



Introduction to Macroeconomics

CREDIT
HOURS

3

LEVEL

LOWER

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SECTION ONE

Preparing for the Exam

Before You Choose This UExcel Exam

Uses for the Examination

Excelsior College, the test developer, recommends granting three (3) semester hours of lower-level undergraduate credit to students who receive a letter grade of C or higher on this examination. The examination may be used to help fulfill a core requirement for Business degrees, as a Social Science general education course, or as a free elective for all Excelsior College degree programs that allow for free electives. Other colleges and universities also recognize this exam as a basis for granting credit or advanced standing. Individual institutions set their own policies for the amount of credit awarded and the minimum acceptable score.

Exam-takers **enrolled** in an Excelsior College degree program should ask their academic advisor where this exam fits within their degree program.

Exam-takers **not enrolled** in an Excelsior College degree program should check with the institution from which they wish to receive credit to determine whether credit will be granted and/or to find out the minimum grade required for credit. Those who intend to enroll in an Excelsior College degree program should ask an admissions counselor where this exam fits within their intended degree program.

Examination Length and Scoring

The examination consists of approximately 120 questions, most of which are multiple choice; for samples of all the item types on this exam, see

the sample items in the back of this guide. Some items are unscored, pretest items. The pretest items are embedded throughout the exam and are indistinguishable from the scored items. You will have two (2) hours to complete the examination. Your score will be reported as a letter grade.

UExcel Exam Resources

Excelsior College Bookstore

The Excelsior College Bookstore offers recommended textbooks and other resources to help you prepare for UExcel exams.

The bookstore is available online, at:
www.excelsior.edu/bookstore

Bookstore staff are available, Eastern time:
Monday–Thursday: 7:00 AM – 9:00 PM
Friday: 7:00 AM – 6:00 PM
Saturday: 8:00 AM – 5:00 PM
Sunday: noon – 4:00 PM

Phone: 800-325-3252 (International 573-441-9179)
Fax: 800-325-4147 (International 573-446-5254)

UExcel Practice Exams

The official UExcel practice exams are highly recommended as part of your study plan. Once you [register](#) for your UExcel exam, you are eligible to purchase the corresponding practice exam, which can be taken using any computer with a supported Web browser. Each practice exam includes two forms that you may take within a 90-day period.

Open Educational Resources

Open Educational Resources (OER) are learning materials that are **freely available** to learners via the Web. These materials may include brief lessons on very specific topics, e-textbooks, and podcasts, and even university courses you can download. These resources can introduce you to new information, broaden your knowledge of particular subject matter, and enrich your understanding of exam and course topics.

Alternatives to Purchasing New Textbooks

Many students know it is less expensive to buy a textbook used instead of new. Did you know that, often, a previous edition is an option to purchasing the latest edition? Other options are good quality Open Textbooks (a type of OER) and low-cost textbooks.

Sites for open or low cost textbooks:

BC Campus (Canada), open.bccampus.ca/find-open-textbooks (free)

Bookboon bookboon.com/en/textbooks-ebooks (free)

Bookshare www.bookshare.org/cms (free download for people with print disabilities)

Boundless www.boundless.com/textbooks (\$19.99 for an e-textbook)

Flat World Knowledge catalog.flatworldknowledge.com — offers 4 options for textbooks: online book, only, \$24; digital/e-book, \$42; black and white printed textbook, \$69; color print textbook, \$134. (May 6, 2015)

Open Stax openstaxcollege.org/books — Available formats: free PDF download; read online; read epub; low cost print copy (under \$50, in most cases)

OpenTextbookStore www.opentextbookstore.com/catalog.php — mathematics textbooks, links to free textbooks

Saylor Media Library saylor.longsight.com has links to free online articles, books, and presentations

NOTE: If you choose to use anything other than the recommended resources, compare the table of contents of the alternate text to the exam's content outline in the content guide.

Excelsior College Library

Access millions of authoritative resources online through the Excelsior College Library. Created through our partnership with the Sheridan Libraries of The Johns Hopkins University, the library provides access to journal articles, books, websites, databases, reference services, and many other resources. Special library pages relate to the nursing degree exams and other selected exams. **The library is available to enrolled Excelsior College students only.** To access it, visit www.excelsior.edu/library (login is required).

