

Chapter 9

Global Economic Growth and Development

9.1 How Do We Define Economic Growth?

- 1) An increase in growth rates will cause the production possibilities curve to
- A) shift inward.
 - B) become steeper.
 - C) become flatter.
 - D) shift outward.

Answer: D

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 2) An outward shift of the production possibilities curve represents
- A) economic contraction.
 - B) economic growth.
 - C) economic recession.
 - D) economic inflation.

Answer: B

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Revised

- 3) Which of the following variables is used to measure economic growth?
- A) nominal GDP
 - B) nominal GDP per capita
 - C) real GDP
 - D) real GDP per capita

Answer: D

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 4) According to your text, which of the following countries currently has the highest annual per capita Gross Domestic Product (GDP) growth rate?
- A) China
 - B) Japan
 - C) Germany
 - D) United States

Answer: A

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The term "economic" growth refers to increases in
- A) resources use.
 - B) nominal income.
 - C) satisfaction.
 - D) productive capacity.

Answer: D

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Economic growth is usually defined as
- A) the rate of increase in output divided by the increase in labor.
 - B) the increase in output over time, as measured by real per capita Gross Domestic Product (GDP).
 - C) the increase in input availability.
 - D) the reduction in the real cost of necessities.

Answer: B

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Using a production possibilities curve, economic growth is represented by
- A) an outward shift in the curve.
 - B) a movement along the curve.
 - C) an inward shift of the curve.
 - D) a pivot of the curve.

Answer: A

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Economic growth is best measured by increases in
- A) nominal personal income.
 - B) nominal Gross Domestic Product (GDP).
 - C) per capita real Gross Domestic Product (GDP).
 - D) per capita nominal Gross Domestic Product (GDP).

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 9) When Country X has high economic growth, this country has
- A) a high level of real Gross Domestic Product (GDP).
 - B) a high level of per capita real Gross Domestic Product (GDP).
 - C) a large increase in per capita real Gross Domestic Product (GDP).
 - D) a large increase in personal income.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: New

Country	2009 Real GDP (Millions)	2010 Real GDP (Millions)	2009 Population (Millions)	2010 Population (Millions)
A	\$280,000	\$300,000	832.5	849.5
B	235,000	260,000	14.8	14.9
C	28,200	33,400	2.7	3.0
D	5,200,000	5,445,000	248.8	250.0

- 10) Refer to the above table. Which country experienced the greatest economic growth from 2009 to 2010?

A) A B) B C) C D) D

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Refer to the above table. Which country had the highest growth rate of real Gross Domestic Product (GDP) from 2009 to 2010?

A) A B) B C) C D) D

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Economic growth may understate changes in standards of living if

A) the growth is accompanied by increasing congestion.
 B) leisure time is also increasing.
 C) the types of jobs generated feelings of alienation.
 D) deflation is taking place.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 13) There are a number of benefits that usually accompany economic growth. The following are such benefits EXCEPT

A) increase in literacy. B) increased expected life-spans.
 C) political stability. D) urban congestion.

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Costs associated with economic growth include all of the following EXCEPT
- A) environmental pollution.
 - B) psychological problems such as depression.
 - C) urban congestion.
 - D) improved health care.

Answer: D

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 15) The growth rate of per capita real Gross Domestic Product (GDP) is a reasonable measure of
- A) inflation.
 - B) productive activity.
 - C) personal well-being.
 - D) quality of life.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Which of the following best represents economic growth?
- A) a movement down a given production possibilities curve.
 - B) a movement up a given production possibilities curve.
 - C) an outward or, equivalently, a rightward shift of the production possibilities curve.
 - D) an inward or, equivalently, leftward shift of the production possibilities curve.

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 17) The faster economic growth is, the
- A) steeper the slope of the production possibilities curve.
 - B) farther the production possibilities curve shifts out.
 - C) closer to the origin the production possibilities curve becomes.
 - D) more bowed the production possibilities curve becomes.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following is NOT an important factor affecting economic growth?
- A) The rate of saving
 - B) The growth of leisure
 - C) The rate of growth of capital
 - D) The rate of growth in labor productivity

Answer: B

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

19) Which of the following is true?

- A) Real standards of living can increase without any positive economic growth.
- B) Real growth rates fail to account for by price level changes.
- C) Real and nominal values are not related.
- D) Real standards of living decrease with positive economic growth.

Answer: A

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

20) When a nation's real per capita Gross Domestic Product (GDP) increases, which of the following is true?

- A) Every individual in that nation shares in the economic gain.
- B) A nation must channel most of the economic gains to its poorest citizens.
- C) Low income people are guaranteed to lose; they never share in their nation's economic gains.
- D) We don't know who has most benefited from economic growth unless we look at the distribution of income.

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

21) Is it possible to see gains in a nation's real standard of living without any positive economic growth?

- A) No. Without economic growth a nation's standard of living cannot improve.
- B) Yes, but only if the government prints more money so people feel wealthier.
- C) Yes. If workers can produce the same level of output in fewer work hours, leisure time gains could push up the real standard of living.
- D) None of the above.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 22) A nation's technological gains have increased labor productivity and, as a result, the average number of hours worked each week has been falling. How do Gross Domestic Product (GDP) calculations account for this shortening of the average workweek?
- A) Real Gross Domestic Product (GDP) does not factor in an increase in leisure time but per capita real Gross Domestic Product (GDP) does.
 - B) Neither real Gross Domestic Product (GDP) nor per capita real Gross Domestic Product (GDP) includes the increase in leisure time that results, so the nation's actual economic growth will be overstated.
 - C) Gains in leisure time are dollar-valued and included in real per capita Gross Domestic Product (GDP) gains.
 - D) Gains in leisure time are not included in Gross Domestic Product (GDP), so any increase in real per capita Gross Domestic Product (GDP) will understate the nation's actual economic growth.

Answer: D

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 23) How should per capita real Gross Domestic Product (GDP) be used?
- A) It is an accurate measure of economic well-being.
 - B) It is a reasonably good measure of productive activity.
 - C) Per capita real Gross Domestic Product (GDP) is a good gauge of a nation's quality of life because it takes into account a nation's cultural and spiritual values.
 - D) All of the above.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Does economic growth have any negative side effects?
- A) No. Every person in a nation experiencing economic growth will benefit.
 - B) No, because where negative side effects do occur, a nation's government is required to neutralize them.
 - C) Quite possibly. Some say economic growth puts people on a never-ending quest to satisfy newly created wants, so we always feel disappointed with our lives.
 - D) Yes, but only for the poorest segment of a nation's population.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Countries are concerned about small changes in their average annual growth rates because
- A) growth rates tend to decline over time.
 - B) the power of compounding means small changes have large effects over time.
 - C) the faster a country grows today, the less it will be able to consume in the future.
 - D) growth rates are a factor in U.N. participation.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 26) Suppose that Country A and Country B each had the same per capita real Gross Domestic Product (GDP) is \$10,000 in 2003. Country A has a growth rate of 3 percent and Country B has a growth rate of 4 percent. By 2008, the per-capita real Gross Domestic Product (GDP)s for the two countries, respectively, are
- A) \$11,500 and \$12,000.
 - B) \$11,593 and \$12,167.
 - C) \$11,255 and \$11,699.
 - D) \$14,000 and \$16,000.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 27) Economic growth is measured by
- A) increases in GDP.
 - B) increases in per capita real GDP.
 - C) increases in the population.
 - D) increases in the value of the total output of society.

Answer: B

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB:

Question Status: Previous Edition

- 28) Economic growth can be depicted as
- A) a movement up on the production possibilities curve.
 - B) a movement down on the production possibilities curve.
 - C) an outward shift on the production possibilities curve.
 - D) an inward shift on the production possibilities curve.

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Economic growth can be defined as a percentage increase in
- A) per capita real GDP.
 - B) real GDP.
 - C) nominal GDP.
 - D) consumption by households.

Answer: A

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Which of the following statements is NOT true about economic growth?
- A) When growth occurs the production possibilities curve shifts outward.
 - B) Growth represents an increase in a nation's productive capacity.
 - C) Growth is measured as the overall level of real GDP.
 - D) Growth generally means that overall the members of the nation are better off materially.

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Which of the following nations has experienced the highest average annual rate of growth of per capita real GDP since 1990?

A) India B) United States C) China D) Germany

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 32) Per capita real GDP is a serviceable measure of
- A) economic welfare.
 - B) cost of living standards.
 - C) cultural superiority.
 - D) productive activity.

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Which of the following is a benefit of economic growth?
- A) reduction in illiteracy
 - B) reduction in poverty
 - C) improved health
 - D) all of the above

Answer: D

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 34) The real GDP in a nation has just increased from \$2 billion to \$2.1 billion.
- A) This country has experienced economic growth because there is a \$.1 billion increase in real GDP.
 - B) We do not know if this country experienced economic growth since the increase in the population was not given.
 - C) We do not know if this country experienced economic growth since information on nominal GDP was not given.
 - D) This country did not experience economic growth since \$.1 billion is not a large number.

Answer: B

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 35) The historical record for the United States since 1900 shows
- A) mostly positive economic growth, with two substantial periods of negative economic growth.
 - B) economic growth for about half the years and economic decline for the other half.
 - C) growth until 1970 and then a period of constant per capita real GDP.
 - D) continuous economic growth, although at different rates, throughout the entire century.

Answer: A

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Suppose per capita real GDP grows by 7% per year. Based on the Rule of 70, approximately how many years will it take for the level of per capita real GDP to double?
- A) 4.9 years
 - B) 7 years
 - C) 10 years
 - D) none of the above

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

37) Which of the following is a true statement concerning economic growth?

