College Board CLEP®

CLEP® Principles of Macroeconomics

AT A GLANCE

Description of the Exam

The Principles of Macroeconomics exam covers material that is usually taught in a one-semester undergraduate course. This aspect of economics deals with principles of economics that apply to an economy as a whole, particularly the general price level, output and income, and interrelations among sectors of the economy. The test places particular emphasis on the determinants of aggregate demand and aggregate supply, and on monetary and fiscal policy tools that can be used to achieve particular policy objectives. Within this context, test takers are expected to understand measurement concepts such as gross domestic product, consumption, investment, unemployment, and inflation. Test takers are also expected to demonstrate knowledge of the institutional structure of the Federal Reserve Bank and the monetary policy tools it uses to stabilize economic fluctuations and promote long-term economic growth, as well as the tools of fiscal policy and their impacts on income, employment, price level, deficits, and interest rate. Basic understanding of foreign exchange markets, balance of payments, and effects of currency, appreciation, and depreciation on a country's imports and exports is also expected.

The exam contains approximately 80 questions to be answered in 90 minutes. Some of these are pretest questions that won't be scored.

Knowledge and Skills Required

Questions on the Principles of Macroeconomics exam require candidates to demonstrate one or more of the following abilities:

- Understanding of important economic terms and concepts
- Interpretation and manipulation of economic graphs
- Interpretation and evaluation of economic data
- Application of simple economic models

The subject matter of the Principles of Macroeconomics exam is drawn from the following topics. The percentages next to the main topics indicate the approximate percentage of exam questions on that topic.

8%–12% BASIC ECONOMIC CONCEPTS

- Scarcity, choice, and opportunity costs
- Production possibilities curve
- Comparative advantage, specialization, and exchange
- Demand, supply, and market equilibrium

12%–16% MEASUREMENT OF ECONOMIC PERFORMANCE

- National income accounts:
  - Circular flow
  - Gross domestic product
  - Components of gross domestic product
  - Real versus nominal gross domestic product
- Inflation measurement and adjustment:
  - Price indices
  - Nominal and real values
  - Demand-pull versus cost-push inflation
  - Costs of inflation
- Unemployment:
  - Definition and measurement
  - Types of unemployment
  - Natural rate of unemployment

15%–20% NATIONAL INCOME AND PRICE DETERMINATION

- Aggregate demand:
  - Determinants of aggregate demand
  - Multiplier and crowding-out effects
- Aggregate supply:
  - Short-run and long-run analyses
  - Sticky versus flexible wages and prices
  - Determinants of aggregate supply
- Macroeconomic equilibrium:
  - Real output and price level
  - Short and long run

    - Actual versus full-employment output
    - Business cycle and economic fluctuation

15%–20% FINANCIAL SECTOR

Money, banking, and financial markets

- Definition of financial assets: money, stocks, bonds
- Time value of money (present and future value)
- Measures of money supply
- Banks and creation of money
- Money demand
- Money market
- Loanable funds market

Central bank and control of the money supply

- Tools of central bank policy
- Quantity theory of money
- Real versus nominal interest rates

20%–25% INFLATION, UNEMPLOYMENT, AND STABILIZATION POLICIES

- Fiscal and monetary policies:
    - Demand-side effects
    - Supply-side effects
    - Policy mix
    - Government deficits and debt
- Inflation and unemployment:
    - The Phillips curve: short run versus long run
    - Role of expectations

5%–10% ECONOMIC GROWTH AND PRODUCTIVITY

- Investment in human capital
- Investment in physical capital
- Research and development, and technological progress
- Growth policy

9%–13% OPEN ECONOMY: INTERNATIONAL TRADE AND FINANCE

- Balance of payments accounts:
    - Balance of trade
    - Current account
    - Financial account (formerly called capital account)
- Foreign exchange market:
    - Demand for and supply of foreign exchange
    - Exchange rate determination
    - Currency appreciation and depreciation
    - Exchange rate policies
- Inflows, outflows, and restrictions
    - Net exports and capital flows
    - Links to financial and goods markets
    - Tariffs and quotas

Study Resources

Most textbooks used in college-level introductory macroeconomics courses cover the topics in the outline above, but the approaches to certain topics and the emphases given to them may differ. To prepare for the Principles of Macroeconomics exam, it's advisable to study one or more college textbooks, which can be found in most college bookstores. When selecting a textbook, check the table of contents against the knowledge and skills required for this test.

There are many introductory economics textbooks that vary greatly in difficulty. Some books are published in one-volume editions that cover both microeconomics and macroeconomics; some are published in two-volume editions, with one volume covering macroeconomics and the other microeconomics. A companion study guide/workbook is available for most textbooks.

The study guides typically include brief reviews, definitions of key concepts, problem sets, and multiple-choice test questions with answers. Many publishers also make available computer-assisted learning packages.

To broaden your knowledge of economic issues, you may read relevant articles published in the economics periodicals that are available in most college libraries. *The Economist*, *The Wall Street Journal* and *The New York Times*, along with local papers, may also enhance your understanding of economic issues.

