

Name: _____

FREE PRACTICE EXAM · EXAMTEX.COM/FREE-EXAMS

AP Macroeconomics — Practice Exam

Instructions: Section I style: 30 questions in 42 minutes. Each question has five answer choices; choose the one that best answers the question. No calculator permitted. Wrong answers are not penalized.

Time Limit: 42 minutes

- [1 point] 1. Using all of its resources, Lorane can produce either 120 tons of rice or 40 tons of steel per year, or any combination along a straight-line production possibilities curve. Kesh can produce either 80 tons of rice or 40 tons of steel. Which of the following is correct?
- A. Lorane has a comparative advantage in steel because it has an absolute advantage in rice
 - B. Lorane has a comparative advantage in both goods because it can produce at least as much of each good as Kesh
 - C. Kesh has a comparative advantage in rice because its opportunity cost of a ton of rice is 2 tons of steel
 - D. Neither country can gain from trade because both can produce the same maximum amount of steel
 - E. Kesh has a comparative advantage in steel because its opportunity cost of a ton of steel is 2 tons of rice, compared with 3 tons for Lorane
- [1 point] 2. In Avalon a worker can make 6 chairs or 3 tables in a day; in Brinn a worker can make 4 chairs or 4 tables in a day. If each country specializes according to its comparative advantage and they trade, which of the following terms of trade would benefit both countries?
- A. 1 table for 0.5 chair
 - B. 1 chair for 1.5 tables
 - C. 1 table for 2.5 chairs
 - D. 1 table for 1.5 chairs
 - E. 1 table for 3 chairs

- [1 point]** 3. Pell and Quor currently have identical production possibilities curves between capital goods and consumer goods. Pell chooses a point on its curve with more capital goods and fewer consumer goods than Quor. Other things equal, over the next decade:
- A. Pell's production possibilities curve will shift outward by more than Quor's
 - B. Quor's production possibilities curve will shift outward by more than Pell's, because consumption spending drives growth
 - C. Both curves will shift outward by the same amount, since both countries are producing efficiently on their curves
 - D. Pell's production possibilities curve will shift inward because it is sacrificing current consumption
 - E. Pell will move to a point inside its production possibilities curve because capital goods cannot be consumed
- [1 point]** 4. In Lorane last year, household consumption was 700 billion dollars, gross private investment 200 billion, government purchases of goods and services 150 billion, government transfer payments 80 billion, exports 90 billion and imports 120 billion. Lorane's gross domestic product was:
- A. 1,020 billion dollars
 - B. 1,080 billion dollars
 - C. 1,100 billion dollars
 - D. 1,140 billion dollars
 - E. 1,260 billion dollars
- [1 point]** 5. Nominal GDP in Kesh rose from 500 billion dollars in year 1 to 572 billion dollars in year 2, while the GDP deflator rose from 100 to 110. The growth rate of real GDP between the two years was:
- A. 24.4 percent
 - B. 14.4 percent
 - C. 10 percent
 - D. 4.4 percent
 - E. 4 percent
- [1 point]** 6. Kesh has a civilian working-age population of 200 million. Of these, 120 million are employed, 8 million are not working but actively looked for a job in the past four weeks, and 2 million want a job but have stopped searching because they believe none is available. The unemployment rate and the labor force participation rate are, respectively:
- A. 4 percent and 64 percent
 - B. 6.25 percent and 60 percent
 - C. 6.25 percent and 64 percent
 - D. 6.67 percent and 60 percent
 - E. 7.7 percent and 65 percent

- [1 point]** 7. A country's consumer price index uses a fixed market basket of 10 loaves of bread and 4 kilograms of cheese. In the base year bread cost 2 dollars per loaf and cheese 10 dollars per kilogram. This year bread costs 3 dollars per loaf and cheese 11 dollars per kilogram. The CPI for this year, to the nearest whole number, is:
- A. 74
 - B. 110
 - C. 117
 - D. 123
 - E. 130
- [1 point]** 8. As an economy begins to recover from a recession, many people who had given up looking for work start searching again, but most of them have not yet found jobs. In the first months of the recovery, this will most likely cause the measured unemployment rate to:
- A. fall, and the labor force participation rate to fall
 - B. fall, and the labor force participation rate to rise
 - C. rise, and the labor force participation rate to rise
 - D. rise, and the labor force participation rate to fall
 - E. remain unchanged, and the labor force participation rate to rise
- [1 point]** 9. Which of the following would cause the price level to fall and real GDP to rise in the short run?
- A. An increase in government purchases of goods and services
 - B. An increase in nominal wages negotiated in new labor contracts
 - C. A fall in the world price of imported oil and raw materials
 - D. A decrease in the money supply
 - E. An increase in consumer confidence
- [1 point]** 10. An economy is in a recessionary gap, with real GDP below full-employment output. If no fiscal or monetary policy action is taken, in the long run the economy will return to full employment because:
- A. aggregate demand shifts to the right as households spend their accumulated savings
 - B. nominal wages rise, shifting the short-run aggregate supply curve to the left
 - C. the long-run aggregate supply curve shifts to the left to meet the lower level of output
 - D. the price level rises, which increases aggregate demand
 - E. nominal wages and other input prices fall, shifting the short-run aggregate supply curve to the right
- [1 point]** 11. In an economy with a marginal propensity to consume of 0.75, the government cuts lump-sum taxes by 40 billion dollars. Assuming a constant price level and no crowding out, the maximum resulting increase in real GDP is:
- A. 10 billion dollars
 - B. 30 billion dollars
 - C. 40 billion dollars
 - D. 120 billion dollars
 - E. 160 billion dollars

