



Faculty of Commerce  
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English Section  
Academic year 2013/2014

Questions for Chapter 6 of *Macroeconomics, 10e* (Parkin)

**First: Multiple choice questions**

**The Basics of Economic Growth**

1) In 2008, Armenia had a real GDP of \$4.21 billion and a population of 2.98 million. In 2009, real GDP was \$4.59 billion and population was 2.97 million. What was Armenia's economic growth rate from 2008 to 2009?

- A) 0.38 percent    B) 9.0 percent    C) 3.8 percent    D) 8.3 percent

2) In 2008, Armenia had a real GDP of approximately \$4.21 billion and a population of 2.98 million. In 2009, real GDP was \$4.59 billion and population was 2.97 million. From 2008 to 2009, Armenia's standard of living \_\_\_\_\_.

- A) increased    B) decreased    C) did not change  
D) might have increased, decreased, or remained unchanged but more information is needed to determine which.

3) In 2008, Armenia had a real GDP of approximately \$4.21 billion and a population of 2.98 million. In 2009, real GDP was \$4.59 billion and population was 2.97 million. Armenia's real GDP per person in 2009 was

- A) \$1,545    B) \$380    C) \$1,413    D) \$132

**Economic Growth Trends**

4) Over the past 100 years, in the United States the average growth rate of \_\_\_\_\_ grew at a faster rate than \_\_\_\_\_.

- A) real GDP; nominal GDP    B) the population; real GDP  
C) real GDP; the population    D) inflation; real GDP

**5) Which of following was a period of below-average economic growth in the United States?**

- A) the 1920s   B) the 1960s   C) the 1930s   D) all of the above

**6) If a rich country grows at a faster rate than a poor one, then**

- A) the gap in their standard of living will widen over time.  
B) the gap in their standard of living will close over time.  
C) the difference in their living standards will not change over time.  
D) whether or not the living standards gap widens or closes over time depends on the absolute size of the relative growth rates.

### How Potential GDP Grows

**6) Along the aggregate production function, as the quantity of labor rises, real GDP**

- A) rises   B) falls   C) stays the same   D) may fall, rise, or stay the same

**7) The aggregate production function shows that an economy increases its real GDP in the short run by**

- A) developing new technologies.   B) increasing its physical capital stock.  
C) using more labor.   D) exploring for new deposits of natural resources.

**8) Moving along the aggregate production function, all of the following are held constant EXCEPT**

- A) labor   B) capital   C) human capital   D) technology

**9) The decreasing slope of a production function reflects**

- A) diminishing returns.   B) rising unemployment.  
C) decreasing costs.   D) increasing aggregate demand.

**10) The quantity of labor demanded depends on the**

- A) money wage rate not the real wage rate.   B) real wage rate not the money wage rate.  
C) price of output not the money wage rate nor the real wage rate.  
D) money wage rate AND the real wage rate.

**11) As the real wage rate increases, the**

- A) quantity of labor supplied increases.   B) supply of labor curve shifts rightward.  
C) supply of labor curve shifts leftward.  
D) quantity of labor supplied increases and the supply of labor shifts rightward.

**12) If the price level falls by 5 percent and workers' money wage rates remain constant, firms'**

- A) quantity of labor demanded will decrease.   B) quantity of labor demanded will increase.  
C) supply of jobs will increase.   D) None of the above answers are correct.

**13) The labor demand curve slopes downward because**

- A) the firm maximizes profits by hiring more labor when the real wage rate rises.
- B) workers supply more hours of work when the real wage rate rises.
- C) the firm maximizes profits by hiring more labor when the real wage rate falls.
- D) workers supply fewer hours of work when the real wage rate rises.

**14) If the real wage rate is such that the quantity of labor supplied equals the quantity of labor demanded,**

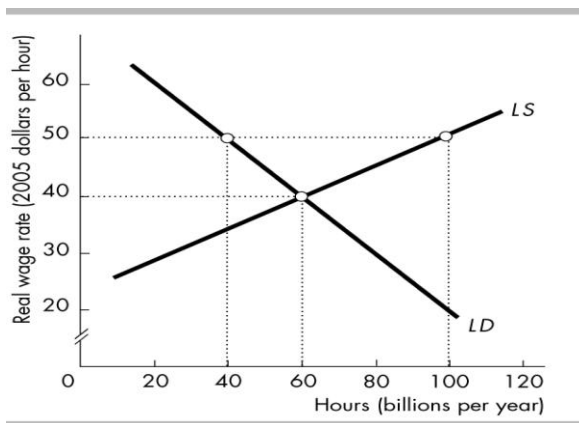
- A) a full-employment equilibrium occurs.
- B) real GDP equals potential GDP.
- C) the opportunity cost effect of not working equals the income effect.
- D) Both answers A and B are correct.

