# THE MOTHER OF ECONOMY PRACTICE TEST (SAMPLE)

## STUDY GUIDE

## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

• Practice answering questions under realistic conditions,

• Improve accuracy and speed,

• Review explanations to strengthen weak areas, and

• Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

### 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

### 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

### 3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

### 4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

### 5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

### 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

# Questions

**1. Which statement best defines a unit of account?**

A. A store of value

B. A measurement used to price goods and perform economic calculations

C. A medium of exchange

D. A symbol of wealth

**2. Real GDP is defined as:**

A. the total value of all final goods and services produced in the economy during a given year, calculated using the prices of a selected base year.

B. the total value of all final goods and services produced in the economy during a given year, calculated with the prices current in the year of production.

C. the total value of all final goods and services produced in the economy during a given year, ignoring inflation.

D. the total value of all final goods and services produced in the economy, measured in nominal dollars

**3. Positive economics is best described as:**

A. It prescribes economic policy.

B. It evaluates how government policy affects welfare.

C. It relies on opinion rather than data.

D. It describes economic phenomena using facts.

**4. What describes a Positive Output Gap?**

A. Exists when aggregate output is below potential output; gap to the left of LRAS.

B. Exists when aggregate output is at potential output; LRAS aligns.

C. Exists when aggregate output is above potential output; gap to the right of LRAS.

D. Is caused by automatic stabilizers.

**5. What is government debt?**

A. The money in circulation

B. The money owed by the central government

C. The annual budget deficit

D. The outstanding debt of the central government

**6. Near money is defined as assets that cannot be used as a medium of exchange but can be easily converted into cash or checkable deposits.**

A. True

B. False

C. Only used in forecasting

D. Inaccurate term in modern economics

**7. Which statement describes the money demand curve?**

A. The money demand curve illustrates the quantity of money demanded at a given interest rate and is downward sloping.

B. The money supply curve shows the actual supply of money circulating in an economy.

C. Both curves slope upward as interest rates rise.

D. The money supply curve represents the public's preference for liquidity at different interest rates.

**8. Which type of unemployment is most closely associated with recessions?**

A. Frictional unemployment.

B. Cyclical unemployment.

C. Structural unemployment.

D. Seasonal unemployment.

**9. What does a price index measure?**

A. Measures the total quantity of goods produced.

B. Measures the cost of purchasing a given market basket in a given year.

C. Measures the unemployment rate.

D. Measures government spending.

**10. Which of the following best describes a commercial bank?**

A. A bank that accepts deposits and is covered by deposit insurance.

B. A bank that trades in financial assets and is not insured.

C. A bank that acts as a government lender.

D. A bank that prints currency.

# Answers

1. B
2. A
3. D
4. C
5. D
6. A
7. B
8. B
9. B
10. A

# Explanations

### 1. Which statement best defines a unit of account?

A. A store of value

B. A measurement used to price goods and perform economic calculations

C. A medium of exchange

D. A symbol of wealth

*Unit of account is the function of money that provides a common numerical measure for valuing goods and services and for performing economic calculations. It lets us price items, compare values, and keep accounting records in a consistent way across the economy. For example, a coffee priced at $3 or a monthly salary of $2,000 rely on money serving as a unit of account. This differs from storing value over time (store of value) or facilitating transactions (medium of exchange). Being a symbol of wealth isn't a formal monetary function, so it doesn't define unit of account.*

### 2. Real GDP is defined as:

A. the total value of all final goods and services produced in the economy during a given year, calculated using the prices of a selected base year.

B. the total value of all final goods and services produced in the economy during a given year, calculated with the prices current in the year of production.

C. the total value of all final goods and services produced in the economy during a given year, ignoring inflation.

D. the total value of all final goods and services produced in the economy, measured in nominal dollars

*Real GDP measures what the economy produces by valuing all final goods and services at constant prices from a chosen base year. This keeps the price level fixed, so changes in Real GDP reflect only changes in the quantity of goods and services produced, not inflation. If we used current-year prices, we'd be counting price changes as well, which is nominal GDP. Real GDP thus uses base-year prices and is expressed in constant dollars.*

### 3. Positive economics is best described as:

A. It prescribes economic policy.

B. It evaluates how government policy affects welfare.

C. It relies on opinion rather than data.

D. It describes economic phenomena using facts.

*Positive economics describes how the economy behaves, using facts and data to describe relationships and test predictions. Describing economic phenomena with factual evidence is exactly what this approach does, focusing on what is observable and verifiable rather than on value judgments. The idea of prescribing economic policy belongs to normative analysis, which deals with what should be. Relying on opinion rather than data conflicts with the empirical nature of positive economics, which prioritizes evidence. While studying welfare effects can involve empirical work, the essence of positive economics is describing and explaining what is, based on facts.*

## 4. What describes a Positive Output Gap?

A. Exists when aggregate output is below potential output; gap to the left of LRAS.

B. Exists when aggregate output is at potential output; LRAS aligns.

C. Exists when aggregate output is above potential output; gap to the right of LRAS.

D. Is caused by automatic stabilizers.

*A Positive Output Gap occurs when actual output is higher than the economy's sustainable level, meaning the economy is operating to the right of its potential. The potential level of output is what you'd get if resources were fully employed, and it's represented by the vertical LRAS line. When growth pushes actual GDP above this point, firms are using resources more intensely than is sustainable, unemployment falls below the natural rate, and inflationary pressures tend to rise as demand outpaces capacity. That's the overheating scenario the diagram captures with a spot to the right of LRAS. In contrast, a gap to the left of LRAS would be a negative gap (actual output below potential), a gap exactly at LRAS would be zero, and automatic stabilizers describe policy features that dampen fluctuations rather than define the gap itself.*

