Macro Chapter 16 study guide questions

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____  1. When a country's real GDP is increasing at a faster rate than its population,
   a. per capita GDP will be rising.  
   b. per capita GDP will be falling.  
   c. per capita GDP will remain constant.  
   d. none of the above.

____  2. The major sources of economic growth are
   a. gains from trade, entrepreneurial discovery, and investment in physical and human capital.  
   b. price controls, heavy regulations, and high inflation.  
   c. tariffs to protect domestic industries from foreign competition and budget deficits.  
   d. a good climate, high levels of foreign aid, and abundant natural resources.

____  3. Trade is a source of economic growth and prosperity because it
   a. moves goods, services, and resources from people who value them less to people who value them more.  
   b. helps trading partners achieve larger outputs through division of labor, specialization, and adoption of methods of mass production.  
   c. serves as a zero-sum game in which the gains to one trading partner are offset by losses to the other trading partner.  
   d. both a and b, but not c.

____  4. Which of the following will be required for a low-income country to move up the income ladder and achieve high-income status?
   a. rapid growth of the money supply to increase inflation and prices  
   b. restrictions limiting the import of goods from other nations  
   c. high tax rates to support a large government sector  
   d. a high rate of sustained economic growth

____  5. Which of the following will most likely contribute to the growth of a country?
   a. secure property rights and low marginal tax rates  
   b. price controls that keep the cost of agricultural products low  
   c. rapid monetary growth  
   d. exchange rate controls and export restrictions

____  6. Which of the following is a true statement with regard to competitive markets?
   a. Self-interested individuals do not promote the general welfare in competitive markets, only in regulated markets.  
   b. Competition promotes prosperity best when price controls are implemented.  
   c. Policies that make it easy to enter and exit business promote competition and economic progress.  
   d. All of the above are correct.

____  7. Which of the following is not one of the major sources of economic growth?
   a. a large government sector  
   b. investment in physical and human capital  
   c. advancements in technology  
   d. institutions and policies that improve economic efficiency
8. How do high tariffs and other restraints on international trade affect the prosperity of a nation?
   a. They increase domestic employment and thereby promote the growth of real GDP.
   b. They prevent the nation from fully realizing potential gains from specialization, exchange, and competition, thereby reducing economic growth.
   c. They tend to reduce rent-seeking and lobbying by producers and thereby promote economic growth.
   d. Both a and c are correct.

9. If the political leaders of a country wanted to promote economic growth, which of the following policy alternatives would be most effective?
   a. price controls in order to keep the price of food low
   b. expansionary monetary policies designed to increase the rate of inflation
   c. increasing marginal tax rates in order to increase government subsidies and transfers
   d. elimination of price controls and trade restraints and establishment of a monetary policy consistent with long-run price stability (a low rate of inflation)

10. Which of the following is not a government policy that can enhance economic growth?
    a. having free international trade
    b. keeping marginal tax rates low
    c. adopting regulations fixing interest rates at low levels
    d. protecting and enforcing private property rights and contracts

11. A "stable monetary environment" is used to describe monetary policy consistent with
    a. keeping the money income of citizens constant while population grows.
    b. keeping the rate of inflation low.
    c. minimizing the year-to-year fluctuations in the inflation rate.
    d. both b and c.

12. The most important factor for producing long-run economic growth is
    a. abundant natural resources.
    b. foreign aid.
    c. good policies and institutions.
    d. slow population growth.

13. The poor economic performance of countries located in tropical areas is due to
    a. their hot climate.
    b. poor institutional quality in these countries.
    c. a lack of natural resources.
    d. not enough foreign aid.

14. Individuals are more likely to engage in productive activities when institutions and policies
    a. create a fair and unbiased judicial system.
    b. provide for monetary stability.
    c. restrict the ability of government to transfer wealth through taxation and regulation.
    d. All of the above.

Critical Thinking and Application

15. How can increased investment help a country achieve increased economic growth? What costs are involved?
16. How does private ownership and a competitive market affect the efficiency of economic organization?
17. Frequently, politicians enact restrictive trade policies to protect domestic industries. How does economic theory predict this will affect the efficiency of economic organization?
18. How do high marginal tax rates influence the growth and prosperity of countries? What type of tax policy is needed to foster economic efficiency and growth?

19. What are the primary sources of economic growth? Why are our real incomes and living standards today so much higher than those of our great grandparents 50 or 100 years ago? Why is the income per person so much higher in some countries than others?

20. Are abundant natural resources good or bad for economic growth?

21. Why is competition important? Do business firms operating in competitive markets have a strong incentive to serve the interests of consumers? Do business owners have to care about the interests of others if they are going to provide them with helpful products and services?
Macro Chapter 16 study guide questions

Answer Section

1. A
2. A
3. D
4. D
5. A
6. C
7. A
8. B
9. D
10. C
11. D
12. C
13. B
14. D