A survey conducted by CLEP found that the following textbooks are among those used by college faculty who teach the equivalent course. You might purchase one or more of these online or at your local college bookstore.

Arnold, *Macroeconomics* and *Microeconomics*, Concise Edition (South-Western)
Bade and Parkin, *Foundations of Macroeconomics* and *Foundations of Microeconomics* (Addison Wesley)
Case and Fair, *Principles of Macroeconomics* and *Principles of Microeconomics* (Prentice-Hall)
Colander, *Macroeconomics* and *Microeconomics* (McGraw-Hill)
Frank and Bernanke, *Principles of Macroeconomics* and *Principles of Microeconomics*, Brief Edition (McGraw-Hill)
Gottheil, *Principles of Macroeconomics* (Thomson/Cengage)
Krugman and Wells, *Macroeconomics* and *Microeconomics* (Worth)
Lipsey, Ragan and Storer, *Macroeconomics* and *Microeconomics* (Addison Wesley)
Mankiw, *Brief Principles of Macroeconomics* and *Brief Principles of Microeconomics* (South-Western)
McConnell and Brue, *Macroeconomics* and *Microeconomics* (McGraw-Hill)
McEachern, *ECON for Macroeconomics* and *ECON for Microeconomics* (South-Western)
Samuelson and Nordhaus, *Macroeconomics* and *Microeconomics* (McGraw-Hill)
Schiller, *The Macro Economy Today* and *The Micro Economy Today* (McGraw-Hill)
Stiglitz and Walsh, *Principles of Macroeconomics* (W. W. Norton)
Taylor and Weerapana, *Principles of Macroeconomics* and *Principles of Microeconomics* (South-Western)

These resources, compiled by the CLEP test development committee and staff members, may help you study for your exam. However, none of these sources are designed specifically to provide preparation for a CLEP exam. The College Board has no control over their content and cannot vouch for accuracy.

Economics Department at SUNY Oswego: Online Economics Textbooks (**oswego.edu/~economic/newbooks.htm**)

Two differing viewpoints on contemporary economics: "Free to Choose" TV Series by Milton Friedman (**miltonfriedman.blogspot.com**) and Dollars and Sense (**dollarsandsense.org**)

Free Macroeconomics Textbook (**en.wikibooks.org/wiki/Macroeconomics**)

Free online CLEP Macroeconomics course offered by Modern States Education Alliance (**modernstates.org/course/principles-of-macroeconomics**)

AP® Macroeconomics: Challenging Concepts: Most of the concepts covered in this AP course are covered in the CLEP Principles of Macroeconomics exam. (**edx.org/course/apr-macroeconomics-challenging-concepts-davidson-next-macapccx-1**)

Khan Academy®: Macroeconomics (**khanacademy.org/economics-finance-domain/macroeconomics**)

Visit **www.collegeboard.com/clepprep** for additional economics resources. You can also find suggestions for exam preparation in Chapter IV of the *CLEP Official Study Guide*. In addition, many college faculty post their course materials on their schools' websites.

Sample Test Questions

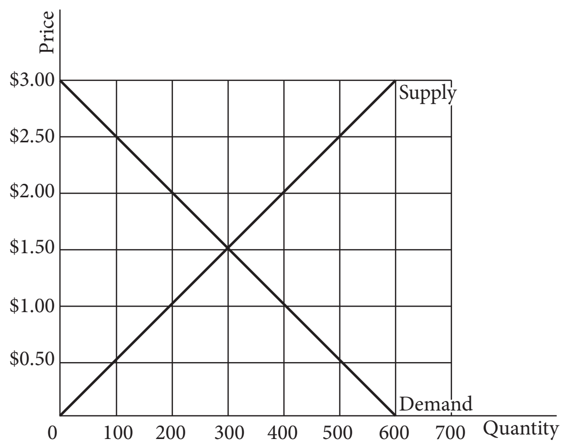
The following sample questions do not appear on an actual CLEP exam. They're intended to give potential test takers an indication of the format and difficulty level of the exam and to provide content for practice and review. For more sample questions and information about the test, see the *CLEP Official Study Guide*.

Country X		Country Y	
Cotton	Wheat	Cotton	Wheat
800	1600	1600	800

1. The table above shows the production possibilities for Country X and Country Y. Assume both countries can either produce cotton or wheat using the same quantity of resources. Would trade be beneficial to both countries, and if so, which good would each country produce domestically and which good would each country import?
   A. Yes; Country X will produce cotton and import wheat.
   B. Yes; Country Y will produce wheat and import cotton.
   C. Yes; Country Y will produce cotton and import wheat.
   D. Yes; Country X will produce some cotton and import some wheat.
   E. No, trade will not be beneficial for the two countries.