- A) Changes in per capita nominal GDP are used to measure economic growth because population growth can distort the figures and we want to use the nominal amounts since that is what people identify with.
- B) Changes in per capita nominal GDP are used to measure economic growth, but there are serious problems concerning the desirability of using figures that do not account for pollution and urban sprawl.
- C) Changes in per capita real GDP are used to measure economic growth because this accurately measures all the differences in living standards across countries.
- D) Changes in per capita real GDP are used to measure economic growth because inflation and population growth can distort nominal GDP figures or total GDP figures.

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

38) Which of the following statements is NOT true about using per capita real GDP to measure a nation's economic growth?

- A) The definition does not indicate how the increase in growth is being disturbed among the nation's population.
- B) The definition assumes that some of the increase in productivity goes to the poor.
- C) The definition has understated actual economic growth because it does not take into consideration changes in leisure.
- D) The definition is not perfect for measuring increases in a nation's productive capacity.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

39) When examining the growth record of any nation

- A) all that must be examined is increases in per capital real GDP.
- B) no consideration should be given to the change in the average amount of leisure time in the nation.
- C) increases in per capita real GDP must be considered along with how far the production possibilities curve has shifted.
- D) we must consider which income groups have benefited most from the growth.

Answer: D

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

CNTRY	2008 Real GDP (Millions)	2010 Real GDP (Millions)	2008 Population (Millions)	2010 Population (Millions)
A	\$214,200	\$256,300	767.70	798.40
B	164,300	174,700	37.20	37.80
C	166,700	184,300	6.53	7.00
D	200,800	222,500	114.49	114.85

- 40) Refer to the above table. Which country had the largest increase in per capita real GDP?
 A) A B) B C) C D) D

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 41) Refer to the above table. Which country has the lowest increase in per capita real GDP?
 A) A B) B C) C D) D

Answer: A

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 42) If we are interested in knowing whether a poor country is improving economically, we want to know not only what the economic growth rate is, but also
 A) whether the economic growth rate is faster than other nations' growth rates.
 B) whether government spending is growing at the same rate.
 C) whether the economic growth rate is greater than last year's rate.
 D) whether the lowest income groups are benefiting from the growth.

Answer: D

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 43) Real standards of living can increase
 A) if the country is producing the same amount they traditionally have and are enjoying more leisure time.
 B) only if there is positive economic growth.
 C) if there is positive growth in the manufacturing sector.
 D) only at the cost of increased urban congestion.

Answer: A

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Economic growth may overstate changes in the standard of living if
- A) people are retiring at a younger age.
 - B) the average workweek is increasing.
 - C) the number of students attending college is increasing.
 - D) expected life spans are increasing.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 45) A country has had its per capital real GDP remain constant for several years. During this period this country
- A) has not experienced any economic growth.
 - B) may have experienced economic growth if the average hours worked per week have fallen.
 - C) will have experienced an inward shift of the production possibilities curve.
 - D) will have an increase in the number of poor people.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 46) An example of a cost of economic growth is
- A) longer life spans.
 - B) political instability.
 - C) alienation.
 - D) increases in illiteracy.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 47) The measurement of economic growth cannot take into account
- A) the service sector of an economy.
 - B) productive activity in an economy.
 - C) cultural aspects of life in a country.
 - D) differences in inflation rates across countries.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 48) Suppose two countries have identical growth rates of real GDP and the same initial value of per capita real GDP. We know, then, that
- A) life expectancies are the same in both countries.
 - B) economic well being is the same in both countries.
 - C) living standards may differ in the two countries because we don't know how income is distributed in the countries.
 - D) living standards in the two countries are probably identical, or very close to each other.

Answer: C

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 49) The reason that differences in economic growth rates are important in the long run is that
- A) growth compounds over time.
 - B) population naturally shrinks in most countries.
 - C) real GDP usually drops when adjusted for inflation.
 - D) nominal GDP typically increases faster than real GDP.

Answer: A

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 50) A one percentage point in the growth rate
- A) does not make much difference in the long run per capita real GDP.
 - B) will not influence the real standard of living in a country.
 - C) can make a big difference in the per capita real GDP because of urban congestion.
 - D) can make a big difference in the per capita real GDP because of compounding.

Answer: D

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 51) A small reduction in a country's growth rate is a concern to policy makers because
- A) a small change can have large effects on per capita GDP over time.
 - B) a reduction usually leads to future reductions until finally the economy stagnates.
 - C) policy makers focus too much on economic growth and not enough on increasing savings rates.
 - D) the larger GDP is the better the economic welfare will be in the future.

Answer: A

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 52) Suppose two countries have per capita real GDP of \$20,000 in 2008. Country A has a growth rate of 4 percent and Country B has a growth rate of 5 percent. By 2011, the per capita real GDPs for the two countries, respectively, are (rounded)

A) \$21,630 and \$22,050. B) \$22,400 and \$23,000.
C) \$22,500 and \$23,150. D) \$25,000 and \$26,500.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Revised

#YRS	3%	4%	5%	6%	8%	10%	20%
1	1.03	1.04	1.05	1.06	1.08	1.10	1.20
2	1.06	1.08	1.10	1.12	1.17	1.21	1.44
3	1.09	1.12	1.16	1.19	1.26	1.33	1.73
4	1.13	1.17	1.22	1.26	1.36	1.46	2.07
5	1.16	1.22	1.28	1.34	1.47	1.61	2.49
6	1.19	1.27	1.34	1.41	1.59	1.77	2.99
7	1.23	1.32	1.41	1.50	1.71	1.94	3.58
8	1.27	1.37	1.48	1.59	1.85	2.14	4.30
9	1.30	1.42	1.55	1.68	2.00	2.35	5.16
10	1.34	1.48	1.63	1.79	2.16	2.59	6.19
20	1.81	2.19	2.65	3.20	4.66	6.72	38.30
30	2.43	3.24	4.32	5.74	10.00	17.40	237.00
40	3.26	4.80	7.04	10.30	21.70	45.30	1470.00
50	4.38	7.11	11.50	18.40	46.90	117.00	9100.00

- 53) According to the above table, if per capita real GDP is currently \$1000, then at a constant annual rate of growth of 8 percent, per capita real GDP ten years from now will be equal to

A) \$2000. B) \$2140. C) \$2160. D) \$2590.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 54) Refer to the above table. How long would it take for a country to triple its GDP if the GDP grew at a 20 percent rate?

A) 2 years B) 4 years C) 6 years D) 10 years

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 55) Refer to the above table. Two countries have per capita real GDPs in 2010 of \$5000. If country A has a 4 percent growth rate and Country B a 5 percent growth rate, what will the per capita real GDPs of each be in the year 2060?

A) A: \$40,000; B: \$60,000
 B) A: \$35,550; B: \$57,500
 C) A: \$24,000; B: \$35,200
 D) A: \$15,000; B: \$30,000

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 56) Refer to the above table. Suppose one country has a per capita real GDP of \$1000 and another has a per capita real GDP of \$10,000, or ten times larger. If both countries have a growth rate of 5 percent, how much larger will per capita real GDP be in the second country be than the first after 50 years?

A) 4 times larger
 B) 5 times larger
 C) 8 times larger
 D) 10 times larger

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 57) Refer to the above table. Country A has a per capita real GDP of \$1000 and B has a per capita real GDP of \$10,000. A is growing at a rate of 5 percent a year and B at a rate of 4 percent a year. After 50 years, how much larger is per capita real GDP in B than A? How much is this in real dollars?

A) B is 8 times larger, or \$175,000 larger on a real per capita basis.
 B) B is 12 times larger, or \$230,000 larger on a real per capita basis.
 C) B is a little over 6 times larger, or almost \$60,000 larger on a real per capita basis.
 D) B is a little less than 2 times smaller, or almost \$20,000 smaller on a real per capita basis.

Answer: C

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 58) Refer to the above table. If an economy's current per capita real GDP is \$3,000, and if its economy grows at an constant annual rate of 5 percent for 50 years, what will be its per capita real GDP at the end of that period?

A) \$13,140
 B) \$21,330
 C) \$34,500
 D) \$55,200

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 59) Refer to the above table. You have a choice among four alternatives. Choice A lets you invest \$250,000 at 4 percent; B lets you invest \$125,000 at 6 percent; C lets you invest \$62,500 at 8 percent, and D lets you invest \$31,250 at 10 percent. Which choice will get you to \$1 million faster?

A) A B) B C) C D) D

Answer: A

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 60) All of the following will cause the reported growth rate in a country to change EXCEPT
- A) population changes.
 - B) changes in the number of poor people in the country.
 - C) a shift of the production possibilities curve.
 - D) changes in productivity.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 61) Graphically, economic growth is represented as
- A) a movement along the production possibilities curve.
 - B) a movement from a point inside the production possibilities curve to a point on the curve itself.
 - C) an inward shift of the production possibilities curve.
 - D) an outward shift of the production possibilities curve.

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 62) One of the problems with the definition of economic growth is that
- A) it overstates economic growth because it does not account for leisure time.
 - B) it does not account for the distribution of income.
 - C) it overstates economic growth because it does not account for the reduction in work time.
 - D) it understates economic growth because it does not account for the reduction in work time.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

63) Economic growth is

- A) an increase in the per person real production in a nation.
- B) an increase in stock market values.
- C) an increase in real estate values.
- D) an increase in the number of people employed in agriculture.