Our library provides:

- 24/7 availability
- Millions of the world's most current authoritative resources
- Help and support from staff librarians

Online Tutoring

Enrolled Excelsior College students can use this service (available through SMARTHINKING™) to connect with tutors who have been trained in a variety of academic subjects. For details, log on to your MyExcelsior page, find the Resources tab, and click on the link under Free Tutoring – Smarthinking.

MyExcelsior Community

MyExcelsior Community enables Excelsior College students and alumni to interact with their peers online. As members, students can participate in real-time chat groups, join online study groups, buy and sell used textbooks, and share Internet resources. **Enrolled students have automatic access from their MyExcelsior page.**

Preparing for UExcel Exams

How Long Will It Take Me to Study?

A UExcel exam enables you to show that you've learned material comparable to one or more 15-week, college-level courses. As an independent learner, you should study and review as much as you would for a college course. For a three-credit course in a subject

they don't know, most students would be expected to study nine hours per week for 15 weeks, for a total of 135 hours.

Study Tips

Become an active user of the resource materials. Aim for understanding rather than memorization. The more active you are when you study, the more likely you will be to retain, understand, and apply the information.

The following techniques are generally considered to be active learning:

- **preview or survey** each chapter
- **highlight or underline text** you believe is important
- **write questions or comments** in the margins
- **practice re-stating content** in your own words
- **relate what you are reading** to the chapter title, section headings, and other organizing elements of the textbook
- **find ways to engage** your eyes, your ears, and your muscles, as well as your brain, in your studies
- **study with a partner or a small group** (if you are an enrolled student, search for partners on MyExcelsior Community)
- **prepare your review notes** as flashcards or create recordings that you can use while commuting or exercising

When you feel confident that you understand a content area, review what you have learned. Take a second look at the material to evaluate your understanding. If you have a study partner, the two of you can review by explaining the content to each other or writing test questions for each other to answer. Review questions from textbook chapters may be helpful for partner or individual study, as well.

Using UExcel Practice Exams

We recommend taking the first form of the practice exam when you begin studying, to see how much you already know. After taking the first practice exam, check your performance on each question and find out why your answer was right or wrong. This feedback will help you improve your knowledge of the subject and identify areas of weakness that you should address before taking the exam. Take

the second form of the practice exam after you have finished studying. Analyze your results to identify the areas that you still need to review.

Although there is no guarantee, our research suggests that students who do well on the practice exams are more likely to pass the actual exam than those who do not do well (or do not take advantage of this opportunity).

About Test Preparation Services

Preparation for UExcel® exams and Excelsior College® Examinations, though based on independent study, is supported by Excelsior College with a comprehensive set of exam learning resources and services designed to help you succeed. These learning resources are prepared by Excelsior College so you can be assured that they are current and cover the content you are expected to master for the exams. These resources, and your desire to learn, are usually all that you will need to succeed.

There are test-preparation companies that will offer to help you study for our examinations. Some may imply a relationship with Excelsior College and/or make claims that their products and services are all that you need to prepare for our examinations.

Excelsior College is not affiliated with any test preparation firm and does not endorse the products or services of these companies. No test preparation vendor is authorized to provide admissions counseling or academic advising services, or to collect any payments, on behalf of Excelsior College. Excelsior College does not send authorized representatives to a student's home nor does it review the materials provided by test preparation companies for content or compatibility with Excelsior College examinations.

To help you become a well-informed consumer, we suggest that before you make any purchase decision regarding study materials provided by organizations other than Excelsior College, you consider the points outlined on our website at www.excelsior.edu/testprep.

Preparing for This Exam

Prior Knowledge

A good understanding of high school algebra is assumed.

Using the Content Outline

Each content area in the outline includes (1) the recommended minimum hours of study to devote to that content area and (2) the most important sections of the recommended resources for that area. These annotations are not intended to be comprehensive. You may need to refer to other chapters in the recommended textbooks. **Chapter numbers and titles may differ in other editions.**

This content outline contains examples that illustrate the types of information you should study. Although these examples are numerous, do not assume that everything on the exam will come from these examples. Conversely, do not expect that every detail you study will appear on the exam. Any exam is only a broad sample of all the questions that could be asked about the subject matter.

Using the Sample Questions and Rationales

Each content guide provides sample questions to illustrate those typically found on the exam. These questions are intended to give you an idea of the level of knowledge expected and the way questions are typically phrased. The sample questions do not sample the entire content of the exam and are not intended to serve as an entire practice test.