## 5. What is government debt?

A. The money in circulation

B. The money owed by the central government

C. The annual budget deficit

D. The outstanding debt of the central government

*Government debt is the stock of obligations the government has outstanding at a given time. It represents money the government has promised to repay in the future, built up as deficits were financed by borrowing. This makes it a stock concept—current liabilities that can rise with new borrowing or fall with repayments. The amount in circulation is currency, not debt. The annual budget deficit is a flow—the shortfall in a single year, not the total liabilities carried over time. Saying money owed by the central government is close but vague; describing it as the outstanding debt emphasizes the current, actual liabilities that are owed to lenders. So the best description is the outstanding debt of the central government.*



## 6. Near money is defined as assets that cannot be used as a medium of exchange but can be easily converted into cash or checkable deposits.

A. True

B. False

C. Only used in forecasting

D. Inaccurate term in modern economics

*Near money centers on liquidity and closeness to cash. These assets aren't used directly as money in everyday transactions, but they can be quickly transformed into cash or into funds in a checkable (demand) account with little risk of losing value. Think of savings accounts, money market funds, or short-term government securities. Their value is easily accessible and they can be converted into cash or deposits essentially on demand, which is why they are described as near money. That makes the statement accurate: near money is defined by being highly liquid and readily convertible to cash or checkable deposits, even though it isn't cash itself. The other ideas miss this emphasis on how quickly and safely these assets can be converted, or they misstate how the term is used in economics today.*

## 7. Which statement describes the money demand curve?

A. The money demand curve illustrates the quantity of money demanded at a given interest rate and is downward sloping.

B. The money supply curve shows the actual supply of money circulating in an economy.

C. Both curves slope upward as interest rates rise.

D. The money supply curve represents the public's preference for liquidity at different interest rates.

*The key idea here is how the money market shows the relationship between the interest rate and how much money people want to hold. The money demand curve slopes downward because when interest rates rise, holding money becomes more costly in terms of foregone interest, so people prefer to hold less money and put more into interest-earning assets. In other words, higher rates reduce the quantity of money people demand. Money supply, on the other hand, is about how much money is available in the economy. That is typically regarded as set by the central bank and is shown as a vertical (exogenous) line in the standard model, meaning it doesn't depend on the current interest rate in the short run. So a statement describing the money supply as the actual supply of money circulating is describing the supply side, not the money demand curve. The option that correctly matches the money demand curve is the one that says it shows the quantity of money demanded at each interest rate and that it is downward sloping. The other statements mix up demand and supply or misattribute the concept to liquidity preferences, which correspond more to money demand rather than the supply curve.*

## 8. Which type of unemployment is most closely associated with recessions?

A. Frictional unemployment.

B. Cyclical unemployment.

C. Structural unemployment.

D. Seasonal unemployment.

*Cyclical unemployment is the type tied to the ups and downs of the overall economy. When a recession hits, demand for goods and services falls, and firms respond by cutting production and laying off workers. This pushes unemployment up beyond its normal level, reflecting the economy's contraction. This is different from frictional unemployment (short-term job search while changing jobs), seasonal unemployment (patterns tied to the calendar), and structural unemployment (long-term mismatch between skills and available jobs). So, during recessions, the unemployment that rises most directly is cyclical unemployment.*

## 9. What does a price index measure?

A. Measures the total quantity of goods produced.

B. Measures the cost of purchasing a given market basket in a given year.

C. Measures the unemployment rate.

D. Measures government spending.

*A price index measures changes in the overall price level over time by tracking how much it costs to buy a fixed basket of goods and services in different years. It compares the cost of that same market basket in a given year to its cost in a base year, typically using a formula like: price index = (cost of basket in year / cost of basket in base year) × 100. For example, if the basket costs 200 in the base year and 210 in the current year, the index is 105, signaling a 5% rise in prices. This approach directly captures how prices move, not how much is produced, how many people are unemployed, or how much the government is spending. The description that measures the cost of purchasing a given market basket in a given year matches what a price index is designed to do, making it the best choice.*

## 10. Which of the following best describes a commercial bank?

A. A bank that accepts deposits and is covered by deposit insurance.

B. A bank that trades in financial assets and is not insured.

C. A bank that acts as a government lender.

D. A bank that prints currency.

*A commercial bank is a financial institution that takes deposits from the public and uses those funds to make loans and provide basic banking services. The key feature is that ordinary people and businesses can deposit money and have it protected by deposit insurance, which helps prevent losses if the bank fails. This combination of accepting insured deposits and offering loans is what defines a commercial bank in most economies. Deposit insurance is important because it gives customers confidence to save and use banks for everyday transactions, while the bank earns through the interest on loans and other services. Some other types of financial institutions might trade in assets or focus on lending for the government, or they might deal with currency in different ways, but they don't provide insured deposit-taking and typical consumer banking services. Printing currency is a central bank's job, not a commercial bank's.*

# Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://motherofecon.examzify.com

We wish you the very best on your exam journey. You've got this!