**15) When the quantity of labor demanded exceeds the quantity of labor supplied, the real wage rate**

- A) rises to eliminate the labor-market shortage.
- B) falls to eliminate the labor-market surplus.
- C) rises to eliminate the labor-market surplus.
- D) falls to eliminate the labor-market shortage.

**16) In the labor market, an increase in labor productivity \_\_\_\_\_ the real wage rate and \_\_\_\_\_ the level of employment.**

- A) raises; increases
- B) raises; decreases
- C) lowers; increases
- D) lowers; decreases



**17) In the above figure, at the real wage rate of \$50**

- A) there is a surplus of 100 billion hours per year.
- B) there is a shortage of 100 billion hours per year.
- C) there is a surplus of 60 billion hours per year.
- D) there is shortage of 20 billion hours per year.

**18) In the above figure, what is the full-employment real wage rate and quantity of hours per year?**

- A) \$40 and 60 billion hours per year
- B) \$50 and 100 billion hours per year
- C) \$35 and 100 billion hours per year
- D) \$50 and 40 billion hours per year

**19) Full employment corresponds to**

- A) equilibrium in the labor market, with real GDP being equal to potential GDP.
- B) labor demand being greater than labor supply and real GDP being equal to potential GDP.
- C) being at the point where the marginal product of labor equals zero.
- D) equilibrium in the labor market, and real GDP exceeding potential GDP.

**20) Real GDP grows when**

- I. the quantities of the factors of production grow
  - II. persistent advances in technology make factors of production increasingly productive
  - III. human capital grows
- A) Only I. B) Both I and III. C) Only II. D) I, II, and III.

**21) Labor growth depends mainly on \_\_\_\_\_ and labor productivity growth depends on \_\_\_\_\_.**

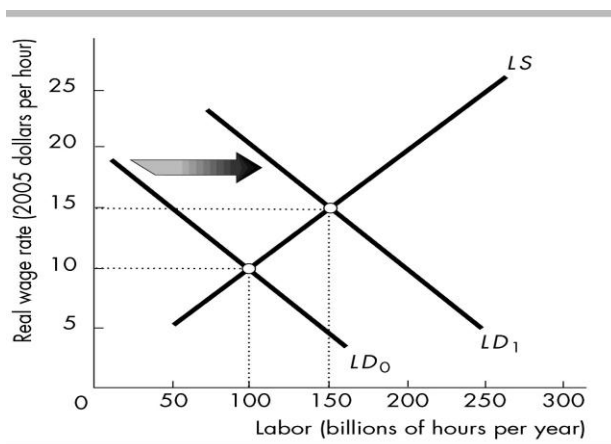
- A) population growth; increases in real GDP
- B) population growth; technological advances
- C) growth in real GDP per person; growth rate of capital
- D) growth in real GDP per person; technological advances

**22) If real GDP is \$800 million and aggregate labor hours are 20 million, labor productivity is \_\_\_\_\_.**

- A) \$40 per hour
- B) \$16,000 million
- C) \$40 million
- D) \$160 per hour

**23) When labor productivity increases, the demand for labor curve \_\_\_\_\_ and the supply of labor curve \_\_\_\_\_.**

- A) shifts rightward; shifts rightward
- B) shifts rightward; does not shift
- C) shifts leftward; shifts rightward
- D) shifts leftward; does not shift



**24) As a result of the rightward shift in the demand curve for labor from LD<sub>0</sub> to LD<sub>1</sub>, the equilibrium level of employment \_\_\_\_\_ and potential GDP \_\_\_\_\_.**

- A) increases; increases
- B) increases; decreases
- C) decreases; increases
- D) decreases; decreases

### Why Labor Productivity Grows?

**25) The Industrial Revolution in England, in large, was the result of**

- A) growth in human capital.
- B) technological innovations encouraged by the patent system.
- C) population growth.
- D) technological innovations that were financed mainly by government spending.

**26) Technological change**

- A) lowers the real wage rate.
- B) decreases labor productivity.
- C) has no effect on employment.
- D) increases potential GDP.