After the sample questions, you will find rationales for them (with the correct answer printed in bold). The rationales explain why the answer is correct and the other choices are wrong. The number in parentheses at the beginning of each rationale refers to the appropriate section of the content outline. Especially if you chose one of the wrong answers, you should return to its section of the content outline for additional study.

Recommended Resources for the UExcel Exam in Introduction to Macroeconomics

The study materials listed below are recommended by Excelsior College as the most appropriate resources to help you study for the examination. For information on ordering from the Excelsior College Bookstore, see page 1 of this guide. You may also find resource materials in college libraries. Public libraries may have some of the textbooks or may be able to obtain them through an interlibrary loan program.

You should allow sufficient time to obtain resources and to study before taking the exam.

Textbooks

This textbook was used by the examination development committee to verify all questions on the exam.

Schiller, B.R. (2013). *The macro economy today* (13th ed.). New York: McGraw-Hill Irwin.

This textbook may be purchased from the Excelsior College Bookstore. www.excelsior.edu/bookstore

Open Educational Resources

The Saylor Foundation provides free, high quality courses through online, self-paced, free learning resources.

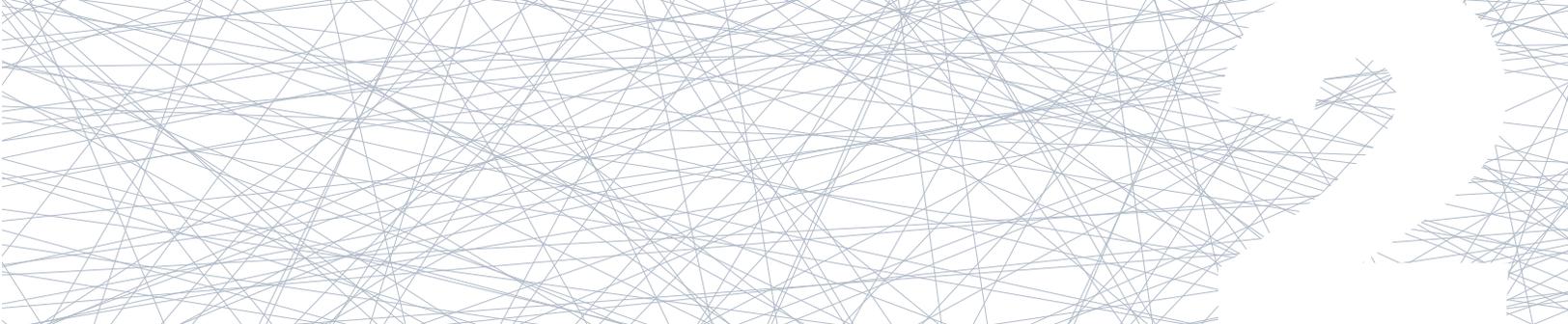
Saylor Foundation: Principles of Macroeconomics
<http://www.saylor.org/courses/econ102-exc/>

MIT, Principles of Macroeconomics
<http://ocw.mit.edu/courses/economics/14-02-principles-of-macroeconomics-spring-2014/>

OCL, ECON 202: Macroeconomics
<http://opencourselibrary.org/econ-202-macroeconomics/>

Reducing Textbook Costs

For other ways to reduce textbook costs, see page 2, Alternatives to Purchasing New Textbooks.



SECTION TWO

Content Outline

General Description of the Examination

The UExcel exam in Introduction to Macroeconomics measures knowledge and understanding of material typically taught in an introductory undergraduate course in macroeconomics. The content of the examination corresponds with course offerings such as Principles of Macroeconomics or Introduction to Macroeconomics. No prior knowledge of economics is required for this examination.

This examination tests for a knowledge of facts and terminology, an understanding of concepts and forms, and for the student's ability to apply the concepts learned in Introduction to Macroeconomics. The exam also assumes a good understanding of high school algebra.

Learning Outcomes

After you have successfully worked your way through the recommended study materials, you should be able to demonstrate the following learning outcomes:

1. Demonstrate a clear overview and understanding of how a market economy functions and the relationships of its major subdivisions or aggregates, such as the government, households, and business sectors. Emphasis will be placed on the US economy.
2. Construct and interpret economics graphs.
3. Construct and understand measures of the macro economy.
4. Explain how macroeconomic issues relate to the government's policy decisions.
5. Identify the tools of fiscal and monetary policies.
6. Analyze economic policies and predict their effect. Special attention will be placed on relating theory to real world situations.