Answer: A

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

64) The variable used to measure economic growth is

- A) the growth of the money supply.
- B) the trade surplus.
- C) the growth in per capita real GDP.
- D) the number of new jobs created.

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

65) Why do very small differences in annual growth rates amount to big differences in the degree of long-term economic growth?

- A) Because the faster-growing countries gain a political advantage over poorer countries, and use that advantage for their economic gain.
- B) Because the annual growth rate is compounded over time.
- C) Because the slower-growing countries save too much.
- D) Because the slower-growing countries don't export enough.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

66) An outward shift of the production possibilities curve demonstrates

- A) a recession.
- B) an increased rate of inflation.
- C) economic growth.
- D) a cyclical shock.

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

67) Economic growth is defined as

- A) an increase in the satisfaction of all people within a country.
- B) an increase in per capita real GDP measured by its rate of change per year.
- C) any increase in per capita nominal GDP measured by its rate of change per year.
- D) an increase in the supply of money measured by its rate of change per year.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

68) According to the World Bank and the International Monetary Fund, which of the following countries has shown the greatest rate of economic growth in the past two decades?

- A) China
- B) Germany
- C) United States
- D) Mexico

Answer: A

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

69) Which of the following would typically be considered a cost of economic growth?

- A) increased illiteracy
- B) decreased levels of health
- C) increased poverty
- D) urban congestion

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

70) A small increase in the annual rate of economic growth can lead to a larger increase in growth over time due to the effects of

- A) the money supply.
- B) compounding.
- C) regression towards the mean.
- D) averaging.

Answer: B

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

71) The definition of economic growth is the annual percentage

- A) increase in the per capita real GDP.
- B) increase in the per capita nominal GDP.
- C) increase in the total nominal GDP.
- D) increase in total exports.

Answer: A

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

72) Economic growth will

- A) shift the production possibilities curve inward.
- B) shift the production possibilities curve outward.
- C) shift along the production possibilities curve toward the X-axis.
- D) be a movement from inside the productions possibilities curve to the curve itself.

Answer: B

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

73) Suppose per capita real GDP grows by 3.5% per year. Based on the Rule of 70, approximately how many years will it take for the level of per capita real GDP to double (i.e., increase by 100%)?

- A) 3.5 years
- B) 10 years
- C) 20 years
- D) 35 years

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

74) Assume a country produces two types of goods: manufactured goods and agricultural goods. When this country experiences economic growth, we know that

- A) the production possibilities curve will shift outward.
- B) the production possibilities curve will shift inward.
- C) there will be a movement along the curve toward more manufactured goods.
- D) there will be movement along the curve toward more agricultural goods.

Answer: A

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

75) When looking at economic growth in a country, the distribution of output and income

- A) generally follows predictable patterns.
- B) is not taken into consideration.
- C) is skewed toward the lowest quintile of the population.
- D) is shared equally.

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

76) Which of the following is NOT a benefit of economic growth?

- A) urban congestion
- B) reduction in illiteracy
- C) improved health
- D) longer lives

Answer: A

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

77) Which of the following is a negative effect of economic growth?

- A) higher inflation
- B) higher unemployment
- C) environmental pollution
- D) all of the above

Answer: C

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Revised

78) A change in the growth rate of a country of one percentage point annually has

- A) very little impact on the economy of a country.
- B) a large impact in the future due to compounding.
- C) a small impact in the current year, and smaller impact in the future because of compounding.
- D) a large impact on the economy in the current year, but not in the future.

Answer: B

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

79) The modification of manufacturing processes so as to reduce the resulting environmental damage is an endeavor that requires capital investment, labor inputs, and technology. What then follows from this statement?

- A) Economic growth can benefit the environment.
- B) Environmental damage is a regrettable but necessary side effect of economic growth.
- C) The condition of the environment will be better in slower-growing countries.
- D) The way to reduce pollution is to educate people about its effects.

Answer: A

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 80) What is the real GDP after four years if Country X's average annual growth rate is 8.6 percent and the initial real GDP was \$2,756.0 million?

A) \$2,993.0 million
 B) \$3,833.5 million
 C) \$1,077.5 million
 D) \$3,250.4 million

Answer: B

Diff: 3

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 81) The per capita GDP for Hungary in 2001 was \$12,000 and in 2002 was \$12,360. How much did the economy grow in 2002?

A) 97 percent
 B) 3 percent
 C) 2 percent
 D) 1 percent

Answer: B

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 82) A constant rate of U.S. economic growth over a given period of years would involve

A) adding the same amount of nominal dollars to real GDP per capita each year.
 B) adding the same amount of real dollars to real GDP per capita each year.
 C) compounding the percentage increase in real GDP per capita over the years.
 D) None of the above are correct.

Answer: C

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 83) When economic growth is compared between countries, the best measure to use is

A) nominal GDP.
 B) real GDP.
 C) chain-weighted GDP.
 D) real GDP per capita.

Answer: D

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

- 84) What is economic growth and why are growth rates so important?

Answer: Economic growth is measured by increases in per capita real Gross Domestic Product (GDP). Economic growth results in a higher standard of living, measured in production of new final goods and services, for the average member of society. Sustained small increases in the growth rate of per capita real Gross Domestic Product (GDP) can lead to large absolute increases in per capita real Gross Domestic Product (GDP) due to the power of annual growth compounding.

Diff: 1

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

85) "There is a direct relationship between economic growth rates and the wealth of a nation." Do you agree or disagree? Why?

Answer: Disagree. Wealthier nations often have smaller growth rates than poorer nations. Part of the reason is that a two percent growth rate for a rich nation means a lot more actual growth of the level of per capita real Gross Domestic Product (GDP) than it does for a poor nation.

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Dynamics of the global economy

Question Status: Previous Edition

86) What are the shortcomings of using changes in per capita real GDP to measure economic growth?

Answer: GDP does not include all goods and services that people consider valuable. Household production is left out, as is the value of leisure. GDP also does not take into consideration cultural and spiritual aspects of life. To the extent economic growth is accompanied by environmental degradation, it is not all a gain. And finally, the level of per capita real GDP does not provide information about how the income is distributed across the population.

Diff: 2

Topic: 9.1 How Do We Define Economic Growth?

AACSB: Analytic skills

Question Status: Previous Edition

9.2 Productivity Increases: The Heart of Economic Growth

- 1) If population growth is greater than the growth of real output,
 - A) real per capita Gross Domestic Product (GDP) growth will be less than the growth of real Gross Domestic Product (GDP).
 - B) the production possibilities curve is shifting to the left.
 - C) real per capita Gross Domestic Product (GDP) growth will be greater than the growth of real Gross Domestic Product (GDP).
 - D) real per capita Gross Domestic Product (GDP) and real Gross Domestic Product (GDP) will be growing at the same rate.

Answer: A

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Labor productivity can best be calculated as
 - A) real Gross Domestic Product (GDP) / Gross Domestic Product (GDP) price index.
 - B) real Gross Domestic Product (GDP) / number of workers.
 - C) number of workers / hours of work.
 - D) real wages / hours of work.

Answer: B

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Which resource is the main contributor to economic growth in the United States, Latin America, and South Asia?
- A) growth in physical capital
 - B) growth in human capital (education)
 - C) growth in labor
 - D) growth in land

Answer: C

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Which of the following variables can be used to measure labor productivity?
- A) real GDP
 - B) number of workers
 - C) number of labor hours
 - D) all of the above

Answer: D

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The majority of evidence points to the fact that, in the last decade in the United States, labor productivity has
- A) decreased.
 - B) increased.
 - C) stayed the same.
 - D) decreased in the manufacturing sector but increased in the service sector.

Answer: B

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Labor productivity rises when
- A) average worker output falls.
 - B) business investment falls.
 - C) average worker output rises.
 - D) nominal wages fall.

Answer: C

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 7) Labor productivity increases when
- A) the average number of hours people work goes up.
 - B) the unemployment rate decreases.
 - C) the average output produced per worker during a specified time period increases.
 - D) the average output produced per worker during a specified time period decreases.

Answer: C

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Suppose a country experiences an increase in output per worker. Such a development represents which of the following?
- A) a decrease in economic growth
 - B) an increase in labor productivity
 - C) a reduction in the saving rate
 - D) an increase in population growth

Answer: B

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Which of the following will cause an increase in economic growth?
- A) an increase in human capital
 - B) a reduction in the stock of physical capital
 - C) a reduction in the unemployment rate
 - D) a reduction in labor force participation

Answer: A

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Labor productivity is computed as
- A) per capita real GDP divided by the number of workers.
 - B) real GDP divided by population.
 - C) per capita real GDP divided by population.
 - D) real GDP divided by the number of workers.

Answer: D

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB:

Question Status: Previous Edition

- 11) Labor productivity is
- A) the average amount produced times the number of workers.
 - B) the average amount produced times the number of people in the labor force.
 - C) the average amount produced per worker.
 - D) the rate of change in the total amount produced per worker.

Answer: C

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

12) The most important thing about higher labor productivity is that it means

- A) we are doing better than anyone else is.
- B) we can compete well with other nations.
- C) we can achieve a happier population.
- D) we can have a higher standard of living.

Answer: D

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

13) Economic growth can be defined as

- A) the rate of growth in the productivity of labor.
- B) the rate of growth in the productivity of capital.
- C) the rate of growth of labor plus the rate of depreciation of capital.
- D) the rate of growth of labor plus the rate of growth of capital plus the rate of growth in the productivity of labor and capital.

