

10**AGGREGATE OUTPUT PRICES
AND ECONOMIC GROWTH**

1. The GDP deflator is the percentage difference between nominal GDP:
 - (A) and real GDP in the base period.
 - (B) in the current period and real GDP in the base period.
 - (C) and real GDP in the current period.
2. An increase in real interest rates can be expected to:
 - (A) decrease investment and decrease consumption.
 - (B) decrease investment and increase net exports.
 - (C) increase government spending and decrease consumption.
3. A country's gross domestic product is:
 - (A) equal to the country's aggregate income.
 - (B) greater than the country's aggregate income.
 - (C) less than the country's aggregate income.
4. The relationship between savings (S), investment (I), government spending (G), government tax revenue (T), exports (X), and imports (M) is:
 - (A) $(G - T) = (S - I) + (X - M)$.
 - (B) $(S - I) = (G - T) + (X - M)$.
 - (C) $(X - M) = (S - I) + (G - T)$.
5. Which of the following is most likely to occur in the short run aggregate demand decreases due to a reduction in business and consumer optimism?
 - (A) A higher rate of inflation.
 - (B) An increase in real GDP.
 - (C) An increase in the rate of unemployment.
6. Can an economy that is at long-run equilibrium adjust to produce real GDP which is greater than full-employment real GDP in the short run?
 - (A) No.
 - (B) Yes, if aggregate demand increases.
 - (C) Yes, if wages increase.

7. Assume an economy is in long-run and short-run equilibrium. If money wages increase, other things equal, the most likely result is a:
- (A) long-run inflationary gap.
 - (B) short-run inflationary gap.
 - (C) short-run recessionary gap.
8. Which of the following is least likely a reason that the aggregate demand curve slopes downward?
- (A) Because entitlements are adjusted for inflation, a rising price level forces government spending to increase.
 - (B) Business investment declines as a rising price level increases interest rates.
 - (C) The wealth effect causes consumers to spend less when the price level rises.
9. The long-run aggregate supply curve is:
- (A) elastic because input prices are sticky.
 - (B) inelastic because all input prices can vary.
 - (C) perfectly elastic because input prices are fixed.
10. If both aggregate demand and short-run aggregate supply increase, real GDP:
- (A) will decrease.
 - (B) will increase.
 - (C) may increase or decrease.
11. If private saving equals private business investment, a trade surplus implies that there is:
- (A) no fiscal surplus or deficit.
 - (B) a fiscal deficit.
 - (C) a fiscal surplus.
12. Nominal GDP for the year 20X7 is \$784 billion and real GDP is \$617 billion. If the base period for the GDP deflator is 20X1, the annual rate of increase in the GDP deflator since the base year is closest to:
- (A) 3.5%.
 - (B) 4.0%.
 - (C) 4.5%.
13. Sources of long-run economic growth most likely include increases in:
- (A) government spending, labor supply, and physical capital.
 - (B) human capital, money supply, and natural resources.
 - (C) labor supply, physical capital, and technology.

14. Over the last five years, in the country of Midlothian, both the labor supply and the real stock of physical capital have increased by 20% and real GDP increased 22%. The reason that real GDP growth was greater than input growth over the period is most likely that:
- (A) total factor productivity increased.
 - (B) money wages decreased.
 - (C) the production function is multiplicative.
15. When potential real GDP is less than actual real GDP, the economy is most likely experiencing:
- (A) inflation.
 - (B) recession.
 - (C) underemployment.
16. The production function approach to explaining economic growth focuses on:
- (A) the effects on producers of fiscal and monetary policy.
 - (B) shifts in the aggregate demand and supply curves.
 - (C) productivity, the labor force, and the capital stock.
17. A country's labor force is projected to decrease by 2% while its labor productivity is projected to increase by 3% per year. Based on these projections, the country's sustainable annual economic growth rate:
- (A) depends on the proportions of labor and capital in production.
 - (B) is negative.
 - (C) is positive.
18. A collector of antique automobiles buys one for \$180,000 in 20X1 and sells it for \$200,000 in 20X3. That buyer then sells the automobile for \$215,000 in 20X5. Do these sales increase gross domestic product in 20X3 and 20X5?
- (A) No.
 - (B) Yes, by \$20,000 in 20X3 and \$15,000 in 20X5.
 - (C) Yes, by \$200,000 in 20X3 and \$215,000 in 20X5.
19. If the GDP deflator is less than 100, then real GDP is:
- (A) less than nominal GDP.
 - (B) greater than nominal GDP.
 - (C) equal to nominal GDP.