**27) An increase in saving that leads to more capital accumulation \_\_\_\_\_ labor productivity.**

- A) increases
- B) does not change
- C) decreases
- D) probably changes but in an ambiguous direction

**28) The more education that workers have, the \_\_\_\_\_ is their human capital and \_\_\_\_\_ is their productivity.**

- A) larger; higher
- B) larger; smaller
- C) smaller; larger
- D) smaller; smaller

**29) During World War II, the increasing productivity of workers who built ships was due primarily to**

- A) human capital accumulation through schooling and training.
- B) human capital accumulation by repeatedly doing the same tasks.
- C) discoveries of new and better technologies.
- D) investments by shipyards in new capital equipment.

### Growth Theories, Evidence, and Policies

**30) Which of the following ideas are included in classical growth theory?**

- I. Subsistence real GDP per person
  - II. Growth in real GDP per person is temporary.
  - III. Technological change induces investment.
- A) I only    B) I and II    C) II and III    D) I, II and III

**31) According to the classical growth theory of Thomas Malthus,**

- A) labor productivity increases continuously.
- B) the population growth rate is fixed.
- C) technological advances lead to permanent increases in real GDP per person.
- D) increases in real GDP per person are only temporary.

**32) Neoclassical growth theory predicts that**

- A) population growth rates slow as employment opportunities for women increase.
- B) population explosions decrease real GDP per person.
- C) economic growth leads to technological change.
- D) the pursuit of profit creates perpetual growth.

**33) Neoclassical growth theory attributes economic growth to**

- A) technological change.
- B) fiscal policy.
- C) the law of diminishing returns.
- D) increasing population growth.

**34) According to new growth theory, technological change is driven by**

- A) random chance.
- B) government policies.
- C) foreign firms' attempts to increase their sales in the domestic market.
- D) firms' attempts to increase their profit.

**35) Which of the following is NOT associated with the new growth theory?**

- A) natural resources
- B) research
- C) technology
- D) innovation

**36) An important foundation of the new growth theory is that**

- A) we will get more technological advances the more the government is involved in deciding which technology to pursue.
- B) we will get more technological advances the greater the rewards people receive from making technological advances.
- C) the growth rate of the capital stock is more important than the growth rate of new knowledge in generating economic growth.
- D) improvements in labor productivity are poor measures of technological growth.

**37) Which growth theory predicts perpetual growth?**

- A) classical growth theory
- B) neoclassical growth theory
- C) new growth theory
- D) None of the above answers is correct.

**38) Which of the following policy actions could speed productivity growth?**

- I. Tax incentives to encourage saving.
  - II. Encouraging international trade.
  - III. Directing public funds toward financing basic research.
- A) II only.
  - B) I and III.
  - C) I only.
  - D) I, II, and III.

**39) One policy that would increase the saving rate would be**

- A) raising taxes on the returns to saving.
- B) raising taxes on the returns to investment.
- C) taxing consumption.
- D) raising taxes on saving.

**40) A factor that turned out to be a weakness of the classical theory of growth is its**

- A) emphasis on saving and investment.
- B) assumption that the growth rate of the population increases when income increases.
- C) reliance on constant growth in technology.
- D) neglect of the subsistence real wage.

### **Second: News-based questions**

Chinese President Hu Jintao told world leaders that his country "has taken an active part in the international cooperation to deal with the financial crisis" by providing a "\$586 billion economic stimulus, focused on building low-rent housing, roads, railways and airports. The package also allows tax deductions for fixed assets such as machinery to stimulate investment. Farmers will also benefit from more subsidies."

Hu stated that "China is in itself an important contribution to international financial stability and world economic growth."

www.bloomberg.com 11/15/2008

**Read the above news clip, then answer the following questions.**

41) If the fiscal stimulus spending does generate economic growth, we can expect to see

- A) growth in labor productivity.
- B) growth China's price level.
- C) an excess supply of labor in China's labor market.
- D) growth in the supply of labor.

42) Which of the following will occur if China's spending generates economic growth in real GDP per person?

- i. There will be an upward shift in China's aggregate production function.
  - ii. There will be a rightward shift in China's labor demand curve.
  - iii. There will be an increase in the real wage.
- A) i and ii only. B) i, ii and iii. C) i and iii only. D) ii and iii only.

43) China wants to increase investment because this change will

- A) increase the growth in physical capital and speed up economic growth.
- B) increase human capital.
- C) cause an increase in the supply of labor.
- D) not cause the real wage rate to increase so employment will increase.

### **Third: Essay questions**

**44) Explain the role played by technological change in classical growth theory, neoclassical growth theory, and new growth theory.**

**45) What is the main shortcoming of the neoclassical growth model and how does the new growth theory address this shortcoming?**