Answer: D

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

14) Productivity relates to

- A) working harder over time.
- B) working longer over time.
- C) producing the same output with fewer labor hours.
- D) producing the same output with more labor hours.

Answer: C

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

15) Which of the following is an example of a measure of labor productivity?

- A) Farm workers produce 30 bushels of wheat per worker per day.
- B) Autos get 30 gallons to the mile.
- C) The growth rate of per capita real GDP is 3.5 percent per year.
- D) Wages increase by 3.5 percent per year for 5 years.

Answer: A

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

16) Labor productivity increases when

- A) the population increases.
- B) output increases even if the labor force has decreased.
- C) output increases at the same rate as the labor force increases.
- D) output increases faster than population increases.

Answer: B

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Revised

17) In the United States, the main contributor to economic growth is due to the growth in

- A) physical capital.
- B) education (human capital).
- C) labor resources.
- D) capital and labor productivity.

Answer: C

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB:

Question Status: Previous Edition

18) Improvements in labor productivity

- A) affect the level of wages, but do not affect the rate of economic growth.
- B) affect the level of profit, but do not affect the rate of economic growth.
- C) hinder economic growth, because they cause unemployment.
- D) contribute to economic growth.

Answer: D

Diff: 3

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

19) Labor productivity is commonly measured as

- A) the number of workers divided by real GDP.
- B) the change in real GDP divided by change in number of workers.
- C) nominal GDP divided by number of workers.
- D) real GDP divided by number of workers.

Answer: D

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

20) An increase in human capital will tend to cause which of the following?

- A) increase economic growth
- B) increase the standard of living
- C) increase labor productivity
- D) all of the above

Answer: D

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

21) Which one of the following does NOT contribute to economic growth?

- A) the growth of capital and labor productivity
- B) the growth of the capital stock
- C) the growth of the labor force
- D) increases in the price level

Answer: D

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

22) The formula for the computation of labor productivity is

- A) real GDP/population.
- B) real GDP/number of workers.
- C) nominal GDP/population.
- D) nominal GDP/number of workers.

Answer: B

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

23) Labor productivity is defined as

- A) the amount of output per worker.
- B) the amount of input per worker.
- C) the amount of workers per unit of input.
- D) the increase in output per unit of machinery.

Answer: A

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

24) Labor productivity can be increased if

- A) people spend less time developing skills before entering the workforce.
- B) the government mandates it.
- C) there is an increase in capital goods.
- D) the standard of living declines.

Answer: C

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

25) Labor productivity measures

- A) the growth of per capita real GDP.
- B) the growth of real output.
- C) real output per labor hour.
- D) the growth in the quantity of labor.

Answer: C

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Labor productivity can be increased with
- A) education and training of the workforce.
 - B) an increase in capital goods used.
 - C) improvements in management.
 - D) all of the above

Answer: D

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 27) By dividing the value of total domestic output (real Gross Domestic Product (GDP)) by the number of workers, economists derive
- A) the net domestic product.
 - B) labor productivity.
 - C) the size of the labor force.
 - D) the rate of capital accumulation.

Answer: B

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Whenever average output produced per worker during a specific time-period increases, then
- A) leisure time increases.
 - B) nominal GDP decreases.
 - C) labor productivity increases.
 - D) the standard of living goes down.

Answer: C

Diff: 1

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Improvements in information technology over the past decade have enhanced labor productivity. What has been a likely result of this change?
- A) Capital productivity has declined.
 - B) Unemployment has increased.
 - C) The rate of economic growth has increased.
 - D) Entrepreneurs no longer have an incentive to invest in information technology.

Answer: C

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

30) Which of the following contributes to economic growth?

- A) increase in labor productivity
- B) increase in consumer spending
- C) increase in labor regulations restricting the hours of overtime allowed
- D) increase in environmental protection policies

Answer: A

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

31) Explain the relationship between economic growth and labor productivity.

Answer: Economic growth equals the sum of the growth rates of all inputs plus the rate of growth in the productivity of the inputs. Hence, other things constant, an increase in labor productivity leads to an increase in economic growth.

Diff: 2

Topic: 9.2 Productivity Increases: The Heart of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

9.3 Saving: A Fundamental Determinant of Economic Growth

1) Giving up consumption today for consumption tomorrow accelerates economic growth by

- A) having the economy produce no consumer goods.
- B) increasing saving out of disposable income.
- C) increasing the expected rate of inflation.
- D) rapid expansion of the money supply.

Answer: B

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

2) One important factor that affects economic growth is

- A) gold reserves.
- B) the rate of saving.
- C) which political party is in power.
- D) the number of workers in heavy industry.

Answer: B

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 3) According to the text, Ethiopia probably has a low per capita real Gross Domestic Product (GDP) because
- A) it has too many resources.
 - B) it has a corrupt government.
 - C) it has a low rate of saving.
 - D) there are too many skilled workers in the country.

Answer: C

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Economic growth occurs as a result of all of the following EXCEPT
- A) more labor hours.
 - B) growth of capital.
 - C) technological progress.
 - D) less saving.

Answer: D

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 5) A higher rate of saving should lead to
- A) higher current consumption.
 - B) less growth.
 - C) more investment, higher capital growth, and more future consumption.
 - D) a higher price level and reduced future consumption.

Answer: C

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 6) The rate of economic growth will be faster if
- A) the rate of growth of the money supply is higher.
 - B) the rate of saving is higher.
 - C) the rate of growth of the population is higher.
 - D) consumption spending is greater.

Answer: B

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 7) Other things being equal, a higher saving rate
- A) leads to higher interest rates.
 - B) means higher standards of living in the future.
 - C) means higher standards of living today.
 - D) is associated with a decline in the rate of growth of the population.

Answer: B

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Other things being equal, an increase in consumption spending implies
- A) a decline in saving.
 - B) a decline in government spending.
 - C) a higher standard of living in the future.
 - D) that economic growth will soon increase.

Answer: A

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Economic growth tends to be higher in a country that
- A) has a low saving rate.
 - B) has an open economy that encourages the rapid spread of technology.
 - C) has an undeveloped system of property rights.
 - D) does not grant patents to investors.

Answer: B

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 10) When comparing across countries, the higher the rate of saving,
- A) the lower the level of per capita real Gross Domestic Product (GDP).
 - B) the higher the level of per capita real Gross Domestic Product (GDP).
 - C) the less industrialized the country.
 - D) the lower the productivity rates.

Answer: B

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 11) An important factor in determining a country's rate of economic growth is
- A) the diversity of its population.
 - B) its rate of saving.
 - C) the size of its labor force.
 - D) the proportion of the adult population that is working.

Answer: B

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Other things held constant, higher saving rates lead to
- A) a lower standard of living.
 - B) increases in the number of hours workers work.
 - C) decreases in real per capita GDP.
 - D) higher living standards.

Answer: D

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Saving is important for economic growth because
- A) a higher saving rate reduces investment spending.
 - B) a higher saving rate increases investment spending.
 - C) more saving increases consumption immediately.
 - D) a higher saving rate will decrease the standard of living in the future.

Answer: B

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Revised

- 14) A reduction in a country's saving rate will tend to cause which of the following in the long run?
- A) an increase in the standard of living
 - B) a reduction in economic growth
 - C) an increase in labor productivity
 - D) an increase in per capita real GDP

Answer: B

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 15) The relationship between the rate of saving and per capita real GDP is
- A) positive.
 - B) negative.
 - C) constant.
 - D) not stable.

Answer: A

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

16) There has been some concern in the United States that people are not saving enough. This is a concern because

- A) decreases in saving lead to decreases in labor productivity.
- B) decreases in saving lead to decreases in investment.
- C) decreases in saving lead to increases in the capital stock.
- D) decreases in saving lead to increases in consumption in the future.

Answer: B

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

17) If all income is consumed in a year, then

- A) investment spending will increase.
- B) income next year will increase.
- C) investment spending will be zero.
- D) any investment spending will be done by the government.

Answer: C

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

18) Many countries find it difficult to achieve economic growth. This is because economic growth

- A) is not understood well by economists, so it is difficult to advise policy makers on the best policies to pursue.
- B) requires saving, and saving means less consumption today. A poor country may find it difficult to consume less today.
- C) appears to be predetermined and not subject to factors that policy makers can have any affect on.
- D) depends on technological change and technological change depends on noneconomic factors such as the growth rate of scientific knowledge.

Answer: B

Diff: 3

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) It is likely that a small increase in a country's saving rate will have
- A) a large effect on per capita real GDP many years later because the increase in saving leads to a slightly higher rate of economic growth which has large effects over time.
 - B) a large effect on per capita real GDP immediately because the increase in saving leads to a much larger rate of economic growth.
 - C) a small effect on per capita real GDP many years later because the increase in saving will have very little effect on the growth rate.
 - D) a small effect on per capita real GDP many years later because the increase in saving will be offset in later years by a decrease in the saving rate.

Answer: A

Diff: 3

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Countries with higher rates of saving
- A) experience lower growth rates in the future.
 - B) have a large population.
 - C) have a greater number of poor people.
 - D) have higher rates of growth.

Answer: D

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 21) Economic growth depends on
- A) low tax rates.
 - B) high government spending.
 - C) high rates of consumption.
 - D) increases in the capital stock as a result of saving.

Answer: D

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Which one of the following is true?
- A) Saving deters economic growth, because it takes money out of circulation.
 - B) Saving enables economic growth by providing for investment in the capital stock.
 - C) International comparisons have found no relationship between the rate of saving and the level of per capita real GDP.
 - D) Economies with sophisticated credit markets, such as the United States, have no need for saving.