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20. Which of the following factors is *most likely* to increase aggregate demand?
- (A) An expected decrease in future prices.
 - (B) An increase in real wealth.
 - (C) Increasing real interest rates.
21. If both aggregate demand and short-run aggregate supply decrease, the price level:
- (A) may increase or decrease.
 - (B) will decrease.
 - (C) will increase.
22. In the production function approach to analyzing economic growth, total factor productivity accounts for:
- (A) capital deepening and any increase in the amount of capital available.
 - (B) output growth not attributable to growth in labor and capital.
 - (C) technological advances and growth of the labor force.
23. An increase in aggregate demand can result in output greater than potential GDP in:
- (A) neither the short run nor the long run.
 - (B) the short run and the long run.
 - (C) the short run only.
24. From an initial long-run equilibrium, if aggregate demand increases while short-run aggregate supply decreases, the price level:
- (A) will increase.
 - (B) will decrease.
 - (C) may increase or decrease.
25. If a fiscal budget deficit increases, which of the following factors must also increase if all other factors are held constant?
- (A) Investment.
 - (B) Trade surplus.
 - (C) Savings.
26. Components of national income include:
- (A) wages and benefits, corporate profits, and indirect business taxes less subsidies.
 - (B) government enterprise profits, unincorporated business net income, and statistical discrepancy.
 - (C) rent, interest income, and capital consumption allowance.

27. If domestic savings are insufficient to finance domestic private investment and exports are greater than imports, it is most likely that the fiscal budget has:
- (A) a deficit that is less than the trade surplus.
 - (B) a deficit that is greater than the trade surplus.
 - (C) a surplus that is greater than the trade surplus.
28. Which method of calculating gross domestic product requires data from each stage of production of goods?
- (A) Sum of value added method.
 - (B) Value of final output method.
 - (C) Income method.
29. Which of the following least accurately describes a component of gross domestic product?
- (A) Consumption.
 - (B) Investment.
 - (C) Net imports.
30. Gross domestic product includes the value of all goods:
- (A) produced during the measurement period.
 - (B) purchased during the measurement period.
 - (C) produced and purchased during the measurement period.
31. If the government is running a budget deficit, which of the following relationships are least likely to occur in the economy at the same time?

	Exports relative to imports	Savings relative to investment
(A)	exports > imports	private savings < private investment
(B)	exports < imports	private savings > private investment
(C)	exports < imports	private savings < private investment

32. Which of the following events is least likely to cause a decrease in short-run aggregate supply?
- (A) Inflation increases from 4% to 7%.
 - (B) A labor stoppage causes the price of steel to rise.
 - (C) Oil exporting countries reduce their production levels.
33. Growth in total factor productivity is best described as driven by growth in:
- (A) capital.
 - (B) labor.
 - (C) technology.

34. The difference between personal income and disposable income is:
- (A) fixed expenses.
 - (B) savings.
 - (C) taxes.
35. Which of the following statements concerning aggregate demand is most accurate?
- (A) When price levels fall, real wealth increases, and individuals will spend less.
 - (B) When price levels rise, real wealth decreases, and individuals will spend less.
 - (C) When price levels rise, real wealth increases, and individuals will spend more.
36. An economist calculates the following value:
National income + transfer payments to households - indirect business taxes - corporate income taxes - undistributed corporate profits
The most appropriate term for the value she has calculated is:
- (A) GDP.
 - (B) personal income.
 - (C) disposable income.
37. Which of the following events is most likely to increase short-run aggregate supply (shift the curve to the right)?
- (A) High unemployment puts downward pressure on money wages.
 - (B) Inflation that results in an increase in goods prices.
 - (C) An increase in government spending intended to increase real output.
38. The sustainable growth rate of real GDP is most likely to be increased by:
- (A) an increase in government spending.
 - (B) the discovery of untapped oil fields.
 - (C) an increase in the propensity to consume by households.
39. The long-run aggregate supply curve is best described as:
- (A) elastic because most input prices are variable in the long run.
 - (B) perfectly elastic because input prices are sticky in the long run.
 - (C) perfectly inelastic because input prices change proportionately with the price level in the long run.
40. In the short run, will an increase in the money supply increase the price level and real output?
- (A) Only one will increase in the short run.
 - (B) Neither will increase in the short run.
 - (C) Both will increase in the short run.

