These are some practice questions for CHAPTER 21. Each question should have a single answer. But be careful. There may be errors in the answer key!

37. In the long run, national income is primarily determined by
    a. aggregate demand.
    b. aggregate supply.
    c. changes in consumer expenditure.
    d. changes in investment.
    e. changes in the price level.

38. Potential GDP is defined as the level of output at which
    a. all factors of production are fully utilised at their normal rates of intensity.
    b. all factors of production are fully utilised at 100 percent capacity.
    c. the unemployment rate is zero.
    d. there is only cyclical and structural unemployment.
    e. there is only cyclical and frictional unemployment and capital equipment is being used at 100 percent capacity.

39. In the equation GDP = L ð [E/L] ð [GDP/E] where (L) is the supply of labour and (E) is the level of employment, the term [GDP/E] represents
    a. productivity of labour.
    b. the ratio of the population unemployed.
    c. one minus the unemployment rate.
    d. output per unit of capital.
    e. none of the above

40. The factor utilisation rate is important in the
    a. long run because firms need time to hire more workers or acquire additional capital.
    b. long run because firms adapt to changes in demand.
    c. short run because firms react to changes in demand by increasing production.
    d. short run because firms build new plants to satisfy changes in demand.
    e. short run because firms need time to adjust their price lists.

41. In the long run, some economists argue that money is neutral because it has no effect on
    a. nominal GDP and nominal interest rates.
    b. real GDP and employment.
    c. interest rates and inflation.
    d. the price level or the rate of inflation.

37. b
38. a
39. a
40. c
41. b