Answer: B

Diff: 3

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

23) Of the following nations, the country with the highest saving rate is

- A) the United States.
- B) Japan.
- C) Mexico.
- D) Ethiopia.

Answer: B

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

24) Regarding the role of saving in economic growth, studies indicate that

- A) there is a positive relationship between economic growth and saving.
- B) there is no relationship between economic growth and saving.
- C) there is a negative relationship between economic growth and saving.
- D) there is both a positive and a negative relationship between economic growth and saving.

Answer: A

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Dynamics of the global economy

Question Status: Revised

25) Which of the following is an important factor affecting economic growth?

- A) the rate of saving
- B) exchange rates
- C) the rate of interest
- D) the level of prices

Answer: A

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Revised

26) An increase in a country's saving rate will tend to cause which of the following in the long run?

- A) a reduction in per capita real GDP
- B) an increase in economic growth
- C) an increase in the unemployment rate
- D) an increase in the rate of inflation

Answer: B

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

27) In order to be able to consume more in the future, you have to consume

- A) less today and save the difference.
- B) more today to increase supply.
- C) more consumer goods.
- D) fewer capital goods.

Answer: A

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Higher saving rates mean higher future growth rates because
- A) the interest earned from savings gives you more wealth.
 - B) the banks have more money to distribute to their shareholders.
 - C) saving contributes to less investment, which yields a larger capital stock.
 - D) saving contributes to more investment, which yields a larger capital stock.

Answer: D

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 29) In order for a nation to be able to consume more in the future, it needs to
- A) consume less today in aggregate and save the difference between consumption and income.
 - B) consume more today in aggregate and borrow the difference between consumption and income.
 - C) produce more today in aggregate and save the difference between consumption and production.
 - D) produce less today in aggregate and save the difference between consumption and income.

Answer: A

Diff: 2

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Why are economic growth and saving related?

Answer: To consume more in the future less must be consumed today. That is, saving is necessary for investment to occur, and investment is necessary for economic growth to occur.

Diff: 1

Topic: 9.3 Saving: A Fundamental Determinant of Economic Growth

AACSB: Analytic skills

Question Status: Previous Edition

9.4 New Growth Theory and the Determinants of Growth

- 1) Proponents of the new growth theory argue that which of the following is a determinant of economic growth?
- A) An effective system of patent protection
 - B) The quality and size of the nation's educational system
 - C) The proportion of income that goes into research and development
 - D) all of the above.

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

2) Which of the following are mentioned as forces of the *new growth theory* that influence economic growth?

- I. Technology
- II. Research
- III. Innovations
- A) I only
- B) I and II only
- C) I and III only
- D) II and III only
- E) I, II, and III

Answer: E

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

3) A key idea of the new growth theory is that

- A) technology is not an important determinant of economic growth.
- B) economic growth is not as important as leisure time growth.
- C) the greater the rewards for technological advances, the greater the number of technological advances.
- D) the rewards associated with technological advances have little to do with the actual rate of invention or innovation.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Revised

4) New growth theory supports the idea that

- I. economic growth can continue as long as we keep finding new ideas.
- II. increases in human capital can lead to greater rates of economic growth.
- A) I only
- B) II only
- C) Both I and II
- D) Neither I nor II

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

5) According to the new growth theory, economic growth will continue with

- A) the development of new ideas.
- B) increases in population growth.
- C) increases in interest rates.
- D) an increased focus on labor-intensive jobs.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Revised

- 6) All of the following are factors that raise economic development EXCEPT
- A) establishing a legal system.
 - B) an educated work force.
 - C) reducing trade barriers.
 - D) government control of the country's resources.

Answer: D

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Revised

- 7) Innovation typically increases when
- A) market incentives and private property rights are encouraged.
 - B) government controls the resource base.
 - C) high taxes are present.
 - D) the legal system is weak.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The development of a strain of wheat that will yield two crops per year rather than one crop per year is an example of economic growth resulting from
- A) capital accumulation.
 - B) increased gross investment.
 - C) technological progress.
 - D) an increase in per capita real income.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 9) According to new growth theory, as technology becomes more important to growth, so does
- A) human capital.
 - B) military spending.
 - C) increasing taxes.
 - D) increasing trade barriers.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Economists typically agree that the special protection given to owners of patents tends to
- A) reduce expenditures on research and development.
 - B) increase expenditures on research and development.
 - C) reduce economic growth.
 - D) reduce productivity.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB:

Question Status: Revised

- 11) The transformation of an invention into something that benefits the economy is known as
A) an innovation. B) a patent. C) an externality. D) a compounder.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB:

Question Status: Revised

- 12) When the government grants an inventor a patent,
A) he has the exclusive right to make, sell or use his invention for 5 years.
B) the patent holder has less incentive to invest in R&D because one successful invention removes the need to develop others.
C) the patent holder is guaranteed a profit on his invention.
D) the protection of a current invention would increase spending on R&D.

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Revised

- 13) Regarding open economies, economists tend to find evidence that
A) the more closed an economy is, the higher the rate of growth the economy will experience.
B) trade tariffs tend to improve economic growth.
C) free trade encourages a more rapid spread of technology, and hence increases economic growth.
D) open economies tend to have access to smaller markets than do closed economies.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Revised

- 14) According to the text, data supports the conclusion that lower trade barriers
A) help boost per capita real Gross Domestic Product (GDP) growth.
B) help to increase welfare payments.
C) decrease the standard of living in the country.
D) decrease life expectancy.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) Free trade is viewed as key to economic development because
- A) it encourages a faster spread of technology.
 - B) it encourages a country's exports only.
 - C) it brings in expensive new technology.
 - D) none of the above is correct.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) Which of the following does free trade encourage?
- A) More rapid spread of technology
 - B) Higher rates of economic growth
 - C) Domestic industries' access to larger markets
 - D) All of the above

Answer: D

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) Paul Romer's theory on the importance of knowledge differs from traditional theory in that Romer
- A) argues that an investment–knowledge cycle allows a once–and–for–all increase in investment to permanently raise a country's growth rate, while traditional theory argues that a once–and–for–all increase in investment leads to a higher standard of living but not to a higher growth rate.
 - B) argues, that investment is not important in promoting growth, but that the acquisition of knowledge is the sole determinant of economic growth.
 - C) argues, that an investment–knowledge cycle exists which requires that investment rates keep increasing or else growth rates will fall, while traditional theory argues that growth rates will not fall, although they will not increase either.
 - D) emphasizes investment rates while traditional theory emphasizes the importance of knowledge as a factor of production.

Answer: A

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 18) According to economist Paul Romer, economies that wish to experience growth must
- A) invest most of their savings in national defense.
 - B) invest in knowledge.
 - C) drastically lower their standards of living.
 - D) become command economies.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 19) For developing countries, one of the more effective ways to become more developed is
- A) to invest in secondary schools.
 - B) to invest more in the military.
 - C) to increase trade barriers.
 - D) to reduce direct foreign investment.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 20) What does the fact that U.S. students are falling behind other nations' students in math and science have to do with economic growth?
- A) Nothing. People in the United States just don't like to fall behind in anything as a matter of pride.
 - B) If U.S. students don't excel in math and science, the nation will see fewer plays written and fewer pieces of music composed.
 - C) Better technology, a key to economic growth, depends largely on math and science skills.
 - D) Math and science skills don't foster economic growth, but it takes math skills to calculate a nation's rate of economic growth.

Answer: C

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 21) Human capital is
- A) the saving done by human beings.
 - B) the knowledge and skills that people in the work force acquire through education and training.
 - C) a measure of the labor productivity of workers.
 - D) the investment people make in industries that make capital goods.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Which of the following is true of trends in the number of new U.S. patents?
- A) There was a steady increase in new patents throughout the 1970s.
 - B) There was a surge in new patents in the latter part of the 1990s.
 - C) The number of new patents granted each year has remained unchanged since the early 1970s.
 - D) The number of new patents granted each year declined by more than 50 percent after 2001.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Traditionally, economists regarded improvements in technology as
- A) the most important factor that helped explain economic growth, and basically the only factor that would cause economic growth.
 - B) an outside factor that helped explain economic growth.
 - C) an important factor in explaining economic growth that was due to economic forces that also could easily be explained.
 - D) unrelated to economic growth in any systematic way.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Which of the following is NOT associated with the new growth theory?
- A) Natural resources
 - B) Research
 - C) Technology
 - D) Innovation

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 25) New growth theory is concerned with
- A) finding a good way to measure economic growth.
 - B) increasing the savings rate in the U.S.
 - C) understanding the forces that increase productivity.
 - D) understanding how compounding works.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

26) Recently economists have added what factor as a major explanation of economic growth?

- A) The growth rate of labor
- B) The growth rate of capital
- C) The growth rate in labor and capital productivity
- D) Technology

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

27) New growth theory argues that

- A) growth is due to the proper government policies concerning interest rates.
- B) growth relies on maintaining lower growth rates of population, especially in less developed countries.
- C) technology cannot be looked at as an outside factor without an explanation of what drives it.
- D) technology is the key factor that explains growth but technology is beyond economic explanation itself.

Answer: C

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

28) An important foundation of the new growth theory is that

- A) we will get more technological advances the more the government is involved.
- B) we will get more technological advances when the rewards for producing them are greater.
- C) the growth rate of the capital stock is more important than the growth rate of new knowledge in generating economic growth.
- D) improvements in labor productivity are poor measures of technological growth.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

29) Which of the following will tend to cause an increase in technology?

