficiency, while new Keynesians do not. B. New Keynesians believe in market efficiency, while new classicals do not. C. Both believe in perfect market efficiency. D. Neither believes in market efficiency.

313. How do new Keynesians view the role of government in stabilizing the economy? A. Unnecessary B. Detrimental C. Essential D. Minimal

314. What do monetarists doubt about policymakers regarding monetary policy? A. Their educational background B. Their timing and ability to implement effective policy C. Their commitment to low inflation D. Their understanding of the economy

315. Which economist is associated with the new classical school of thought? A. Milton Friedman B. John Maynard Keynes C. Robert Lucas D. George Akerlof

316. What is a common feature of the models used by new classical economists? A. They rely on historical data. B. They use mathematical techniques. C. They are based on qualitative analysis. D. They avoid any form of rational expectations.

317. Which school of thought suggests that monetary policy can have real effects? A. Keynesian B. Monetarist C. New Classical D. New Keynesian

318. What do new Keynesians stress in their economic models? A. The importance of gold reserves B. The role of technology in growth C. Nominal rigidities and microeconomic foundations D. The elimination of government intervention

319. What is a key criticism monetarists have regarding the use of monetary policy by policymakers? A. It is always inflationary. B. It is not aggressive enough. C. It is often poorly timed due to long and variable lags. D. It focuses too much on interest rates.

320. According to new classical economists, what underpins macroeconomic relations? A. Government regulations B. Microeconomic foundations C. Historical trends D. International trade agreements

321. What do new Keynesians argue for despite accepting the rational expectation hypothesis? A. The effectiveness of laissez-faire policies B. The need for government intervention to stabilize the economy C. The policy ineffectiveness proposition D. The elimination of credit restrictions

322. Which school of thought emphasizes the importance of imperfect competition and coordination failures in recent research? A. Monetarist B. New Classical C. New Keynesian D. Supply-side

323. What does the monetarist school of thought assume about the interest sensitivity of investment? A. It is negligible. B. It is moderate. C. It is very high. D. It is variable.

324. What is the 'policy ineffectiveness proposition' associated with? A. Keynesian economics B. Monetarist economics C. New Classical economics D. New Keynesian economics

325. Who among the following is a new Keynesian economist? A. Milton Friedman B. Robert Lucas C. Edmund Phelps D. Thomas Sargent

326. What do new classical economists believe about market fluctuations? A. They are caused by government intervention. B. They are the result of irrational behaviour. C. They are due to rational agents responding to incentives. D. They are unpredictable and random.

327. 31. How do new Keynesians view nominal wage contracts? A. As a cause of perfect market functioning B. As a source of nominal rigidities C. As irrelevant to macroeconomic stability D. As beneficial for long-term economic growth