

## Week 1 Tutorial

ECON203: Macroeconomics 2

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### Multiple Choice Questions

**Question 1.** The two major reasons for the tremendous growth in output in the U.S. economy over the last 125 years are

- (a) population growth and low inflation.
- (b) population growth and increased productivity.
- (c) low unemployment and low inflation.
- (d) low inflation and low trade deficits.

**Question 2.** The main reason that the United States has such a high standard of living is

- (a) low unemployment.
- (b) high average labour productivity.
- (c) low inflation.
- (d) high government budget deficits.

**Question 3.** Average labour productivity is the

- (a) amount of workers per machine.
- (b) amount of machines per worker.
- (c) ratio of employed to unemployed workers.
- (d) amount of output per worker.

**Question 4.** The most direct effect of an increase in the growth rate of average labour productivity would be an increase in

- (a) the inflation rate.
- (b) the unemployment rate.
- (c) the long-run economic growth rate.
- (d) imported goods.

**Question 5.** Short-run contractions and expansions in economic activity are called

- (a) recessions.
- (b) expansions.
- (c) deficits.
- (d) the business cycle.

**Question 6.** When national output rises, the economy is said to be in

- (a) an expansion.
- (b) a deflation.
- (c) an inflation.
- (d) a recession.

**Question 7.** Which of the following best describes a typical business cycle?

- (a) Economic expansions are followed by economic contractions.
- (b) Inflation is followed by unemployment.
- (c) Trade surpluses are followed by trade deficits.

(d) Stagflation is followed by inflationary economic growth.

**Question 8.** The number of unemployed divided by the labour force equals

- (a) the inflation rate.
- (b) the labour force participation rate.
- (c) the unemployment rate.
- (d) the misery index.

**Question 9.** The highest and most prolonged period of unemployment in the United States over the last 125 years occurred during

- (a) World War II.
- (b) the 1890s Depression.
- (c) the 1990-1991 recession.
- (d) the Great Depression of the 1930s.

**Question 10.** A country is said to be experiencing inflation when

- (a) prices of most goods and services are rising over time.
- (b) prices of most goods and services are falling over time.
- (c) total output is rising over time.
- (d) total output is falling over time.

## Problem Solving Questions

**Question 11.** List and briefly explain the three lessons that describe how the economy as a whole works.

**Question 12.** What two things does gross domestic product (GDP) measure? How can it measure two things at once?

**Question 13.** Why should policymakers care about GDP?

**Question 14.** Can average labour productivity fall even though total output is rising? Can the unemployment rate rise even though total output is rising?

**Question 15.** Prices were much higher in the United States in 2012 than in 1890. Does this fact mean that people were economically better off in 1890? Why or why not?

**Question 16.** Which of the following statements are positive in nature and which are normative?

- a. A tax cut will raise interest rates.
- b. A reduction in the payroll tax would primarily benefit poor and middle-class workers.
- c. Payroll taxes are too high.
- d. A cut in the payroll tax would improve the President's popularity ratings.
- e. Payroll taxes should not be cut unless capital gains taxes are also cut.