- A) an increase in research and development expenditures.
- B) the development of new ideas.
- C) increases in human capital.
- D) all of the above.

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 30) The development of new products through research and development in new growth theory is important because
- A) there can be a positive impact on future growth.
 - B) society's scarce resources are being used when they could be used for current consumption.
 - C) it will lead to a reduction in the savings rate.
 - D) new patents are created.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Firms are more likely to devote resources to research and development when
- A) the country is in recession.
 - B) they expect to earn rewards from successful research and development.
 - C) it is easy to copy new techniques of other firms.
 - D) the country has been experiencing slow economic growth in order to spur economic growth.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 32) A patent is
- A) a government protection that gives an inventor the exclusive right to the invention for a limited time period.
 - B) a government protection that gives an inventor the exclusive right to the invention for an unlimited time period.
 - C) the right to make a product and sell it at a reasonable price.
 - D) a recognizable right to the profits associated with a new product or new way of making goods granted by business associations.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 33) The reason that patents are granted is
- A) to encourage a high rate of consumption.
 - B) to protect new techniques developed through research and development.
 - C) to encourage free trade.
 - D) to increase the labor force.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 34) In the United States, a patent lasts
- A) 7 years.
 - B) 14 years.
 - C) 20 years.
 - D) forever.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Patents stimulate technological advance by
- A) making capital more productive.
 - B) enabling the government to determine which potential technological advances firms should pursue.
 - C) providing information about the status of technical knowledge in the economy.
 - D) allowing inventors to capture the economic rewards of their inventions.

Answer: D

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Revised

- 36) The benefits from research and development activities
- A) are limited to the firm winning a patent.
 - B) are limited to the firms investing in similar research and development projects.
 - C) are limited to the nation in which the research and development is taking place.
 - D) spill over to others, including foreign residents.

Answer: D

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Foreign residents can benefit from U.S. research and development activity because
- A) they ignore U.S. patent laws and steal the technology.
 - B) they can import the goods, obtaining inputs at lower cost than they would otherwise.
 - C) countries usually share patented ideas.
 - D) patents do a poor job of protecting the inventor.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 38) One reason that economists encourage free trade is that
- A) it encourages a more rapid spread of technology.
 - B) it allows us to exploit the workers of less developed countries.
 - C) we can sell more goods.
 - D) it increases our capital stock.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 39) Which of the following is NOT a reason that free trade stimulates economic growth?
- A) Free trade encourages a more rapid spread of technology.
 - B) Industries have larger markets.
 - C) The importation of technically advanced products enables the country to imitate the technology.
 - D) Free trade keeps domestic prices up, enabling firms to make more profits that can be spent on research and development.

Answer: D

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 40) According to the text, the relationship between economic growth and the degree of how closed an economy is
- A) positive.
 - B) negative.
 - C) constant.
 - D) unstable.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: Revised

- 41) According to the text, an open economy is likely to have all the following EXCEPT
- A) high economic growth.
 - B) relatively more trade barriers.
 - C) high technological progress.
 - D) relatively more rapid spread of ideas.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Dynamics of the global economy

Question Status: New

42) Innovation is

- A) another term for something new.
- B) the transformation of an invention into something that is useful to humans.
- C) the term for invention when a firm obtains a patent.
- D) the term for inventions in the electronic and computer industries.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

43) Which of the following statements is NOT consistent with new growth theorists' beliefs?

- A) Innovation can lead to lower productivity costs.
- B) Inventions are much more important than innovation.
- C) Technology must be understood in terms of what drives it.
- D) Rewards lead to technological advances.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

44) New growth theorists believe that

- A) wealth creation comes from innovation.
- B) wealth creation comes from saving.
- C) wealth creation is due to capital spending and not research and development spending since much research and development spending fails to produce an invention.
- D) inventions spread very rapidly, thereby curtailing the need for more innovations.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

45) Paul Romer's theory of economic growth differs from traditional theories in that

- A) Romer argues that investment in capital goods is not important in encouraging growth while investment in human capital is, whereas traditional theorists emphasize both human and physical capital.
- B) Romer argues that investment in human capital always occurs before investment in physical capital, while traditional theories emphasize the priority of physical capital.
- C) Romer argues an investment-knowledge cycle can exist, but requires constant increases in investment rates, while traditional theories argue that investment rates can be constant.
- D) Romer argues an investment-knowledge cycle allows a one-time increase in investment to permanently increase a country's growth rate, while traditional theory argued such an investment would have only a short-term effect.

Answer: D

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 46) According to Romer,
A) capital drives economic growth. B) invention drives economic growth.
C) ideas drive economic growth. D) government drives economic growth.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 47) According to new growth theorists, more technological improvements can be brought about by
A) a government policy that encourages increased consumption.
B) government policies that lead to increases in human capital.
C) tougher immigration laws.
D) the government taking a more active role in regulating industries.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 48) Which one of the following helps preserve incentives to develop new technologies?
A) patents B) tariffs
C) quantity restrictions on imports D) income taxes

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 49) According to the new growth theory,
A) technology should be considered as a factor of production.
B) technology plays a minor role in economic development.
C) technology provides few rewards to the society.
D) technology is a natural by-product of invention.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 50) New growth theory emphasizes all of the following EXCEPT
A) technology. B) import restrictions.
C) research and development. D) innovation.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 51) A government protection for an inventor that provides the inventor with the right to make use of her invention in any way she desires is
- A) an innovation. B) a copyright. C) a patent. D) a trademark.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 52) One of the implications of new growth theory is that economic growth arises from
- A) limits on international trade.
B) investments in knowledge.
C) financial safety nets for the poor, such as Medicaid.
D) reductions in the birth rate.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 53) New growth theorists conclude that
- A) invention is more important than innovation in spurring economic growth.
B) the amount of technological innovation in an economy is independent of the rewards offered for innovation.
C) rates of global economic growth are limited by the amount of raw materials available.
D) economic growth can continue as long as we keep coming up with new ideas.

Answer: D

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 54) The development of human capital
- A) is a form of investment.
B) does not appear to enhance economic growth.
C) enhances economic growth, but it does not improve the productivity of the labor force.
D) enhances economic growth, but the individuals acquiring the capital are not made better off themselves.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Which of the following factors are considered under "new growth theory"?
- A) technology
 - B) research
 - C) innovation
 - D) All of the above are correct.

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 56) When considering international trade, which of the following would be most conducive to domestic economic growth?
- A) a closed economy
 - B) an economy in which its domestic industries are protected by tariffs
 - C) an economy with free and open markets to the outside world
 - D) an economy in which most decisions are made by a central governmental authority

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 57) The new growth theory examines the role of
- A) technology in economic growth.
 - B) natural resources in economic growth.
 - C) exports in economic growth.
 - D) government in economic growth.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Revised

- 58) The new growth theory of economic growth examines the interaction of
- A) labor and population.
 - B) regulations and capital expansion.
 - C) resources and labor productivity.
 - D) technology, research, and innovation.

Answer: D

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 59) A patent is a government protection that gives
- A) consumers the right to sue when products are unsafe.
 - B) inventors exclusive rights to their product for a time.
 - C) monopolies the right to be sole producers due to economies of scale.
 - D) companies the right to produce any good they choose.

Answer: B

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 60) The reason that the government offers inventors exclusive rights to their product for a period of time is to
- A) reduce market concentration.
 - B) increase profits of certain companies.
 - C) maximize consumer utility.
 - D) promote innovation.

Answer: D

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 61) Economic growth occurs when there is
- A) growth in technology that increases productivity.
 - B) growth in government spending.
 - C) lower taxes on individuals.
 - D) more environmental regulation.

Answer: A

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 62) Free trade
- A) hurts economic growth because foreigners are not bound by the same patent laws as we are.
 - B) helps economic growth by encouraging the sharing of technology and industrial ideas.
 - C) hurts economic growth because foreign countries can produce goods with lower labor costs.
 - D) helps economic growth by increasing tariffs.

Answer: B

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 63) All of the following unambiguously contribute to economic growth EXCEPT
- A) increase in human capital.
 - B) increase in technology.
 - C) increase in labor productivity.
 - D) increase in government spending.

Answer: D

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 64) A patent is
- A) a bond issued by the government.
 - B) a bond issued by a state.
 - C) the monopoly right given to a producer/company.
 - D) an agreement between a union and management on certain labor issues.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 65) Which of the following is most likely to reduce the rate of economic growth?
- A) a high domestic saving rate
 - B) investment in human capital
 - C) subsidies for R&D activities
 - D) slow technological progress

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 66) Innovation is
- A) always financed by the government.
 - B) an invention financed by the sale of bonds.
 - C) the transformation of an invention into something useful.
 - D) an invention financed by the sale of stock certificates.

Answer: C

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 67) According to new growth theory, economic growth is driven by
- A) positive externalities.
 - B) the division of labor.
 - C) higher birth rates.
 - D) new ideas.

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 68) A government grant that gives an inventor the exclusive right or privilege to make, use, or sell his or her invention is known as
- A) a positive externality.
 - B) a negative externality.
 - C) a protectionism clause.
 - D) a patent.

Answer: D

Diff: 1

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 69) The federal government awards a patent holder the exclusive right to make, use, and sell an invention for a period of
- A) 20 years.
 - B) 17 years.
 - C) unlimited period.
 - D) 100 years.

Answer: A

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 70) Which of the following is a true statement?