Content Outline

The content outline describes the various areas of the test, similar to the way a syllabus outlines a course. To fully prepare requires self-direction and discipline. Study involves careful reading, reflection, and systematic review.

The major content areas on the Introduction to Macroeconomics examination, the percent of the examination, and the hours to devote to each content area are listed below.

Content Area	Percent of the Examination	Hours of Study
I. Overview of Economics	10%	14
II. The Marketplace	10%	14
III. Measuring the Macro Economy	20%	27
IV. Fluctuations in Economic Activity	20%	27
V. Fiscal and Monetary Policies	30%	41
VI. Supply-Side Policy and the Relation Between Monetary and Fiscal Policy	10%	14
Total	100%	

NOTE: Occasionally, examples will be listed for a content topic to help clarify that topic. However, the content of the examination is not limited to the specific examples given.

I. Overview of Economics

10 PERCENT OF EXAM | **14** HOURS OF STUDY

Ch. 1, Economics: The Core Issues

Ch. 2, The U.S. Economy: A Global View

A. Basic introduction

1. Definition of economics (what economics is all about)
 - a. Difference between microeconomics and macroeconomics

- b. Modeling economic behavior: theory versus reality
2. Opportunity costs and scarcity
3. Production possibilities
 - a. Economic growth
 - b. Efficiency and inefficiency
4. The economic system
 - a. The market economy and Smith's "invisible hand"
 - b. The command economy
 - c. The mixed economy
5. Use of graphs in economics
6. Mix of output in the US
7. Factors of production
 - a. Capital intensive
 - b. Labor intensive
 - c. Factor mobility

8. The roles of government
9. Income distribution

II. The Marketplace

10 PERCENT OF EXAM | **14** HOURS OF STUDY

Ch. 3, Supply and Demand

Ch. 4, The Role of Government

A. Supply and demand

1. Market participants
2. The circular flow
3. Demand
 - a. Law of demand
 - b. Determinants of demand
 - c. Change (shift) in demand
 - d. Change in quantity demanded
 - e. Individual vs. market demand
4. Supply
 - a. Law of supply
 - b. Determinants of supply
 - c. Change (shift) in supply
 - d. Change in quantity supplied
 - e. Individual vs. market supply
5. Equilibrium
 - a. The market clearing price
 - b. Surplus and shortage
 - 1) Self-adjustment of prices
6. Market outcomes
 - a. How the market determines what to produce, how to produce it, and for whom

B. The role of government

1. Market failure
 - a. Changes in resource allocation leading to a nonoptimal output mix
2. Causes of market failure
 - a. Public goods
 - 1) The free rider dilemma

- b. Externalities
 - 1) External costs
 - 2) External benefits
 - c. Market power
 - 1) Restricted supply (for example: monopoly)
 - d. Inequity
 - 1) Taxes and transfers
 - e. Macro instability
3. Role of the government in addressing market failures
 - a. Direct expenditures
 - b. Income transfers
 - c. Taxation
 - 1) Progressive taxes
 - 2) Proportional taxes
 - 3) Regressive taxes
 4. Government failure
 - a. Inefficiency
 - 1) Perceptions of waste
 - 2) Opportunity costs
 - 3) Cost-benefit analysis
 - b. Ballot box economics
 - c. Public-choice theory (for example: Buchanan's theory)

III. Measuring the Macro Economy

20 PERCENT OF EXAM | **27** HOURS OF STUDY

Ch. 5, National Income Accounting

Ch. 6, Unemployment

Ch. 7, Inflation

A. National-income accounting

1. Measures of output
 - a. Gross domestic product (GDP)
 - b. GDP vs. GNP
 - c. Cross-country comparisons
 - d. Measurement problems