- [1 point]** 12. The aggregate demand curve slopes downward because a lower price level:
- A. makes goods cheaper relative to their substitutes, so consumers buy more of them
 - B. reduces firms' production costs, so they are willing to supply more output
 - C. raises nominal interest rates, which encourages households to save more
 - D. raises the purchasing power of households' money holdings, increasing consumption spending
 - E. makes the country's exports more expensive to foreign buyers
- [1 point]** 13. The government of Kesh increases its purchases of goods and services by 50 billion dollars and raises lump-sum taxes by 50 billion dollars at the same time. The marginal propensity to consume is 0.6. Assuming a constant price level and no crowding out, the net effect on real GDP is an increase of:
- A. 0 dollars, because the two changes cancel out
 - B. 20 billion dollars
 - C. 50 billion dollars
 - D. 75 billion dollars
 - E. 125 billion dollars
- [1 point]** 14. Which of the following would shift both the short-run and the long-run aggregate supply curves to the right?
- A. A temporary decline in the price of imported oil
 - B. An increase in the size of the labor force
 - C. An increase in government purchases of goods and services
 - D. An increase in expected inflation
 - E. An increase in the money supply
- [1 point]** 15. Suppose that government spending increases at the same time as a sharp rise in energy prices raises firms' production costs. In the short run, the most likely effects on the price level and real GDP are:
- A. the price level rises; the change in real GDP is indeterminate
 - B. the change in the price level is indeterminate; real GDP rises
 - C. both the price level and real GDP rise
 - D. the price level rises and real GDP falls
 - E. the changes in both the price level and real GDP are indeterminate
- [1 point]** 16. Harbor Bank has 50,000 dollars in checkable deposits and holds 14,000 dollars in reserves. The required reserve ratio is 20 percent. If Harbor Bank lends out all of its excess reserves and every other bank does the same, with no cash leakage, the maximum amount by which the money supply can eventually increase is:
- A. 4,000 dollars
 - B. 14,000 dollars
 - C. 20,000 dollars
 - D. 50,000 dollars
 - E. 70,000 dollars

- [1 point]** 17. Holding the money supply constant, an increase in the price level will most likely cause:
- A. the money demand curve to shift to the right and the nominal interest rate to rise
 - B. the money demand curve to shift to the left and the nominal interest rate to fall
 - C. the money supply curve to shift to the right and the nominal interest rate to fall
 - D. a movement down along the money demand curve and the nominal interest rate to fall
 - E. the money demand curve to shift to the right and the nominal interest rate to fall
- [1 point]** 18. A bond pays its holder 50 dollars per year forever. When the market interest rate on comparable assets is 5 percent, the bond sells for 1,000 dollars. If the market interest rate rises to 10 percent, the price of the bond will:
- A. rise to 2,000 dollars
 - B. remain at 1,000 dollars, because the annual payment is fixed
 - C. fall to 950 dollars
 - D. fall to 500 dollars
 - E. fall to 100 dollars
- [1 point]** 19. The central bank of Kesh raises its policy interest rate to fight inflation. In the short run, which of the following is the most likely combination of effects on private investment, real GDP and the international value of Kesh's currency?
- A. Investment decreases, real GDP decreases, the currency appreciates
 - B. Investment decreases, real GDP decreases, the currency depreciates
 - C. Investment increases, real GDP decreases, the currency appreciates
 - D. Investment decreases, real GDP increases, the currency appreciates
 - E. Investment increases, real GDP increases, the currency depreciates
- [1 point]** 20. Which of the following would most likely decrease the equilibrium real interest rate in the loanable funds market?
- A. An increase in the government's budget deficit
 - B. A decrease in household saving
 - C. An increase in businesses' expectations of future profits
 - D. An open-market sale of government bonds by the central bank
 - E. An inflow of financial capital from foreign savers
- [1 point]** 21. In Lorane the money supply is 400 billion dollars, the velocity of money is 5 and real GDP is 1,000 billion dollars. If the central bank increases the money supply by 10 percent while velocity and real output remain unchanged, the price level will:
- A. remain at 2.0, because real GDP is unchanged
 - B. rise from 2.0 to 2.5
 - C. rise from 0.5 to 0.55
 - D. fall from 2.0 to 1.8
 - E. rise from 2.0 to 2.2