- A) The most important sources of economic growth are the quantity and quality of the land and other natural resources a country controls.
- B) The most important source of economic growth is the rate of population growth since a growing population stimulates demand for goods and services, and provides the labor to produce the goods and services.
- C) The most important sources of economic growth are the new ideas generated by entrepreneurs in an economic system that permits them to capture the rewards of their entrepreneurial activities.
- D) The most important source of economic growth is the extent to which the government directly enters into decisions where research and development activities should be directed and who should be involved in research and development activity.

Answer: C

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 71) Which one of the following does NOT appear to contribute to economic growth?

- A) innovation
- B) knowledge
- C) protectionism
- D) a system of well-defined property rights

Answer: C

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 72) What is the economic role of a patent?

Answer: A patent grants the inventor the exclusive right to make, use, or sell an invention for 20 years. This gives the inventor property rights on the invention, which enables the inventor to profit from the invention. The number of inventions should be greater if people can profit from inventive activity, so patents help stimulate investment in new technology and economic growth.

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

73) How does innovation differ from invention? Why is innovation required for economic growth?

Answer: Innovation involves the transformation of an invention into something that benefits the economy by lowering production costs or by providing a new good or service. It is innovation, then, that stimulates economic growth.

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

74) According to Romer and other new growth theorists, what could poor countries do to stimulate greater economic growth?

Answer: According to new growth theory, poor countries can stimulate greater economic growth by investing more in human capital as well as physical capital, by moving toward freer trade, and by encouraging innovation.

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

75) Explain how the "new growth theory" treats technology differently from the way economists used to treat technology.

Answer: Technology used to be treated as an outside factor of growth that could not be explained itself. The new growth theory includes technology as another factor of production and argues that the greater the reward to technology the greater will be technological advance. Firms engage in research and development activity with the expectations of increasing their profitability.

Diff: 2

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

76) Would a new growth theorist expect economic growth to be very rapid in one of the Communist nations before the fall of Communism? Why or why not?

Answer: No. These centrally planned economies did not provide for private property rights, which reduces the incentives people have to use the assets efficiently. Further, the lack of property rights reduces the incentive to engage in research activity. Finally, these economies tended to be more closed, and there is a negative relationship between protectionism and economic growth. Free trade encourages a more rapid spread of new technology and ideas.

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

77) Explain Paul Romer's ideas concerning economic growth.

Answer: Romer argues that knowledge is a factor of production just as capital and labor are. Economies must invest in education as they do in capital. Past investments in capital make it profitable to acquire more knowledge, implying that investment leads to new knowledge that leads to new investment. There can be an investment-knowledge cycle that continually stimulates economic growth. According to Romer, ideas drive economic growth.

Diff: 3

Topic: 9.4 New Growth Theory and the Determinants of Growth

AACSB: Analytic skills

Question Status: Previous Edition

9.5 Immigration, Property Rights, and Growth

1) Of the following views on the effects of immigration on the receiving nation's economic growth, which have NOT been suggested by economists Michael Kremer and Julian Simon?

- A) Technological progress is driven by population growth.
- B) Immigrants raise the standard of living of a nation's native population.
- C) Immigration increases a nation's labor pool and encourages ingenuity.
- D) Immigration costs the local population jobs and greatly lowers their incomes.

Answer: D

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

2) Which of the following will NOT lead to increased capital investment within a country?

- A) Increased uncertainty about private property rights
- B) Increased certainty about private property rights
- C) The decreased possibility of nationalization of private property
- D) Increased certainty about being able to reap the gains from investing

Answer: A

Diff: 1

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

3) The more certain private property rights are,

- A) the less people need to invest in education or human capital development.
- B) the less entrepreneurship there will be.
- C) the more capital accumulation there will be.
- D) the more an economy must grow to maintain a certain living standard.

Answer: C

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 4) A system of private property rights
- A) enhances economic growth by creating incentives to the Fed to maintain stable prices.
 - B) enhances economic growth by increasing the probability that a person can gain from making investments today.
 - C) retards economic growth by serving the interests of the wealthy only.
 - D) retards economic growth by limiting the options of people who own nothing.

Answer: B

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Entrepreneurship functions better when
- A) the government performs the entrepreneurial function.
 - B) there is a well-defined property rights system.
 - C) saving is relatively low.
 - D) most of the population has low levels of education.

Answer: B

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The immediate effect of increased population growth, with real GDP growth unchanged, is to
- A) reduce economic growth by reducing per capita real GDP.
 - B) increase economic growth by stimulating more saving.
 - C) increase economic growth by boosting the capital stock.
 - D) leave economic growth unchanged.

Answer: A

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 7) According to the late Julian Simon,
- A) legal immigrants have a favorable impact on the welfare of American citizens, but illegal immigrants have a negative impact. However, the positive effect of the legal immigrants is stronger than the negative impact of the illegal immigrants.
 - B) legal immigrants have a favorable impact on the welfare of American citizens, but illegal immigrants have a negative impact that almost exactly offsets the positive effect of the legal immigrants.
 - C) legal and illegal immigrants have a positive effect on the welfare of American citizens.
 - D) legal and illegal immigrants have a negative effect on the welfare of American citizens.

Answer: C

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) A system of private property rights
- A) encourages economic growth by creating incentives to invest in capital and to be innovative.
 - B) discourages economic growth by discouraging the development of new ideas and ways of doing things.
 - C) reduces the efficiency of government, which reduces the growth rate of the economy over time.
 - D) encourages investment but discourages entrepreneurial activity, so the effect on economic growth is uncertain.

Answer: A

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Entrepreneurship functions better when
- A) patent laws are not strongly enforced since they make imitation difficult.
 - B) government provides technical support to entrepreneurs.
 - C) a system of private property rights permits entrepreneurs to capture the rewards from their entrepreneurial activities.
 - D) universities provide research that is closely interrelated with the entrepreneurial activities.

Answer: C

Diff: 3

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 10) The protection of property rights leads to
- A) more poverty.
 - B) more illiteracy.
 - C) more capital formation.
 - D) unemployment.

Answer: C

Diff: 1

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Entrepreneurs often undertake the innovations that are necessary to bring inventions to the marketplace. Accordingly, what empirical pattern should be expected in an international comparison?
- A) Countries with higher rates of entrepreneurship have higher rates of poverty.
 - B) Countries with higher rates of entrepreneurship have lower rates of immigration.
 - C) Countries with higher rates of entrepreneurship have lower rates of economic growth.
 - D) Countries that protect the property rights of entrepreneurs will have higher rates of economic growth.

Answer: D

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Revised

- 12) In the absence of well-defined property rights, we would likely find
- A) people with more incentives to take risks.
 - B) people with less incentives to take risks.
 - C) higher economic growth rates.
 - D) increases in investment activity.

Answer: B

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Well-defined property rights give entrepreneurs the incentive to
- A) engage in risky business endeavors in order to accumulate future wealth.
 - B) use the eminent domain laws to seize property for public use.
 - C) lobby Congress in order to increase environmental regulations.
 - D) evade taxes.

Answer: A

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Would one expect economic growth to be higher or lower in a country that had poorly defined property rights? Why?

Answer: Lower, because entrepreneurs are more likely to engage in entrepreneurial activity when property rights allow them to capture the rewards from these activities. Further, innovation is more likely when there are property rights on ideas.

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Why might population growth and immigration stimulate economic growth?

Answer: Faster population growth means the pool of innovators is larger, and innovation leads to more growth. Further, immigrants tend to be entrepreneurial and help stimulate innovation and growth.

Diff: 2

Topic: 9.5 Immigration, Property Rights, and Growth

AACSB: Analytic skills

Question Status: Previous Edition

9.6 Economic Development

- 1) Economists have found that as a nation's per capita real Gross Domestic Product (GDP) increases,
- A) the rate of population growth declines.
 - B) the rate of population growth experiences dramatic increases.
 - C) there is no effect on population growth.
 - D) the rate of population growth increases at the same rate as economic growth.

Answer: A

Diff: 2

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Revised

- 2) All of the following are listed in the text as being keys to economic development EXCEPT
- A) a system of property rights.
 - B) an educated population.
 - C) an open economy.
 - D) a higher level of protectionism.

Answer: D

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) What did Malthus say about population growth?
- A) Population growth is the key to a nation's economic growth.
 - B) Population growth is not a problem if food production keeps up, and Malthus predicted that it would.
 - C) Population growth is a huge problem if housing and medical care don't also increase.
 - D) The population would grow faster than food supplies, which would be a recipe for disaster.

Answer: D

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Have Malthus' predictions about population growth come true?
- A) No, because modern birth control has limited population growth in all nations.
 - B) Yes, as evidenced by the famine and food shortages affecting every nation today.
 - C) No, because the world's food supply has grown much more rapidly than Malthus foresaw.
 - D) Yes. The world's food supply, measured by calories per person, continues to fall.

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The three stages of economic development include
- A) the agriculture stage, the manufacturing stage, and the service sector stage.
 - B) the computerized stage, the agriculture stage, and the manufacturing stage.
 - C) the feudal stage, the agriculture stage, and the totalitarian stage.
 - D) the agriculture stage, the manufacturing stage, and the socialist stage.

Answer: A

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 6) What occurs in the second stage of economic development?
- A) Most of the labor force works in agriculture.
 - B) The service sector comes to the forefront.
 - C) The manufacturing sector declines in importance.
 - D) Manufacturing gains in importance and employs a large portion of the labor force.

