

What is Macroeconomics?

Worksheet

Macroeconomics analyzes the behaviour of large economic groups - nations, regions, the world economy - focusing on total income, spending, and the forces that drive long-term growth and short-term fluctuations (recessions).

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$$

Questions

1. Macroeconomics focuses on
 - A) Individual consumer choices
 - B) A single firm's production decision
 - C) National GDP, unemployment, inflation
 - D) How to maximize personal wealth
2. Which is a macroeconomic indicator?
 - A) Apple's quarterly profit
 - B) A supermarket's pricing strategy
 - C) The nation's unemployment rate
 - D) A person's savings rate
3. The Federal Reserve raises interest rates to fight inflation. This is
 - A) Fiscal policy - spending increases
 - B) Microeconomic intervention
 - C) Monetary policy - tightening credit
 - D) Supply-side reform
4. A country's real GDP fell 2% year-on-year. What does this indicate?
 - A) Prices rose 2%
 - B) Economic contraction - output shrunk
 - C) Inflation is under control
 - D) Interest rates must fall
5. During a recession, unemployment rises to 8%. What might the central bank do?
6. A country's GDP grew 2% last year. Is this good or bad?
7. Inflation is 6% and eroding people's savings. What policy tools exist?
8. Define: What is GDP?
9. Define: Define inflation in macro context.
10. Define: Who manages monetary policy?

Answer Key

1. C) National GDP, unemployment, inflation - Macroeconomics studies the economy as a whole - aggregates like GDP, employment, and price levels.
2. C) The nation's unemployment rate - National unemployment is macro; firm/individual decisions are micro.
3. C) Monetary policy - tightening credit - Interest rate changes by the central bank are monetary policy tools.
4. B) Economic contraction - output shrunk - Negative real GDP growth means the economy produced less - a sign of recession.
5. Problem identified: high unemployment Central bank lowers interest rates to encourage borrowing Firms borrow more, invest, hire more workers Unemployment falls over time
6. 2% growth is modest - depends on context If normal trend is 2.5%, it's slower than usual If recovering from recession, 2% is encouraging Policymakers compare to historical average and potential
7. Monetary: Central bank raises interest rates to reduce spending/borrowing Fiscal: Government reduces spending or raises taxes Both reduce demand and (eventually) inflation
8. Gross Domestic Product - total value of all goods & services produced in a country in one year.
9. The rate at which the average price level of goods and services rises over time (erodes purchasing power).
10. The central bank (e.g. Federal Reserve, European Central Bank) - controls interest rates and money supply.

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