- e. Real vs. nominal GDP
- 2. Uses of output
 - a. Consumption
 - b. Investment
 - c. Government spending
 - d. Net exports
 - e. Value formula for GDP
($C + I + G + [X - M]$)
- 3. Measures (components) of income
 - a. Wages
 - b. Profit
 - c. Interest
 - d. Rent
- 4. Circular flow of spending and income
- 5. GDP and the quality of life
 - a. Intangibles
 - b. Index of well-being
- B. Unemployment**
 - 1. Measuring unemployment
 - a. The labor force
 - b. Labor force participation rate
 - 1) Discouraged workers
 - 2) Underemployment
 - 3) The phantom unemployed
 - c. Unemployment rate
 - 2. Types of unemployment
 - a. Seasonal
 - b. Frictional
 - c. Structural
 - d. Cyclical
 - 3. Full employment
 - a. The “natural” rate of unemployment
 - b. Congressional targets
 - 4. Outsourcing
- C. Inflation**
 - 1. Definition of inflation
 - a. Increase in the average of level of prices
 - b. Hyperinflation
 - 2. Deflation
 - a. Dangers of deflation
 - 3. Stagflation
 - 4. Redistributive effects of inflation
 - a. Price effects
 - b. Income effects
 - c. Wealth effects
 - 5. Money illusion
 - 6. Macro consequences
 - a. Uncertainty
 - b. Speculation
 - c. Bracket creep
 - d. Deflation dangers
 - 7. Measuring inflation
 - 8. Consumer price index
 - a. Core rate
 - b. Problems with the basket of goods
 - 1) Quality changes in the basket of goods
 - 2) New products replacing old products in the basket of goods
 - 9. Producer price index
 - a. Crude materials
 - b. Intermediate goods
 - c. Finished goods
 - 10. GDP deflater
 - 11. Definition of price stability (tradeoff between inflation and unemployment [compare to stagflation])
 - 12. Causes of inflation
 - a. Demand-pull
 - b. Cost-push
 - 13. Protective mechanisms
 - a. COLAs
 - b. Adjustable rates

IV. Fluctuations in Economic Activity

20 PERCENT OF EXAM | 27 HOURS OF STUDY

Ch. 8, The Business Cycle

Ch. 9, Aggregate Demand

Ch. 10, Self-Adjustment or Instability?

A. The business cycle

1. Stability of the market economy
 - a. Classical theory (laissez-faire) vs. Keynesian approach
2. The Great Depression and the Keynesian revolution
 - a. The ideas of John Maynard Keynes
3. Growth trends: peaks and troughs
4. Keynesian and classical approaches to government intervention during business cycles
5. A model of the macro economy
 - a. Aggregate demand
 - 1) Reasons for the downward slope
 - b. Aggregate supply
 - 1) Reasons for the upward slope
 - c. Macro equilibrium
 - d. Macro failures
 - 1) Failure to meet macroeconomic goals
 - 2) Instability of equilibrium
 - i. Aggregate supply shifts
 - ii. Aggregate demand shifts
6. Short-run demand-side theories of instability
7. Short-run supply-side theories of instability
8. Long-run self-adjustment

B. Aggregate demand

1. The consumption function
 - a. Disposable income
 - b. Saving

- c. Average propensity to consume
- d. Marginal propensity to consume
- e. Average propensity to save
- f. Marginal propensity to save
- g. Factors that shift the consumption function

2. Investment

- a. Expectations and altered expectations
- b. Interest rates
- c. Technology and innovation

3. Government spending

- a. Net exports

4. Aggregate demand shift factors

5. Full employment GDP vs. equilibrium GDP

- a. Recessionary gap
- b. Inflationary gap

6. Index of Leading Indicators (ILI)

C. Aggregate demand issues

1. Leakages from and injections to the circular flow
 - a. Alternative definition of equilibrium
2. The multiplier process
 - a. Theory
 - b. Calculating the multiplier
3. Keynesian adjustment process
 - a. Adjustment to a recessionary GDP gap
 - b. Adjustment to an inflationary GDP gap
4. Consumer confidence

V. Fiscal and Monetary Policy

30 PERCENT OF EXAM | **41** HOURS OF STUDY

Ch. 11, Fiscal Policy

Ch. 12, Deficits and Debt

Ch. 13, Money and Banks

Ch. 14, The Federal Reserve System

Ch. 15, Monetary Policy

A. Fiscal policy

1. Taxes and spending
 - a. Purchases vs. transfers
 - b. Definition of fiscal policy
2. Fiscal stimulus
 - a. Government spending
 - b. Tax cuts
 - c. Considering the multiplier effects when deciding the extent of fiscal stimulus (desired stimulus formula, ignoring price level changes)
 - d. Effect of fiscal stimulus on price levels
3. Fiscal restraint
 - a. Budget cuts
 - b. Tax hikes
 - c. Considering the multiplier effects when deciding the extent of fiscal restraint (desired fiscal restraint formula, ignoring price level changes)
4. Issues with fiscal policy
 - a. Crowding out
 - b. Time lags
 - c. Pork barrel politics
 - d. The debate of the balance between public and private spending
5. Budget effects of fiscal policy
 - a. Budget deficit
 - b. Budget surplus
 - c. Discretionary vs. automatic spending