Answer: D

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Economists have determined that there are four factors that seem to strongly affect a nation's rate of economic development. Which is NOT one of these four factors?
- A) Establishing a system of property rights
 - B) Developing an educated population
 - C) Supporting current industries and the jobs they provide instead of adopting new technology that brings disruptive social changes
 - D) Limiting the extent to which the government imposes trade barriers

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The study of factors that contribute to the economic growth of a country is known as
- A) natural resource economics.
 - B) entrepreneurial economics.
 - C) development economics.
 - D) savings economics.

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The study of factors that contribute to the economic development of a country is
- A) population growth economics.
 - B) development economics.
 - C) the theory of technological advancements.
 - D) the new technology theory.

Answer: B

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 10) As more economic development occurs,
- A) technological progress slows.
 - B) capital accumulation decreases.
 - C) the population growth rate decreases.
 - D) the population growth rate increases.

Answer: C

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Which of the following is NOT a stage of development that modern rich nations have gone through?
- A) Service stage
 - B) Agricultural stage
 - C) Manufacturing stage
 - D) Inflation stage

Answer: D

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 12) To raise economic development, developing countries should
- A) focus on their comparative advantage.
 - B) focus on producing service goods.
 - C) produce goods that are capital intensive and not labor intensive.
 - D) not focus on economic growth.

Answer: A

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Revised

- 13) To encourage economic development a country should do all of the following EXCEPT
- A) invest in human capital.
 - B) limit the amount of imports allowed into the country.
 - C) allow creative destruction to run its course.
 - D) establish a system of property rights.

Answer: B

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) Creative destruction refers to
- A) the destruction of the government system which limits economic growth.
 - B) the movement from an agricultural society to a service economy.
 - C) the mechanism for establishing property rights.
 - D) the creation of new jobs and economic growth after destroying old jobs.

Answer: D

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Trade between countries should be
- A) encouraged for developed countries but not for developing countries.
 - B) encouraged for both developed and developing countries.
 - C) discouraged for developed countries but encouraged for developing countries.
 - D) discouraged for both developed and developing countries.

Answer: B

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) Which of the following factors will NOT increase economic development?
- A) Increasing the amount of education in the population.
 - B) Establishing a system of property rights.
 - C) Creative destruction where old jobs, companies and industries are destroyed.
 - D) Increasing the amount of protectionism.

Answer: D

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) The term "creative destruction" refers to
- A) the process by which immigrants build a new life in their country of destination.
 - B) the process by which new jobs are created and old ones destroyed.
 - C) the effects of population growth on the environment.
 - D) All of the above are correct.

Answer: B

Diff: 3

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

18) An economy that is an active participant in international trade is

- A) an egalitarian economy.
- B) a closed economy.
- C) an economy whose currency value fluctuates widely.
- D) an open economy.

Answer: D

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

19) Research indicates that

- A) countries with lower tariff rates experience higher rates of economic growth.
- B) countries with lower tariff rates experience lower rates of economic growth.
- C) there is no relationship between the level of tariff rates and economic growth.
- D) countries with higher tariff rates experience higher rates of economic growth.

Answer: A

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

20) The concept of an open economy means that

- A) imports should be limited while exports should be expanded.
- B) a nation's borders are open to flows of imports and exports.
- C) exports should be controlled but imports should be allowed in without restriction.
- D) imports and exports should be restricted.

Answer: B

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

21) Which one of the following is a key to economic development?

- A) the removal of property rights
- B) the preservation of established means of production
- C) an educated population
- D) a high level of protection against imported products

Answer: C

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

22) The study of development economics is to understand

- A) why some products are successful in the market as soon as they are developed, whereas others do not catch on for years.
- B) why most of the patents on record have been given to men rather than to women.
- C) why some countries are rich and others are poor.
- D) the personality factors that lead people to become entrepreneurs.

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Revised

23) Which one of the following is true?

- A) As a country becomes more prosperous, it experiences a higher birth rate.
- B) Over the past century, the supply of food has grown more quickly than has the demand for food.
- C) Over the past century, the real price of food has risen, reflecting the pressure of population growth on food supplies.
- D) Over the next half-century, it is expected that population growth in industrially advanced nations will outpace population growth in developing countries.

Answer: B

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

24) Which one of the following describes the current state of economic development in the United States?

- A) The United States is running out of natural resources, and therefore it will soon experience a drop in the rate of economic growth.
- B) Employment is declining in the manufacturing sector and growing in the service sector.
- C) Employment is declining in the manufacturing sector and growing in the agricultural sector.
- D) The lack of well-defined property rights in the United States means that entrepreneurs do not expect to capture the benefits of innovations they bring to the marketplace.

Answer: B

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

25) Which one of the following is true?

- A) Investments in secondary education produce gains in the form of economic growth.
- B) Secondary education does not boost economic growth in developing nations, because so much of the workforce remains in agriculture.
- C) New growth theory suggests that there is no connection between the level of education in a country and its rate of economic growth.
- D) New growth theory suggests that education benefits only those people who receive it, and not the population as a whole.

Answer: A

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

26) Which one of the following is true?

- A) For every country that experiences an increase in its growth rate, there must be another experiencing a decline.
- B) Small changes in the annual growth rate amount to a measurable difference in the long-term growth trend of a country.
- C) Restricting imports will enhance a country's economic growth.
- D) A well-defined system of property rights benefits only the wealthy, and consequently it produces income inequality that will stifle economic growth.

Answer: B

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

27) What can be expected to happen in a country that enacts trade barriers?

- A) The rate of immigration will increase.
- B) The rate of technological innovation will increase.
- C) The rate of economic growth will decrease.
- D) The rate of population growth will decrease.

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

28) Which of the following is NOT an obstacle to economic development?

- A) lack of entrepreneurship
- B) political instability
- C) corruption
- D) a central bank

Answer: D

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Which of the following is an obstacle to economic development?
- A) poorly defined property rights
 - B) foreign direct investment
 - C) immigration
 - D) openness to trade

Answer: A

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A good estimate of the world's population that lives on less than an inflation-adjusted \$1.5 per day is
- A) 20 percent.
 - B) 40 percent.
 - C) 50 percent.
 - D) 80 percent.

Answer: A

Diff: 2

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Revised

- 31) Thomas Robert Malthus believed
- A) that food supplies would always be more than sufficient to feed the world's population.
 - B) that the world's population would eventually outstrip food supplies.
 - C) that population growth was good for the world.
 - D) that population growth would eventually lead to an increase in the quality of life for everyone.

Answer: B

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 32) According to many economists, as nations become wealthier, what happens to family sizes?
- A) They increase.
 - B) They decline.
 - C) There is no effect.
 - D) They increase, but later in life.

Answer: B

Diff: 2

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 33) When analyzing stages of economic development in the United States, it appears that we have entered the "tertiary stage." This is a stage marked by a shift toward
- A) agriculture.
 - B) manufacturing.
 - C) services.
 - D) population increases.

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

34) Which of the following factors are considered by economists who study economic development to be directly related to the rate of economic growth?

- A) plentiful natural resources
- B) openness to international trade.
- C) an educated population
- D) All of the above are correct.

Answer: D

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

35) All of the following are keys to economic development EXCEPT

- A) an educated workforce.
- B) establishment of a system of property rights.
- C) minimizing "creative destruction."
- D) open economies.

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

36) Which of the following factors would economists consider "key" to economic development?

- A) expansionary monetary policy
- B) establishing a system of property rights
- C) policies that promote consumption expenditures by households
- D) All of the above are correct

Answer: B

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

37) Limiting protectionism means

- A) reducing trade barriers.
- B) reducing corruption.
- C) reducing consumer fraud.
- D) reducing political dishonesty.

Answer: A

Diff: 1

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

38) Which of the following do development economists NOT recommend to nations seeking to increase their rates of economic growth?

- A) protecting home producers from international competition
- B) letting creative destruction run its course
- C) promoting increased education
- D) promoting private property rights

Answer: A

Diff: 2

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

39) An educated populace contributes to economic growth because

- A) schools provide many jobs for teachers.
- B) education allows workers to develop skills that increase their productive capabilities.
- C) educated people are more likely to live in poverty.
- D) educated people understand the importance of protectionism.

Answer: B

Diff: 1

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

40) Institutions and laws, such as patent protection, that foster innovations lead to economic growth because they

- A) allow the government control of the innovations.
- B) give confidence to inventors that they will profit from their innovation.
- C) give confidence to consumers that the products they buy are safe.
- D) give businesses loans to buy new machinery.

Answer: B

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

41) According to the United Nations, the largest expected growth in population for the coming decades will occur on which continent?

- A) Europe
- B) South America
- C) North America
- D) Africa

Answer: D

Diff: 2

Topic: 9.6 Economic Development

AACSB: Dynamics of the global economy

Question Status: Previous Edition

42) It can be argued that Thomas Malthus' *An Essay on the Principle of Population* statement that population growth will always outstrip food production has been discredited due to

- A) increase in the world-wide farming population.
- B) less world-wide consumption of grains.
- C) improvement in technology of food production.
- D) increase in food processing facilities.

Answer: C

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition

43) Of the following, which best explains why Thomas Malthus was incorrect in his prediction that population would outstrip food supplies?

- A) Malthus failed to realize that that human population would increase considerably.
- B) Malthus failed to recognize that economic growth is accompanied by smaller family sizes.
- C) Malthus incorrectly believed that economic growth would reduce birthrates.
- D) Malthus incorrectly predicted that modernization would increase the demand for children.

Answer: B

Diff: 2

Topic: 9.6 Economic Development

AACSB: Analytic skills

Question Status: Previous Edition