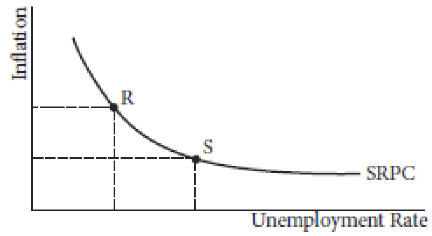
2. Assume both consumers and producers of soybeans expect prices for soybeans to increase in the near future. What will happen to the equilibrium price and quantity of soybeans in the market in the short run?

	Price	Quantity
A.	Increase	Decrease
B.	Increase	Indeterminate
C.	Decrease	Indeterminate
D.	Indeterminate	Increase
E.	Indeterminate	Decrease



3. A surplus of 200 units would exist in the market described by the graph above at a
   A. price floor of $2.50
   B. price floor of $2.00
   C. price floor of $1.00
   D. price ceiling of $1.00
   E. price ceiling of $2.00

4. Which of the following will cause the short-run aggregate supply curve to shift to the right?
   A. An increase in the price level
   B. An increase in the government budget deficit
   C. A decrease in the price level
   D. A decrease in real wages
   E. A decrease in productivity



5. Which of the following best explains the movement from point R to point S on the short-run Phillips curve (SRPC) above?
   A. An open-market sale of government bonds by the Federal Reserve
   B. An increase in government spending
   C. A decrease in income tax rates
   D. An increase in aggregate supply
   E. An increase in aggregate demand

Item	Quantity	Quantity	2015 Prices
X	10	$4.00	$5.00
Y	10	$4.00	$5.00
Z	10	$4.00	$5.00

6. If 2010 is the base year for the "basket" of goods in the table above, the price index for 2015 is equal to
   A. 75
   B. 100
   C. 125
   D. 150
   E. 175

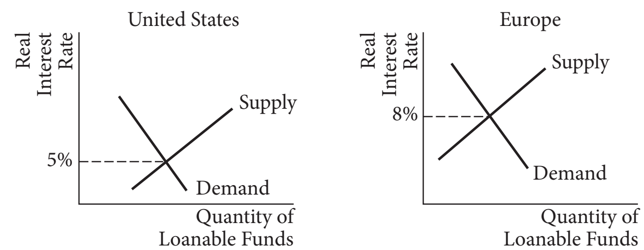
7. Assume that the short-run aggregate supply curve is horizontal and the marginal propensity to consume is 0.75. Assuming no crowding out and no international trade, if the government wants to increase the equilibrium gross domestic product by $100 million, it should increase government spending by
   A. $20 million
   B. $25 million
   C. $40 million
   D. $75 million
   E. $100 million

8. Which of the following will cause the real interest rate to decrease in the loanable funds market?
   A. A decrease in taxes on investment
   B. A decrease in the money supply
   C. An increase in private savings
   D. An increase in aggregate demand
   E. An increase in government borrowing

9. The Federal Reserve can undertake which of the following policy actions to address the problem of inflation?
   A. Decreasing the income tax rate
   B. Decreasing the federal funds rate
   C. Decreasing the money supply
   D. Decreasing the required reserve ratio
   E. Buying government bonds on the open market

10. Which of the following government policies is most likely to lead to long-run economic growth?
   A. Increasing taxes on corporate income
   B. Increasing taxes on income received from foreign investment
   C. Decreasing the money supply to raise the real interest rate
   D. Establishing a price control to curb inflation
   E. Increasing spending on human capital

11. If the United States dollar depreciates in the foreign-exchange market, which of the following will occur?
   A. The price level in the United States will decrease.
   B. United States exports will increase.
   C. Goods produced in the United States will become more expensive to foreign consumers of these goods.
   D. The United States current account deficit will increase.
   E. The United States demand for imports will increase.



12. The loanable funds markets in the United States and Europe are in equilibrium, as shown in the graphs above. Which of the following is most likely to happen?
   A. There will be an outflow of financial capital from Europe to the United States, lowering interest rates in the United States.
   B. There will be an outflow of financial capital from Europe to the United States, raising interest rates in the United States.
   C. There will be an inflow of financial capital to Europe from the United States, raising interest rates in Europe.
   D. There will be an inflow of financial capital to Europe from the United States, lowering interest rates in Europe.
   E. There will be no change in the financial capital flows between Europe and the United States, keeping interest rates in Europe and the United States unchanged.

Credit Recommendations

The American Council on Education (ACE) has recommended that colleges grant 3 credits for a score of 50, which is equivalent to a course grade of C, on the CLEP Principles of Macroeconomics exam. Each college, however, is responsible for setting its own policy. For candidates with satisfactory scores on the Principles of Macroeconomics exam, colleges may grant credit toward fulfillment of a distribution requirement or for a particular course that matches the exam in content. Check with your school to find out the score it requires for granting credit, the number of credit hours granted, and the course that can be bypassed with a passing score.

Answers to Sample Questions:
1-C; 2-B; 3-B; 4-D; 5-A; 6-C; 7-B; 8-C; 9-C; 10-E; 11-B; 12-D.