1. Which is NOT one of the four main macroeconomic objectives?

   ☐ maximising firms' profits

   ☐ price stability

   ☐ low unemployment

   ☐ economic growth

2. If the marginal propensity to consume (MPC) is 0.8, what is the multiplier = $1/(1 - \text{MPC})$?

   _____

3. Monetary policy is mainly conducted by changing:

   ☐ income tax rates

   ☐ government spending

   ☐ the minimum wage

   ☐ interest rates and the money supply

4. Supply-side policies aim to:

   ☐ shift aggregate supply to the right (raise capacity)

   ☐ shift aggregate demand left

   ☐ raise interest rates

   ☐ increase the budget deficit

5. Stimulating demand to reduce unemployment often causes:

   ☐ deflation

   ☐ a trade surplus

   ☐ higher inflation

   ☐ lower growth

6. A budget deficit occurs when:

   ☐ government spending exceeds tax revenue

   ☐ tax revenue exceeds spending

   ☐ the economy is in surplus

   ☐ inflation is zero

exercises.lol exercises.com.cn

☐ True ☐ False

8. A successful rightward shift of AS can raise output AND lower the price level.

   ☐ True ☐ False

9. Price stability means keeping inflation at exactly zero.

   ☐ True ☐ False

10. The multiplier equals 1 divided by (1 − _____).

    _____

1. **maximising firms' profits**

   The four are growth, low unemployment, price stability and a sound balance of payments.

2. **5**

   $1 / (1 - 0.8) = 1 / 0.2 = 5$.

3. **interest rates and the money supply**

   The central bank uses interest rates and the money supply; spending/taxes are fiscal policy.

4. **shift aggregate supply to the right (raise capacity)**

   They raise productivity and capacity, shifting AS right.

5. **higher inflation**

   The unemployment–inflation trade-off: more demand → fewer jobless but rising prices.

6. **government spending exceeds tax revenue**

   Spending > revenue → the government borrows → a deficit.

7. **False**

   False. It is the other way round: the central bank sets monetary policy (interest rates, money supply) and the government sets fiscal policy (spending and taxation).

8. **True**

   Unlike demand-side policy, supply-side success eases inflation while raising output.

9. **False**

   False. Price stability usually means low and stable inflation, often a target of about 2%. A small positive target leaves a margin against the dangers of deflation.

10. **MPC**

    Multiplier = $1/(1 - \text{MPC})$.

exercises.lol exercises.com.cn