- [1 point] 22. The government finances an increase in its spending by selling bonds to the public. The crowding-out effect refers to the resulting:
- A. decrease in net exports caused by a weaker currency
 - B. increase in the real interest rate that reduces private investment spending
 - C. decrease in consumption as households save to pay the future taxes the debt implies
 - D. decrease in the money supply as the public uses its money to buy the bonds
 - E. increase in imports as household income rises
- [1 point] 23. Which of the following is an example of an automatic stabilizer?
- A. Congress passing an infrastructure spending bill after unemployment rises
 - B. Unemployment insurance payments that increase as more workers lose their jobs
 - C. The central bank lowering interest rates during a recession
 - D. A temporary tax rebate enacted in response to a recession
 - E. A balanced-budget rule requiring spending cuts whenever tax revenue falls
- [1 point] 24. According to the long-run Phillips curve, a permanent increase in the growth rate of the money supply will eventually result in:
- A. a permanently lower unemployment rate and a higher inflation rate
 - B. a higher inflation rate with unemployment back at its natural rate
 - C. a lower inflation rate and a higher unemployment rate
 - D. no change in either the inflation rate or the unemployment rate
 - E. a leftward shift of the short-run Phillips curve
- [1 point] 25. At the start of year 1, Kesh's national debt is 500 billion dollars. In year 1 the government runs a budget deficit of 60 billion dollars, and in year 2 it runs a budget surplus of 10 billion dollars. At the end of year 2, the national debt is:
- A. 50 billion dollars
 - B. 450 billion dollars
 - C. 550 billion dollars
 - D. 560 billion dollars
 - E. 570 billion dollars
- [1 point] 26. One reason monetary policy can usually be implemented more quickly than discretionary fiscal policy is that:
- A. the central bank can act without new legislation being passed
 - B. changes in interest rates affect investment spending immediately
 - C. the central bank does not need economic data to recognize that a problem exists
 - D. fiscal policy cannot be used until the central bank has adjusted the money supply
 - E. monetary policy has no effect on the government's budget

- [1 point]** 27. In Lorane, real GDP increased from 800 billion dollars to 840 billion dollars over a year in which the population grew from 40.0 million to 40.8 million. Real GDP per capita grew by approximately:
- A. 2 percent
 - B. 3 percent
 - C. 5 percent
 - D. 7 percent
 - E. 10 percent
- [1 point]** 28. In one year Kesh exported goods and services worth 300 billion dollars and imported goods and services worth 350 billion dollars. Its residents received net income (interest, dividends and wages) of 20 billion dollars from abroad and made net transfers of 10 billion dollars to foreigners. Assuming no change in official reserves, Kesh's current account and its capital and financial account balances were:
- A. a current account deficit of 50 billion and a capital and financial account surplus of 50 billion
 - B. a current account deficit of 40 billion and a capital and financial account deficit of 40 billion
 - C. a current account surplus of 40 billion and a capital and financial account deficit of 40 billion
 - D. a current account deficit of 30 billion and a capital and financial account surplus of 30 billion
 - E. a current account deficit of 40 billion and a capital and financial account surplus of 40 billion
- [1 point]** 29. Inflation in Lorane rises to 12 percent per year while inflation among its trading partners stays near 2 percent. With a floating exchange rate, in the foreign exchange market for Lorane's currency, the dinar, this will most likely cause:
- A. the demand for dinars to increase and the dinar to appreciate
 - B. the demand for dinars to decrease and the dinar to depreciate
 - C. the supply of dinars to decrease and the dinar to appreciate
 - D. the supply of dinars to decrease and the dinar to depreciate
 - E. no change in the exchange rate, since inflation affects only the domestic price level
- [1 point]** 30. The exchange rate between the United States dollar and the euro changes from 1 dollar = 0.80 euro to 1 dollar = 1.00 euro. A machine made in the United States sells for 50,000 dollars. As a result of the exchange-rate change:
- A. the dollar has depreciated, and the machine's price in euros falls from 50,000 to 40,000
 - B. the dollar has appreciated, and the machine's price in euros falls from 62,500 to 50,000
 - C. the euro has appreciated, so United States exports to Europe will increase
 - D. the dollar has appreciated, and the machine's price in euros rises from 40,000 to 50,000
 - E. the dollar has depreciated, and the machine's price in euros rises from 40,000 to 50,000