Chapter 1:

1. Macroeconomics does *not* try to answer the question of:
   A) why do some countries experience rapid growth.
   B) what is the rate of return on education.
   C) why do some countries have high rates of inflation.
   D) what causes recessions and depressions.

2. A typical trend during a recession is that:
   A) the unemployment rate falls.
   B) the popularity of the incumbent president rises.
   C) incomes fall.
   D) the inflation rate rises.

3. *All* of the following are important macroeconomic variables *except*:
   A) real GDP.
   B) the unemployment rate.
   C) the marginal rate of substitution.
   D) the inflation rate.

4. A severe recession is called a(n):
   A) depression.
   B) deflation.
   C) exogenous event.
   D) market-clearing assumption.

5. Exogenous variables are:
   A) fixed at the moment they enter the model.
   B) determined within the model.
   C) the outputs of the model.
   D) explained by the model.

6. Variables that a model tries to explain are called:
   A) endogenous.
   B) exogenous.
   C) market clearing.
   D) fixed.

7. In the relationship expressed in functional form, $Y = G(K, L)$, $Y$ stands for real GDP, $K$ stands for the amount of capital in the economy, and $L$ stands for the amount of labor in the economy. In this case $G(\ )$:
   A) is the growth rate of real GDP when the amount of capital and labor in the economy is fixed.
   B) indicates that the variables inside the parenthesis are endogenous variables in the model.
   C) is the symbol that stands for government input into the production process.
   D) is the function telling how the variables in the parenthesis determine real GDP.

8. *All* of the following statements about sticky prices are true *except*:
   A) in the short run, some wages and prices are sticky.
   B) the sticky-price model describes the equilibrium toward which the economy slowly gravitates.
   C) for studying year-to-year fluctuations, most macroeconomists believe that price stickiness is a better assumption than is price flexibility.
   D) magazine publishers tend to change their newsstand prices only every three or four years.

Chapter 2:

1. GDP is *all* of the following *except* the total:
   A) expenditure of everyone in the economy.
   B) income of everyone in the economy.
   C) expenditure on the economy's output of goods and services.
   D) output of the economy.

2. *All* of the following are measures of GDP *except* the total:
   A) expenditures of all businesses in the economy.
   B) income from all production in the economy.
   C) expenditures on all final goods produced.
   D) value of all final production.

3. Which of the following is a flow variable?
   A) wealth
   B) the number unemployed
   C) government debt
   D) income

4. *All* of the following transactions that took place in 2009 would be included in GDP for 2009 *except* the purchase of a:
   A) book printed in 2009, entitled *The Year 3000*.
   B) 2001 Jeep Cherokee.
   C) year 2010 calendar printed in 2009.
   D) ticket to see the movie *2001*.

5. When a firm sells a product out of inventory, GDP:
   A) increases.
   B) decreases.
   C) is not changed.
   D) increases or decreases, depending on the year the product was produced.

6. Assume that a firm buys all the parts that it puts into an automobile for $10,000, pays its workers $10,000 to fabricate the automobile, and sells the automobile for $22,000. In this case, the value added by the automobile company is:
   A) $10,000.
   B) $12,000.
   C) $20,000.
   D) $22,000.

7. The underground economy:
   A) is included in the latest GDP accounts.
   B) includes only illegal activities.
   C) includes domestic workers for whom Social Security tax is not collected.
   D) excludes the illegal drug trade.

8. If nominal GDP grew by 5 percent and real GDP grew by 3 percent, then the GDP deflator grew by approximately _______ percent.
   A) 2
   B) 3
   C) 5
   D) 8

9. A farmer grows wheat and sells it to a miller for $1; the miller turns the wheat into flour and sells it to a baker for $3; the baker uses the flour to make bread and sells the bread for $6. The value added by the miller is:
   A) $1.
   B) $2.
   C) $3.
   D) $6.

10. A woman marries her butler. Before they were married, she paid him $60,000 per year. He continues to wait on her as before (but as a husband rather than as a wage earner). She earns $1,000,000 per year both before and after her marriage. The marriage:
   A) does not change GDP.
   B) decreases GDP by $60,000.
   C) increases GDP by $60,000.
   D) increases GDP by more than $60,000.