Name: ______________________________ Date: ____________

1. Macroeconomics does *not* try to answer the question of:
   A) why do some countries experience rapid growth.
   B) what is the rate of return on education.
   C) why do some countries have high rates of inflation.
   D) what causes recessions and depressions.

2. A typical trend during a recession is that:
   A) the unemployment rate falls.
   B) the popularity of the incumbent president rises.
   C) incomes fall.
   D) the inflation rate rises.

3. Exogenous variables are:
   A) fixed at the moment they enter the model.
   B) determined within the model.
   C) the outputs of the model.
   D) explained by the model.

4. Macroeconomists cannot conduct controlled experiments, such as testing various tax and expenditure policies, because:
   A) it is against the law.
   B) they tried it once and it did not work.
   C) they must make use of the data history gives them.
   D) economists already know the answers that would come out of the experiments.

5. *All* of the following are types of macroeconomics data *except* the:
   A) price of an IBM computer.
   B) growth rate of real GDP.
   C) inflation rate.
   D) unemployment rate.

6. Endogenous variables are:
   A) fixed at the moment they enter the model.
   B) determined within the model.
   C) the inputs of the model.
   D) from outside the model.

7. In an economic model:
   A) exogenous variables and endogenous variables are both fixed when they enter the model.
   B) endogenous variables and exogenous variables are both determined within the model.
   C) endogenous variables affect exogenous variables.
   D) exogenous variables affect endogenous variables.

8. Variables that a model tries to explain are called:
   A) endogenous.
   B) exogenous.
   C) market clearing.
   D) fixed.

9. Variables that a model takes as given are called:
   A) endogenous.
   B) exogenous.
   C) market clearing.
   D) macroeconomic.

10. Macroeconomic models are used to explain how ______ variables influence ______ variables.
    A) endogenous; exogenous
    B) exogenous; endogenous
    C) microeconomic; macroeconomic
    D) macroeconomic; microeconomic

11. Important characteristics of macroeconomic models include *all* of the following *except*:
    A) simplifying assumptions.
    B) functional relationships based on controlled experiments.
    C) endogenous and exogenous variables.
    D) implicit or explicit consistency with microeconomic foundations.

12. Assume that the equation for demand for bread at a small bakery is $Q^d = 60 - 10P_b + 3Y$, where Q^d is the quantity of bread demanded in loaves, P_b is the price of bread in dollars per loaf, and Y is the average income in the town in thousands of dollars. Assume also that the equation for supply of bread is $Q^s = 30 + 20P_b - 30\ P_f$, where Q^s is the quantity supplied and P_f is the price of flour in dollars per pound. Assume finally that markets clear, so that $Q^d = Q^s$.
    a. If Y is 10 and P_f is \$1, solve mathematically for equilibrium Q and P_b.
    b. If the average income in the town increases to 15, solve for the new equilibrium Q and P_b.

13. In the relationship expressed in functional form, $Y = G(K, L)$, Y stands for real GDP, K stands for the amount of capital in the economy, and L stands for the amount of labor in the economy. In this case $G(\ )$:
    A) is the growth rate of real GDP when the amount of capital and labor in the economy is fixed.
    B) indicates that the variables inside the parentheses are endogenous variables in the model.
    C) is the symbol that stands for government input into the production process.
    D) is the function telling how the variables in the parentheses determine real GDP.

14. Are the terms market clearing and equilibrium one and the same? Explain.

15. Give two examples of macroeconomic variables and microeconomic variables.

Textbook question: Chapter 1 Problems and Applications, page 15: Question #1