- d. Cyclical deficits
- e. Structural deficits

6. Economic effects of deficits and surpluses
 - a. Crowding out
 - b. Opportunity cost
 - c. Interest-rate movements
7. Accumulation of debt
 - a. Definition of national debt
 - b. National debt as both asset and liability
8. Burden of debt
9. External debt

B. Monetary policy

1. The three purposes of money
 - a. Medium of exchange
 - b. Stored value
 - c. Standard of value
2. The money supply: M1 and M2
3. Money creation
 - a. Bank assets and liabilities
 - b. Fractional reserves
 - 1) Required reserves
 - 2) Reserve ratios
 - 3) Excess reserves
 - c. The money multiplier
4. Constraints on deposit creation
5. The Federal Reserve System (central bank of the United States)
 - a. Structure of the Fed
 - 1) Board of Governors
 - 2) Federal Open Market Committee (FOMC)
 - 3) Twelve Federal Reserve banks
 - b. Functions of the Federal Reserve banks
 - c. Monetary tools
 - 1) Reserve requirements
 - 2) Discount rate

- 3) Open market operations
 - i. Portfolio decisions (money or bonds?)
 - ii. Bond market and current yield
 - iii. Federal funds rate
- d. Increasing the money supply
- e. Decreasing the money supply
- 6. The money market
 - a. Demand for money
 - b. Equilibrium (money demand = money supply)
 - c. Linkages among different interest rates
- 7. Interest rates and spending
 - a. Monetary stimulus
 - b. Monetary restraint
- 8. Issues with monetary policy
 - a. Short-term vs. long-term rates
 - b. Reluctant lenders
 - c. The liquidity trap
 - d. Low expectations
 - e. Time lags
 - f. Limitations on the effectiveness of monetary policy
 - 1) Expectations
 - 2) Global money
 - g. Changes in the output mix
 - h. Changes in the distribution of income
- 9. Real vs. nominal interest rates
- 10. Monetarists vs. Keynesians
 - a. Equation of exchange
 - 1) Stable money velocity
 - 2) Money supply focus
 - b. Monetarist policies
 - 1) Fighting inflation
 - 2) Long-term vs. short-term interest rates revisited
 - 3) Fighting unemployment

VI. Supply-Side Policy and the Relation Between Monetary and Fiscal Policies

10 PERCENT OF EXAM | **14** HOURS OF STUDY

Ch. 16, Supply-Side Policy: Short-run Options

Ch. 18, Theory versus Reality

- A. Aggregate supply (AS)**
 - 1. Keynesian aggregate supply
 - 2. Monetarist aggregate supply
 - 3. Hybrid aggregate supply
- B. The tradeoff between inflation and unemployment (Phillips curve)**
- C. Shifts of the AS curve**
- D. Misery index**
- E. Tax incentives**
 - 1. Marginal tax rates
 - 2. Rightward shift of aggregate supply
 - 3. Tax elasticity of supply (Laffer curve)
- F. Who makes what type of policy?**
- G. Which policy for what problem?**
- H. Obstacles to policy success**
 - 1. Goal conflicts
 - 2. Measurement problems
 - 3. Design problems
 - 4. Implementation problems

SECTION THREE

Sample Questions

The questions that follow will not be on the exam. They illustrate the style of questions found on this exam. Answer rationales can be found on pages 14–16 of this guide.

- Market participants can be divided into which three groups?
 - consumers, savers and taxpayers
 - consumers, producers and taxpayers
 - producers, marketers and managers
 - consumers, producers and the public sector
- Consider a straight line supply curve with quantity measured along the horizontal axis and price measured along the vertical axis. Suppose that when the price rises from P_1 to P_2 , the quantity supplied rises from Q_1 to Q_2 . Which is the correct expression for the slope of the line?
 - $(P_2 - P_1) \div (Q_2 - Q_1)$
 - $(Q_2 - Q_1) \div (P_2 - P_1)$
 - $(P_2 + P_1) \div (Q_2 + Q_1)$
 - $(Q_2 + Q_1) \div (P_2 + P_1)$
- Which is a determinant of market demand?
 - supply
 - taxes
 - factor cost
 - consumer income
- Suppose that an improved type of fertilizer is used by apple growers. What should happen to the supply curve for apples?
 - Supply will shift left, resulting in a lower equilibrium price.
 - Supply will shift left, resulting in a higher equilibrium price.
 - Supply will shift right, resulting in a lower equilibrium price.
 - Supply will shift right, resulting in a higher equilibrium price.
- Which statement is true regarding public goods and private goods?

