1. Which of the following statements is true?
a. The concept of supply and demand can answer macroeconomic questions as well as it can answer microeconomic questions.
b. Macroeconomics explains the behavior of large firms; microeconomics explains the behavior of small ones.
c. The paradox of thrift refers to the fact that those who save money will lose it by making poor investment decisions.
d. Macroeconomists study variables such as the overall levels of prices and output.

2. Most economists agree that government intervention in the economy is beneficial
a. in smoothing out short-term economic fluctuations.
b. in stabilizing individual product markets.
c. in stabilizing individual labor markets.
d. when consumers are uncertain about the benefits of a product.

3. Which of the following is a microeconomic variable?
a. the overall level of prices
b. the price of coffee
c. the overall level of employment
d. the current account

4. Which of the following is a macroeconomic variable?
a. the overall level of output
b. the price of legal services
c. the price of medical services
d. the seasonal fluctuation in rental prices for vacation homes

5. The long-run effect of macroeconomic growth is to
a. allow for a higher standard of living.
b. discourage people from saving.
c. contribute to inflation.
d. eliminate the business cycle.

6. The widely-held view that the government should take an active role in the macroeconomy dates back to
a. the American Revolution.
b. the Great Depression.
c. the Civil War.
d. the drafting of the U.S. Constitution.

7. The tools of fiscal policy are
a. control over the interest rate and the level of investment spending.
b. control over the interest rate and the quantity of money.
c. price controls and export subsidies.
d. government spending and taxation.

8. The tools of monetary policy are
a. control over the interest rate and the quantity of money.
b. government spending and taxation.
c. controlling the level of the minimum wage.
d. export subsidies and job training.
9. Microeconomics addresses the question of
   a. how government intervention can eliminate the business cycle.
   b. how to keep prices stable.
   c. how to use a given set of resources as efficiently as possible.
   d. how to establish the optimal tax rate.

10. Macroeconomics addresses the question of
    a. why shortages arise temporarily.
    b. how to invest wisely.
    c. why some prices rise more quickly than others.
    d. how society can increase its total amount of productive resources.

11. The most important effect of a recession is its effect on
    a. the overall level of prices.
    b. the ability of workers to find jobs.
    c. the trade balance.
    d. the percentage of Americans without health insurance coverage.

12. In recent years, the United States has mostly experienced
    a. balanced trade.
    b. trade surpluses.
    c. trade deficits.
    d. no trade with other nations.

13. The business cycle is
    a. the length of time it takes for a new product to be developed.
    b. the length of time it takes for an unemployed person to get a job.
    c. the length of time it takes for an entrepreneur to start a new business.
    d. the short-run alternation between economic recessions and expansions.

14. Which of the following statements is true?
    a. Over the business cycle, the economy's level of output and its unemployment rate move in opposite directions.
    b. During recessions, the unemployment rate typically falls.
    c. During expansions, aggregate output typically declines.
    d. Because unemployment is a microeconomic variable, it does not have any correlation with the business cycle.

15. Overall output
    a. typically declines as employment rises.
    b. typically declines during recessions.
    c. typically increases during recessions.
    d. is a microeconomic variable.

16. Modern policy makers
    a. take actions only when the economy appears to be going into a slump.
    b. try to "smooth out" the business cycle.
    c. take actions only to rein in booms in the economy.
    d. tend to let business cycles run their natural course without interference.

17. Fiscal policy attempts to
    a. forecast the timing of recessions.
    b. forecast the severity of recessions.
    c. stabilize the economy through changes in the interest rate.
    d. stabilize the economy through changes in taxation and government spending.
18. Long-run growth refers to
a. the expansion phase of the business cycle.
b. the recession phase of the business cycle.
c. the growth of the economy over several decades.
d. the stimulative effect of spending on health care.

19. Which of the following statements is true?
a. Deflation can worsen a recession by giving people an incentive to hold cash rather than to make productive investments.
b. Price stability is not a desirable goal in a market economy, because prices need to be flexible to reflect changes in supply and demand.
c. Economic growth is the term used to describe those periods in which the overall price level is rising.
d. Deflation is the term used to describe those situations in which shortages arise because the prices of goods are legally restricted to levels below equilibrium.

20. Which of the following statements is true?
a. Trade deficits and trade surpluses are microeconomic phenomena.
b. Open-economy macroeconomics is based on the assumption that there is no business cycle.
c. Open-economy macroeconomics is based on the assumption that there is no trade between countries.
d. There's no simple relationship between the success of an economy and whether it runs trade surpluses or deficits.