College Admission

Principles-of-Macroeconomics
CLEP Principles of Macroeconomics Exam (College Level Examination Program)

Questions & Answers PDF

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Question: 1

The government increases spending by $1,000,000 and the multiplier is 5. How does this affect demand (AD)?

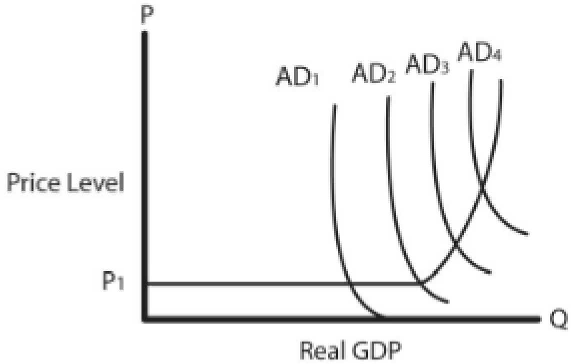
A. It has no effect
B. AD will increase by $5,000,000
C. AD will increase by $200,000
D. AD will decrease by $5,000,000
E. It is impossible to predict the effect

Answer: B

Explanation:
The multiplier effect states that a given increase in spending, when multiplied by the multiplier, will lead to a given increase in AD. In this case, the spending increase and the multiplier of 5 lead to an AD increase of $5,000,000 X 5 = $5,000,000).

Question: 2

Assume that aggregate demand is at ADI and the government borrows money and then spends that money in order to attempt to move aggregate demand to AD3. According to the theory of "crowding out," where is AD likely to wind up?



A. AD_1
B. AD_2
C. AD_3
D. AD_4
E. P_1

Answer: B

Explanation:

According to the theory of crowding out, when the government borrows money to increase spending, this will increase the price of money, leading to a drop in investment. That drop in investment will have a negative effect on AD, and so the government injection of funds will not have its full, desired effect (AD_3), instead winding up at AD_2.

Question: 3

Which of the following would not cause aggregate supply (AS) to change?

A. An increase or decrease in land availability
B. The labor force suddenly increases dramatically
C. A new oil discovery causes dramatic decreases in power production
D. Worker productivity remains the same
E. A global pandemic keeps workers at home

Answer: D

Explanation:
A change in productivity, such as workers becoming more or less productive, would affect how many goods can be supplied. No change in worker productivity would cause no change in AS. Choices A B, and C would all affect input prices and therefore would all affect AS.

Question: 4

How does unionized labor in an industry typically affect the wages of workers in that industry during a downturn in the economy when AD decreases?

A. It makes wages more likely to decrease
B. It makes wages more "sticky"
C. It has no effect on wages; instead, it causes AS to decrease
D. It has no effect on wages; instead, it causes AS to increase
E. It makes wages more likely to increase

Answer: B

Explanation:
When AD for the goods produced by an industry decreases, one might expect the wages paid to workers in that industry to decrease as a result. However, because unions negotiate contracts with employers, wages of unionized workers tend not to fall in these circumstances. This tendency to for wages to stay the same is known as "sticky wages."

Question: 5

The price of oil drops dramatically, saving soda pop manufacturers great amounts of money spent on making soda pop and delivering their product to market. Prices for soda pop, however, stay the same. This is an example of what?

A. Sticky prices
B. Sticky wages
C. The multiplier effect
D. Aggregate expenditure
E. Circular flow

Answer: A

Explanation:
The phenomenon of "sticky prices" refers to prices that stay the same even though it seems they should change (either increasing or decreasing).

Question: 6

Which of the following statements about the long run aggregate supply (LRAS) curve is correct?

A. The horizontal part represents high levels of unemployment
B. The curved part represents high levels of unemployment
C. The vertical part represents high levels of unemployment
D. The LRAS curve is a straight, vertical line
E. The LRAS curve is a straight, horizontal line

Answer: D

Explanation:
In the long run, aggregate supply does not depend on price. Aggregate supply in the long run depends strictly on the amount of capital and labor and the type of available technology.

Question: 7

Assume that aggregate demand (AD) decreases. How will this decrease affect real GDP if there is a lot of unemployment as opposed to full employment?

A. If there is a lot of unemployment, prices will rise dramatically
B. If there is a lot of unemployment GDP will stay the same
C. If there is full employment, GDP will increase dramatically
D. If there is full employment, prices will stay the same
E. If there is a lot of unemployment. GDP will decrease

Answer: E

Explanation:
When there is a lot of unemployment, the AS curve is horizontal. If AD decreases at this time, prices will tend to remain the same while GDP decreases. When there is full employment, the AS curve is vertical. If AD decreases at this time, prices will drop but GDP will tend to remain the same.

Question: 8

The price of gasoline skyrockets, dramatically affecting the amount that producers spend to send their goods to market. What do you expect to happen in the short run?

A. Prices increase, GDP increases
B. Prices decrease, GDP decreases
C. Prices increase, GDP decreases
D. Prices decrease, GDP increases
E. Prices stay the same, GDP stays the same

Answer: C

Explanation:
The increased cost of gasoline increases the cost of transportation. This is a variable cost of supply, and so the aggregate supply curve shifts inward and upward. In the short run, aggregate demand would remain fixed, leading to a rise in prices and decreased GDP.