41. If the economy is in short-run disequilibrium below full employment, the most likely explanation is that:
- (A) aggregate demand has decreased.
 - (B) long-run aggregate supply has decreased.
 - (C) money wage rates have decreased.

42. Which of the following choices *best* describes the effects on consumption, investment, and net exports that would result from an increase in the price level, other factors held constant?

	Consumption	Investment	Net exports
(A)	Decrease	Decrease	Decrease
(B)	Decrease	Increase	Increase
(C)	Increase	Increase	Increase

43. A shirt with a retail price of \$50 is produced using cloth with a value of \$40. The cloth is produced from cotton with a value of \$30. Using the sum-of-value-added method, what is the total value added to gross domestic product by producing the shirt?

- (A) \$50
- (B) \$70
- (C) \$20



44. Stagflation refers to an environment of:

- (A) High unemployment and high inflation.
- (B) Low unemployment and high inflation.
- (C) High unemployment and low inflation.

45. Which of the following amounts is least likely to be subtracted from gross domestic product in order to calculate national income?

- (A) Capital consumption allowance.
- (B) Indirect business taxed.
- (C) Statistical discrepancy.

46. Under the expenditure approach, gross domestic product is the sum of:

- (A) consumption spending, gross private domestic investment, government spending, and net exports.
- (B) wages and benefits, corporate profits, interest income, unincorporated businessowners' income, rent, and indirect business taxes less subsidies.
- (C) national income and transfer payments to households, less corporate and indirect business taxes and undistributed corporate profits.

47. Which of the following is most likely to cause an increase in aggregate demand?
- (A) An increase in the general price level.
 - (B) High capacity utilization rates.
 - (C) Relative appreciation in the country's currency.
48. Compared to GDP calculated using the sum-of-value-added method, GDP using the value-of-final-output method will be:
- (A) biased downward.
 - (B) biased upward.
 - (C) equal to it.
49. Because some input prices do not adjust rapidly to changes in the price level, the short-run aggregate supply curve:
- (A) exhibits a negative relationship between quantity supplied and the price level.
 - (B) is more elastic than the long-run aggregate supply curve.
 - (C) may be interpreted as representing the economy's potential output.
50. When the sources of economic growth are stated as a production function, which factor is treated as a multiplier?
- (A) Productivity.
 - (B) Size of the labor force.
 - (C) Amount of capital available.
51. If nominal GDP is \$562 billion and the GDP deflator is 119, real GDP is closest to:
- (A) \$47 billion.
 - (B) \$5 billion.
 - (C) \$472 billion.
52. When national income in an important trading partner's economy increases, aggregate demand in the domestic economy is most likely to:
- (A) decrease because interest rates in the domestic economy will tend to increase.
 - (B) decrease because foreign consumers will tend to buy less export goods from the domestic country.
 - (C) increase because foreign consumers will tend to buy more export goods from the domestic country.
53. The sustainable growth rate of an economy is best viewed as the sum of the growth rates of:
- (A) consumption and investment.
 - (B) the labor force and productivity.
 - (C) private and government spending.

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54. Total investment is one of the components of a country's GDP. Which of the following is least likely to be considered a source of funds for investment?
- (A) Foreign borrowing.
 - (B) National savings.
 - (C) Household expenditures.
55. Which of the following factors is most likely to increase long-run aggregate supply?
- (A) Aggregate demand decreases.
 - (B) The average rate of labor productivity increases.
 - (C) Wage rates increase.
56. A reduction in short-run aggregate supply is most likely to be accompanied by an increase in:
- (A) real GDP.
 - (B) real interest rates.
 - (C) the price level.

