AP Macroeconomics Practice

Use this key to check answers and read the explanations.

1. A bakery in a fictional economy buys a newly made domestic oven for its kitchen. Which spending category includes this purchase in the expenditure approach to GDP?

A. Business investment
B. Household consumption
C. Government purchases
D. Exports

Correct answer: A. Business investment

The oven is newly produced equipment that the bakery will use to make goods. Business purchases of this kind of equipment count as investment.

2. A survey in a fictional economy identifies employed adults, adults without jobs who are available and actively seeking work, and retired adults who are neither working nor looking. Which groups make up the labor force?

A. Available active job seekers and retired adults outside the job market
B. Employed adults and retired adults outside the job market
C. Employed adults and available active job seekers
D. Employed adults only

Correct answer: C. Employed adults and available active job seekers

The labor force adds employed and unemployed people. In this survey, the adults who are available and actively seeking work qualify as unemployed, while the retirees described are outside the labor force.

3. Which curve shows how much domestically produced final output buyers across a fictional economy plan to purchase at each overall price level?

A. Short-run aggregate supply
B. Aggregate demand
C. Long-run aggregate supply
D. Demand for a single product

Correct answer: B. Aggregate demand

Aggregate demand relates the overall price level to the quantity of domestic output demanded. It combines spending across the economy.

4. A fictional legislature votes to change government purchases and income tax rates to influence total spending. Which kind of policy is it using?

A. Competition policy
B. Monetary policy
C. Exchange-rate policy
D. Fiscal policy

Correct answer: D. Fiscal policy
Fiscal policy uses government spending and taxes to influence economic activity. The legislature is changing both of those tools in this example.

5. An accountant for a fictional economy has separate totals for exports and imports of goods and services. What calculation gives net exports for the expenditure approach to GDP?

A. Imports minus exports
B. Exports minus imports
C. Exports plus imports
D. Exports divided by imports

Correct answer: B. Exports minus imports
Exports are domestic output bought abroad. Imports are made abroad and are subtracted to remove them from domestic spending totals used to measure GDP.

6. A fictional survey counts 108 employed people, 12 unemployed people, and 30 people outside the labor force. What is the unemployment rate?

A. 10%
B. 8%
C. 11.1%
D. 20%

Correct answer: A. 10%
The labor force has 120 people because it includes the 108 employed and the 12 unemployed. Dividing 12 by 120 gives an unemployment rate of 10%.

7. A fictional economy produces only 30 finished lamps and 12 finished desks this year. In the base year, lamps cost $20 and desks cost $50. This year, their prices are $25 and $55. What is this year's real GDP using fixed base-year prices?

A. $1,260
B. $1,410
C. $1,350
D. $1,200

Correct answer: D. $1,200
Use current quantities and base-year prices. The lamps contribute 30 × $20, or $600, and the desks contribute 12 × $50, also $600. Their combined real value is $1,200.

8. A fictional economy's fixed basket contains two bus tickets and three meals. A ticket cost $4 and a meal cost $8 in the base year. Now a ticket costs $7 and a meal costs $10. If the base-year index is 100, what is the current index?

A. 150
B. 125
C. 137.5
D. 37.5

Correct answer: C. 137.5
The basket cost $32 in the base year and costs $44 now. Divide $44 by $32 and multiply by 100 to obtain 137.5.

9. Households in a fictional economy plan to buy more domestically produced output at every overall price level. Assume investment, government purchases, net exports, and production conditions are unchanged. What happens in the aggregate demand and supply model?

A. The aggregate demand curve shifts right.
B. The aggregate demand curve shifts left.
C. The economy moves down along the original aggregate demand curve.
D. The short-run aggregate supply curve shifts right.

Correct answer: A. The aggregate demand curve shifts right.
Higher planned household purchases increase the quantity of domestic output demanded at each price level. This changes the whole aggregate demand curve and shifts it right.

10. In a fictional economy, a common input becomes more expensive for producers across many industries. Aggregate demand and other production conditions are unchanged. What happens to short-run aggregate supply?

A. It stays fixed, and firms move down along the curve.
B. It shifts right as firms supply more output at each price level.
C. It stays fixed, and firms move up along the curve.
D. It shifts left as firms supply less output at each price level.

Correct answer: D. It shifts left as firms supply less output at each price level.
Higher input costs reduce the quantity firms are willing to supply at a given selling price level. Across producers, that shifts the short-run aggregate supply curve left.

11. In a fictional fixed-price model with spare capacity, no taxes or imports, and no offsetting changes in other spending, households spend 75% of each additional dollar of income. Government purchases rise by $20 million. What is the resulting increase in equilibrium output?

A. $15 million
B. $20 million
C. $80 million
D. $60 million

Correct answer: C. $80 million

The spending multiplier is 1 ÷ (1 − 0.75), or 4. The initial $20 million purchase and the resulting rounds of induced spending raise equilibrium output by $80 million in this model.

12. A fictional central bank uses an ample-reserves framework. It raises the interest rate it pays banks on their reserve balances and other conditions stay fixed. Which response is consistent with this policy tool?

A. Short-term market interest rates tend to fall.
B. Short-term market interest rates tend to rise.
C. Only long-term market interest rates tend to change.
D. Short-term market interest rates stay fixed by definition.

Correct answer: B. Short-term market interest rates tend to rise.

A higher interest rate on reserve balances raises the return to banks for keeping funds at the central bank. That helps steer short-term market rates upward.

13. A fictional economy enters a downturn. Which response illustrates an automatic fiscal stabilizer?

A. The central bank cuts the rate it pays on reserve balances.
B. Lawmakers pass a new bill lowering income tax rates.
C. Lawmakers vote to authorize a new public construction program.
D. Households owe less income tax as their taxable earnings fall under existing rules.

Correct answer: D. Households owe less income tax as their taxable earnings fall under existing rules.

Lower earnings reduce tax payments under the existing rules. This cushions part of the drop in after-tax income without requiring a new legislative decision.

14. In a fictional economy with downward-sloping aggregate demand and upward-sloping short-run aggregate supply, buyers increase planned spending at every price level as higher input costs reduce output supplied at every price level. What happens at the new short-run equilibrium?

A. The price level rises. The direction of change in real output depends on the size of the shifts.
B. Real output rises. The direction of change in the price level depends on the size of the shifts.
C. The price level falls. The direction of change in real output depends on the size of the shifts.
D. Real output falls. The direction of change in the price level depends on the size of the shifts.

Correct answer: A. The price level rises. The direction of change in real output depends on the size of the shifts.

Greater spending shifts aggregate demand right, which by itself raises the price level and output. Higher input costs shift short-run aggregate supply left, which by itself raises the price level and lowers output. The price effects reinforce each other, while the output effects oppose each other.

15. In two fictional economies, the exchange rate rises from 2 to 3 foreign currency units per home currency unit. A home export still costs 12 home units and a foreign import still costs 24 foreign units. At the new rate, what does the foreign buyer pay for the export, and what does the home buyer pay for the import?

A. 36 foreign units for the export and 12 home units for the import
B. 24 foreign units for the export and 12 home units for the import
C. 36 foreign units for the export and 8 home units for the import
D. 24 foreign units for the export and 8 home units for the import

Correct answer: C. 36 foreign units for the export and 8 home units for the import

Each home unit now exchanges for 3 foreign units, so the export costs the foreign buyer 12 × 3, or 36 foreign units. The import costs the home buyer 24 ÷ 3, or 8 home units.