ANSWERS - Chapter 6 –Introduction to Macroeconomics – Quick Quiz

1. The term "recession" describes a situation where:
A. inflation rates exceed normal levels.
**B. output and living standards decline.**
C. an economy's ability to produce is destroyed.
D. government takes a less active role in economic matters.

2. Why are economists concerned about inflation?
A. Inflation generally causes unemployment rates to rise.
B. Real GDP is necessarily falling when there is inflation.
**C. Inflation lowers the standard of living for people whose income does not increase as fast as the price level.**
D. Inflation increases the value of peoples' saving and encourages overspending on goods and services.

3. Which of the following is an example of economic investment?
A. Volvo buys an old factory building from General Motors.
**B. Nike buys a new machine that increases shoe production.**
C. Bill Gates buys shares of stock in IBM.
D. Warren Buffet buys U.S. savings bonds.

4. If an economy wants to increase its current level of investment, it must:
A. sacrifice future consumption.
B. print more money.
C. offer more stocks and bonds to financial investors.
**D. sacrifice current consumption.**