The market tends to underproduce

 - private goods but not public goods.
 - public goods but not private goods.
 - public and private goods.
 - private goods and overproduce public goods.
- Which approaches are used to measure the Gross Domestic Product (GDP)?

(Select the 3 that apply.)

 - expenditure approach
 - income approach
 - intermediate goods approach
 - value added approach
 - total sales approach

7. According to recent estimates of Okun's Law, each additional one percent of unemployment results in a loss of real output of how many percentage points?
 - 1) 1
 - 2) 2
 - 3) 3
 - 4) 4
8. Nominal GDP is 14,750.0 and real GDP is 13,277.4. What is the GDP deflator?
 - 1) .90
 - 2) 1.11
 - 3) 9.98
 - 4) 1.00
9. On what major economic issue did Keynes clash with classical economists?
 - 1) Can poverty be eliminated?
 - 2) Can inflation be controlled?
 - 3) Should the government try to control the business cycle?
 - 4) Should the government establish a planned economy?
10. Which change shifts the aggregate demand curve to the left?
 - 1) a tax increase
 - 2) a decline in imports
 - 3) an increase in credit availability
 - 4) an increase in government spending
11. Which best describes the term "crowding out" as it pertains to fiscal policy?
 - 1) Fiscal policy funded through borrowing decreases interest rates, thereby reducing private investment.
 - 2) Fiscal policy that increases spending in one department of the federal government will, therefore, reduce spending on another part of the federal government.
 - 3) Fiscal policy funded through borrowing increases interest rates, thereby reducing private investment.
 - 4) Fiscal policy creates an economic stimulus that encourages private investment.
12. What is the significant burden of the federal debt to our economy?
 - 1) the opportunity cost of deficit-financed government activity
 - 2) the interest payments made by the Treasury
 - 3) the administrative cost of government spending, transfers, and taxes
 - 4) the future repayment of Treasury bonds
13. What is the interest rate conundrum identified by Alan Greenspan in the 1990s?
 - 1) The Fed was no longer able to change long-term rates directly.
 - 2) Long-term interest rates are generally lower than short-term rates.
 - 3) Short-term interest rates are generally lower than long-term rates.
 - 4) Changes in short-term interest rates are greater than changes in long-term rates.
14. Which is consistent with Keynes's assertion that the economy is inherently unstable?
 - 1) lower wages and lower unemployment
 - 2) lower wages and higher unemployment
 - 3) higher wages and lower unemployment
 - 4) higher wages and higher unemployment
15. Which is an example of design problems as an obstacle to policy success?
 - 1) A choice must be made between tax cut and government spending expansion as the fiscal policy to boost aggregate demand.
 - 2) One must consider the short-run trade-off between unemployment and inflation.
 - 3) The president must ask Congress for approval on the proposed tax changes.
 - 4) The official economic data are always dated and incomplete.

SECTION FOUR

Rationales

1. (IA1)

- 1) Savers and consumers will be the same group, as taxpayers can also be savers. Producers and the public sector are missing in this response.
- 2) Taxpayers are also consumers and producers. The public sector is missing in this response.
- 3) Producers include marketers and managers. Consumers and the public sector are missing in the response.
- *4) These three groups contain all market participants.**

2. (IA5)

- *1) The slope is rise/run. This is the correct expression since price is along the vertical axis.**
- 2) This answer mistakes the numerator and the denominator.
- 3) This answer substitutes addition signs for negative signs.
- 4) This answer mistakes the numerator and the denominator, and substitutes addition signs for negative signs.

3. (IIA3b)

- 1) This is a determinant of market supply.
- 2) See 1).
- 3) See 1).
- *4) Consumer income is one example of a determinant of market demand, along with the number of buyers and their tastes and expectations.**

4. (IIA4c)

- 1) A leftward supply shift must result in a higher equilibrium price.
- 2) A technological improvement will result in a rightward shift in supply.
- *3) A technological improvement will result in a rightward shift in supply, which results in a lower equilibrium price.**
- 4) A rightward supply shift must result in a lower equilibrium price.

