TEACHING

AEPA-Economics
AEPA Economics Certification Exam Arizona Educator Proficiency Assessments

Latest Version: 6.0

Question: 1

Which of the following is correctly defined as the total of all currency, demand deposits, money market funds, saving accounts, and CDs under $100,000?

A. M0
B. M1
C. M2
D. M3
E. M4

Answer: B

Explanation:
There are several different measures of the national money supply: these include M1, M2, and M3; there is no M4. M1 is defined as the total of all currency, demand deposits, money market funds, saving accounts, and CDs under $100,000.

Question: 2

Which of the following is a part, or component, of GDP?

A. GNP
B. Consumption
C. Supply
D. Demand
E. Elasticity of Demand

Answer: B

Explanation:
The following is the equation for Gross Domestic Product:

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government Spending} + \overbrace{(\text{Exports} - \text{Imports})}^{\text{Net Exports}}$$

Question: 3

Which of the following would not cause aggregate supply (AS) to change?

A. An increase or decrease in land availability
B. The labor force suddenly increases dramatically

C. A new oil discovery causes dramatic decreases in power production
D. Worker productivity remains the same
E. A global pandemic keeps workers at home

Answer: D

Explanation:
A change in productivity, such as workers becoming more or less productive, would affect how many goods can be supplied. No change in worker productivity would cause no change in AS. Choices B, and C would all affect input prices and therefore would all affect AS.

Question: 4

Inflation has what effects?

A. Harms all members of an economy
B. Helps all members of an economy
C. Harms no members of an economy
D. Helps no members of an economy
E. Harms some members of an economy, helps others

Answer: E

Explanation:
While rising prices may hurt many members of an economy, those same rising prices may benefit other members of the same economy. For example, rising prices may help those who sell goods and services and are able to keep their costs of production low, increasing their profit margin. Meanwhile, rising prices can hurt consumers because their income is now able to purchase fewer goods and services than before.

Question: 5

Assume the Fed acts to try to keep rising prices stable. Which theory suggests that unemployment will increase as a result?

A. Phillips curve
B. Business cycle
C. Circular flow model
D. Classical economics
E. Rational expectations

Answer: A

Explanation:
The Phillips Curve says that inflation and unemployment have an indirect relationship. If the

Fed acts to stop inflation, then according to the Phillips Curve, unemployment will increase.

Question: 6

A business takes out a one-year loan to pay for an investment on January 1. On December 31 of that year they pay the loan back. During that time, the nation experiences a recession, and the overall price level in the economy drops. Which of the following statements is true?

A. The nominal interest rate of the loan is greater than the real interest rate
B. The real interest rate of the loan is greater than the nominal interest rate
C. The nominal interest rate of the loan is greater than the nominal rate
D. The loan has a real interest rate but not a nominal rate
E. The loan has a nominal interest rate but not a real interest rate

Answer: A

Explanation:
The nominal interest rate is stated interest rate, while the real interest rate is the nominal interest rate adjusted for inflation. If prices decrease during the period of the loan, the real interest rate will be less than the nominal interest rate.

Question: 7

Hyperinflation is most likely to be associated with:

A. Demand-pull inflation only
B. Cost-push inflation only
C. Demand-pull inflation and cost-push inflation
D. Peak-pull inflation only
E. Cost-push inflation and peak-pull inflation

Answer: A

Explanation:
Demand-pull inflation is caused when total spending is in excess of total production. This causes price levels to rise and can lead to hyperinflation.

Question: 8

The government increases spending by and the multiplier is 5. How does this affect aggregate demand (AD)?

A. It has no effect
B. AD will increase by
C. AD will increase by $200,000

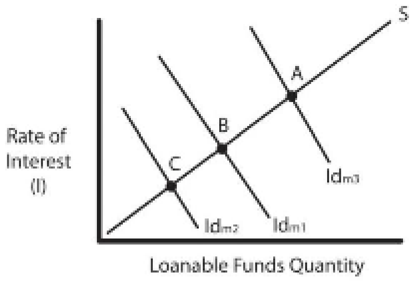
D. AD will decrease by $5,000,000
E. It is impossible to predict the effect

Answer: B

Explanation:
The multiplier effect states that a given increase in spending, when multiplied by the multiplier, will lead to a given increase in AD. In this case, the $1,000,000 spending increase and the multiplier of 5 lead to an AD increase of $5,000,000 ($1,000,000 X 5 = $5,000,000).

Question: 9

Assume that the loan able funds market is at equilibrium at the intersection of Id_{m1} and S. Then, the US government raises taxes on corporations. At which point is equilibrium established?



A. A
B. B
C. C
D. Some point above S
E. Between points A and B

Answer: C

Explanation:
When the government increases taxes on corporations, it lowers their willingness to invest—represented by the Id curve. That means that the Id_{m1}curve will move to Idm2, with a new equilibrium of C.

Question: 10

The value of a "market basket" of goods and services in one year compared to the value of the same goods and services in another year is known as what?

A. CPI
B. GDP
C. GNP
D. CCI

E. DJI

Answer: A

Explanation:
The Consumer Price Index is the value of a "market basket" of goods and services in one year compared to the value of the same goods and services in another year.