SCHOOL OF ECONOMICS AND MANAGEMENT

Department: Business

Assessment Session: **Midterm Exam** *Form:* **Mixed** *Duration:* **50 minutes**
Course ID: **ECO251** *Course name:* **Principles of Macroeconomics** *Code:* **209**
Class ID: *Exam Group:* **Troy program** *Term:* **Spring** *Academic year:* **2025-2026**
Student Name: ……………………………………………… *Student ID:* ……………… *Signature:* ……………

Grade	Examiners' Signature	Proctor's Signature

Part 1: Multiple Choice Questions (50 points)

Answer the multiple-choice questions in the table below by marking (x) in ONE corresponding box to the order of question, and answer options in the test.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
A																				
B																				
C																				
D																				
E																				

Question 1: Which of the following would be the best definition of the study of economics?

A. Economics is the study of how scarce resources are allocated to unlimited wants.
B. Economics is the study of how governments set production goals.
C. Economics is the study of money.
D. Economics is the study of how the stock market operates.
E. Economics is the study of how firms decide to make hiring decisions.

Question 2: Usually when the business cycle is in the _________ stage, the inflation rate is _________.

A. Contraction; falling
B. Trough; at its highest
C. Expansion; falling
D. Peak; at its lowest
E. Peak; negative

Question 3: In a specified period of time, a nation's gross domestic product (GDP) is the

A. Total value of all intermediate goods and services produced within the nation's borders
B. Total value of government spending, minus taxes collected
C. Total value of all final goods and services produced by a nation's citizens, regardless their geographic location
D. Total value of all final goods and services produced within the nation's borders
E. Total disposable income earned by households in the nation

Question 4: In the circular-flow diagram of a private closed economy, private savings ends up as

A. Revenue earnings for firms
B. Export spending
C. Wages paid to labor
D. Investment spending by firms
E. Government borrowings

Question 5: Which of the following is the formula for calculating the rate of inflation between two years, year 1 and year 2?

A. 100 × (CPI base year – CPI year 1 – CPI year 2)
B. 100 × (CPI year 2 – CPI year 1)/ CPI year 1
C. 100 × (CPI year 1 – CPI year 2)/ CPI base year
D. 100 × (CPI year 2 – CPI year 1)
E. 100 × (CPI year 2 – CPI year 1) CPI year 1

Question 6: In the nation of Xela, if people get $1 in new income, they tend to spend $0.75 and save $0.25. therefore, the ________ is ________.

A. Multiplier; 25
B. Marginal propensity to consume; 0.25
C. Marginal propensity to save; 0.75
D. Marginal propensity to consume; 0.75
E. Multiplier; 0.75

Question 7: When computing the value of a nation's domestic output of goods and services, we can add up all of the spending done by all sectors in the economy. In this way we are calculating national output with the

A. value-added approach
B. income approach
C. Expenditure approach
D. national savings approach
E. public sector approach

Question 8: Which model is used to show the flows of money, factors of production, and goods and services in the economy?

A. The Phillips curve model
B. The aggregate demand and aggregate supply model
C. The rational expectations model
D. The model of production possibilities
E. The circular-flow model

Question 9: In a simple economy with no government sector, all money paid by firms to households in the _________ is returned to firms as consumption spending in the _________.

A. Product markets; factor markets
B. Stock market; bond market
C. Foreign sector; domestic sector
D. Export market; import market
E. Factor markets; product markets

Question 10: In 2022 Jackie bought a 1968 Ford Mustang for $40,000. When it was new, the Mustang sold for $5000. How much did the Ford Mustang contribute to GDP in 2022?

A. $45,000
B. $5,000
C. $0
D. $40,000
E. $35,000

Question 11: The labor force is best defined as

A. The ratio of unemployed persons to employed persons
B. The total number of unemployed persons
C. The total number of employed persons plus the total number of unemployed persons
D. The ratio of employed persons to unemployed persons
E. The total number of employed persons

Question 12: A laptop computer purchased by you is _________, and the same laptop computer purchased by the Ministry of Finance is _________.

A. Consumption spending; consumption spending
B. Consumption spending; government spending
C. Export spending; import spending
D. Consumption spending; investment spending
E. Import spending; export spending

Question 13: Which of the following represents the formula for the government spending multiplier?

I. $1/(1-MPC)$ II. $1/MPS$ III. $\Delta GDP/\Delta G$

A. II only
B. I and II only
C. I only
D. I, II and III
E. III only

Question 14: When the business cycle is in the _________ stage, the unemployment rate is _________.

A. Trough; at its lowest
B. Expansion; falling
C. Peak; at its highest
D. Expansion; equal to zero
E. Contraction; falling

Question 15: Which of the following would be an intermediate good?

A. A visit to the doctor before a tropical vacation
B. Your vacation to the island of Yap
C. A new skateboard your brother brought
D. Gasoline purchased for your car
E. Coal used in generating electricity

Question 16: Suppose that nominal gross domestic product (GDP) increased from $2000 to $2100 from year 1 to year 2. Which of the following scenarios would explain why real GDP neither increased nor decreased between your 1 and year 2?

A. The aggregate price level increased by 5%.
B. The aggregate price level remained constant.
C. The aggregate price level decreased by 2.5%.
D. The aggregate price level decreased by 5%.
E. The aggregate price level increased by 1%.

Question 17: Suppose we know that gross domestic product (GDP) is \$10, 000 and that consumption spending is \$7000, investment spending is \$1500, and government spending is \$2500. We can determine that

A. Export spending is \$1000 and import spending is \$1000
B. Net exports are equal to \$1000
C. Net exports are equal to -\$100
D. Export spending is \$1000 and import spending is \$0
E. Net exports are equal to -\$1000

Question 18: Which of the following transactions would be included in the nation's gross domestic product (GDP)?

A. Pam goes to the public library to read romance novels.
B. Dave sells his used economics textbook to his girlfriend.
C. Becky rakes her grandfather's leaves in exchange for a cold glass of iced tea.
D. Melanie decides to \$500 in the bank for an emergency fund.
E. Stan buys a new romance novel at the local bookstore.

Question 19: The ____________ is the short-run alternation between economic downturns and economic upturns.

A. Business cycle
B. Economic growth rate
C. Product life cycle
D. Circular flow model
E. Aggregate demand curve

Question 20: A nation's gross domestic product (GDP) can be determined with which simple formula?

A. $GDP = S + I$
B. $GDP = C + I + G + X$
C. $GDP = C + I + G + (X - M)$
D. $GDP = C + I + G$
E. $GDP = C - I + G + (M - X)$

Part 2 : Problems Solving and Discusion

Question 21: (30 points)

The data of goods market in an open economy as follows:
Consumption function: $C = 60 + 0.8Y_d$
Investment function: $I = 80$
Government Spending: $G = 60$
Net tax function: $T = 20 + 0.1Y$
$Y_d = Y - T$; $AE = C + I + G$

a. Construct the planned aggregate expenditure function and find the equilibrium output/income?
b. Calculate the government budget level (B) at the equilibrium output?
c. How much government spending should be changed (ΔG) if national income increased to 700?

Question 22: (20 points)

(1) A \$100 increase in government spending will raise equilibrium income/output more than a \$100 tax cut will, yet both have the same impact on the budget deficit. (2) So if we care about the budget deficit, the best way to stimulate the economy is through increases in spending, not cuts in taxes.

a. Using the appropriate equilibrium income/output equation, explain the theoretical basis for statement (1) ?
b. Provide a critical commentary on the assertion made in statement (2) ?