5. (IIB2a)

- 1) See 2).
- *2) Public goods can be produced by either the government or the private sector. Private goods can be produced in either sector as well. The problem is that the market tends to underproduce public goods and overproduce private goods.**
- 3) See 2).
- 4) See 2).

6. (IIIA)

- *1) GDP can be measured using the expenditure approach or by the uses of the output.**
- *2) GDP can be measured using the income approach.**
- 3) GDP does not include intermediate goods. That would be double counting.
- *4) GDP can be measured using the value approach.**
- 5) Sales could include inventory from prior year.

*correct answer

7. (IIIB1c)

- 1) See 2).
- *2) **According to the original formulation of Okun's Law, each additional 1 percent of unemployment translated into a loss of 3 percent in real output. However, more recent estimates of Okun's Law put the ratio at about 1 to 2, largely due to the changing composition of both the labor force and output.**
- 3) See 2).
- 4) See 2).

8. (IIIC10)

- 1) This is what you get when you divide real GDP by the nominal GDP
- *2) **This is the correct answer, nominal GDP divided by real GDP: $14750.0/13277.4 = 1.11$.**
- 3) This is $(14750.0-13277.4)$ divided by 14750.0 .
- 4) This is the deflator for the base year.

9. (IVA4)

- 1) Neither Keynes nor the classical economists believed that poverty could be eliminated.
- 2) Both Keynes and the classical economists believed that inflation could be controlled.
- *3) **Keynes believed in government intervention; the classical economists did not.**
- 4) Neither Keynes nor the classical economists believed in a planned economy. They believed in a market economy.

10. (IVB5)

- *1) **A tax increase reduces consumption and aggregate demand.**
- 2) A decline in imports would increase aggregate demand.
- 3) More credit would increase aggregate demand.
- 4) More government spending would increase aggregate demand.

11. (VA4a)

- 1) Federal borrowing will increase interest rates, not decrease them.
- 2) Crowding out refers to the interplay between government spending and private investment, not between departments of the government.
- *3) **This is the issue: federal borrowing "crowds out" private borrowing for private investment.**
- 4) While some think that this is a positive impact of fiscal policy, it does not define the term "crowding out."

12 (VA8)

- *1) **When a program or policy is carried out, some other economic activity is sacrificed. This, not the method of financing, represents the true burden.**
- 2) These represent a transfer, not a burden, since interest payments are made to bond holders.
- 3) These are trivial compared to the size of the economy.
- 4) As in 2), the repayment just transfers money from one group (taxpayers) to another (bond holders). It is not a net sacrifice.

13. (VB9a)

- 1) The Fed can only influence, never directly alter, long-term rates.
- 2) This statement is not true.
- 3) This statement is true, but expected because there is more inherent risk in long-term loans.
- *4) **This is the issue identified by Greenspan. While his policy guides focused on the long-term interest rate, the short-term rate is the one directly impacted by the actions of the Fed. For these actions to have the desired effect, they must be mirrored by a change in the long-term rate.**

*correct answer

14. (VIA2)

- 1) If wages drop, unemployment will decrease.
- *2) Lower wages should result in a decrease in unemployment. When this did not occur, the economy was not self-correcting.**
- 3) This could be the result of a growing economy and higher demand for workers.
- 4) Higher wages would cause fewer workers to be hired.

15. (VIH3)

- *1) This is a typical example of design problems.**
- 2) This is a typical example of goal conflicts.
- 3) This is a typical example of implementation problems.
- 4) This is a typical example of measurement problems.

***correct answer**

SECTION FIVE

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On the Day of Your Exam

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Introduction to Macroeconomics Exam Development Committee

Samuel K. Andoh, PhD

(New York University, Economics, 1986)
Professor of Economics and Finance, Southern
Connecticut State University

Zhou Lu, PhD

(Johns Hopkins University, Economics, 2007)
Assistant Professor of Economics, The City College
of New York

Fiona C. Maclachlan, PhD

(New York University, Economics, 1991)
Professor of Economics, Manhattan College

Alexandre M. Olbrecht, PhD

(State University of New York at Binghamton,
Economics & International Finance, 2005)
Associate Professor of Economics, Ramapo College

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