

TOBB-ETU, Economics Department

Macroeconomics II (IKT 234)

Closed Economy in the Short Run, Summary

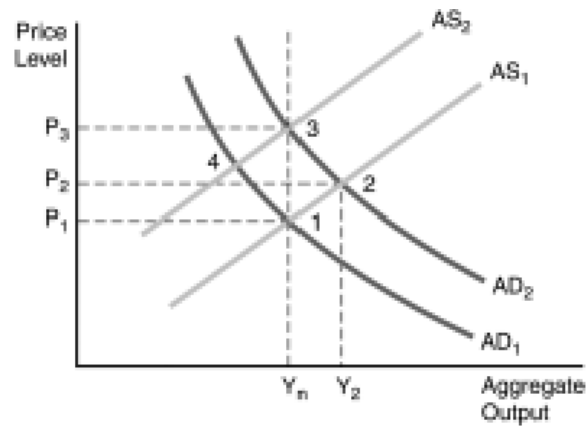
Intro 2 - Practice Questions (Ozan Eksi)

1-) If the short-run AS curve is horizontal and the long-run AS curve is vertical, then a change in the government spending will change ... in the short run and change ... in the long run.

- a-) only prices; only output.
- b-) only output; only prices.
- c-) both prices and output; only prices.
- d-) both prices and output; both prices and output.

2-) In the below Figure, the initial effect of an increase in the money supply is illustrated as a movement from

- a-) point 1 to point 2.
- b-) point 2 to point 3.
- c-) point 1 to point 3.
- d-) point 2 to point 1.



4-) If there is an exogenous decrease in the investment, then

- a-) the LM curve would shift to the left.
- b-) the IS curve would shift to the left.
- c-) the IS curve would shift to the right.
- d-) the AD curve would shift to the right. .

5-) A decrease in taxes will shift the:

- a-) IS curve to the left and decrease both the interest rate and the level of income.
- b-) IS curve to the right and increase both the interest rate and the level of income.
- c-) IS curve to the right and increase the level of income but decrease the interest rate.
- d-) LM curve downward (to the right) and increase the level of income but decrease the interest rate.

6-) What is the most direct effect when CB targets a higher nominal interest rate?

- a-) The money supply increases.
- b-) The money supply decreases.
- c-) The inflation rate increases.
- d-) The inflation rate decreases.

7-) If there is an adverse supply shock such as a sharp increase in oil prices, then in the short run.

- a-) the AS curve would shift downward
- b-) the price would increase, and income would not change.
- c-) the price would increase, and income would decrease.
- d-) the AD curve would shift downward

8-) Which of the following will shift the aggregate supply curve up to the left?

- a-) an increase in the price level
- b-) a decrease in the level of output
- c-) an increase in the expected price level
- d-) a decrease in the price level .

9-) Which of the following does not describe stabilization policy adequately?.

- a-)** It is a demand-side policy
- b-)** It consists of fiscal policy and monetary policy
- c-)** It aims at long-run trend of the economy.
- d-)** It aims at stabilizing business cycles. .

10-) If in response to an increase in government spending, the central bank decides to keep interest rates constant, then in the short run, income will increase

- a-)** more than in the case where the central bank keeps the money supply constant.
- b-)** less than in the case where the central bank keeps the money supply constant.
- c-)** the same as in the case where the central bank keeps the money supply constant.
- d-)** more or less than in the case where the central bank keeps money supply constant.

11-) If the short -run IS-LM equilibrium occurs at a level of income below the natural rate of output, then in the long run the price level will ..., shifting the ... curve to the right and returning output to the natural rate.

- a-)** increase; IS
- b-)** decrease; IS
- c-)** increase; LM
- d-)** decrease; LM.

- 1-) b 2-) a 3-) b 4-) b 5-) b 6-) b 7-) c 8-) c
9-) c 10-) a 11-) d