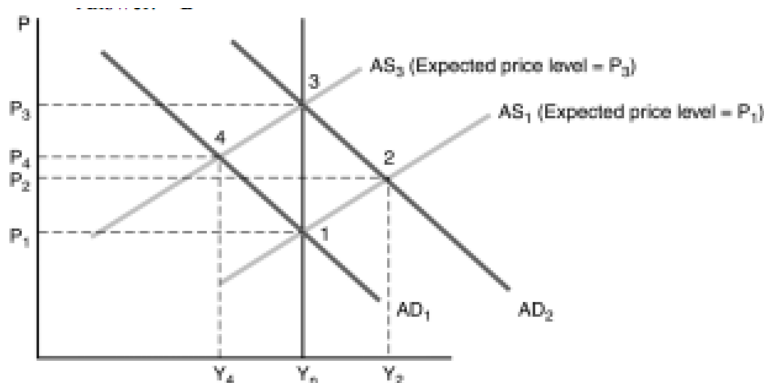


### 13. CHAPTER: Aggregate Supply

- 1-) What can you expect when there's an oil shock?
- a-) Downward movement along a fixed Phillips curve
  - b-) Upward movement along a fixed Phillips curve
  - c-) Shift up of the Phillips curve
  - d-) Shift down of the Phillips curve
- 2-) Okun's law expresses a relationship between a change in
- a-) the price level and a change in real GDP.
  - b-) the price level and a change in nominal GDP.
  - c-) real GDP and change in the unemployment rate.
  - d-) nominal GDP and a change in the unemployment rate
- 3-) The tradeoff between inflation and unemployment does not exist in the long run because people will adjust their expectations so that expected inflation:
- a-) exceeds the inflation rate.
  - b-) equals the inflation rate.
  - c-) is below the inflation rate.
  - d-) equals the inflation rate of the previous year
- 4-) According to aggregate demand and supply analysis, the favorable supply shocks of 1995–1999 had the effect of
- a-) increasing aggregate output, lowering unemployment, and raising inflation.
  - b-) decreasing aggregate output, raising unemployment, and raising inflation.
  - c-) increasing aggregate output, lowering unemployment, and lowering inflation.
  - d-) decreasing aggregate output, raising unemployment, and lowering inflation.

5-) According to the new classical model, in the Figure below, an anticipated expansionary monetary policy



- a-) shifts the economy from point 1 to point 2 to point 3.
- b-) shifts the economy from point 1 to point 4 to point 3.
- c-) shifts the economy from point 1 to point 3.
- d-) shifts the economy from point 3 to point 1.

6-) 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

7-) This is an aggregate supply-aggregate demand graph



Which of the following statements best describes the situation shown in the graph?

- a-) The economy is suffering from a recession.
- b-) The unemployment rate is greater than the natural rate of unemployment.
- c-) There is not sufficient aggregate demand for the economy to reach long-run equilibrium.
- d-) The economy is producing more than the natural rate of output.

8-) All of the following characteristics that lead to an upward sloping short-run aggregate supply curve (SRAS) except

- a-) goods market clearing
- b-) imperfect (sticky) information
- c-) sticky prices or sticky wages
- d-) rational expectations or adaptive expectations

9-) Assume that an economy is in equilibrium where output is at its natural level and the CB decides to increase the money supply.

- a-) What happens in the IS-LM model?
- b-) What happens in the AS-AD model?
- c-) How does the Phillips Curve for the economy respond?

10-) Suppose we have an economy with a natural rate of unemployment of 6%, current expected inflation of 2%, and a Phillips Curve slope parameter of 1/2. Suppose that the CB has a target  $u_t$  for the unemployment rate and a target  $\pi_t$  for the inflation rate, and suppose that for each percentage point inflation is above its target level the CB raises unemployment by an extra percentage point above its target level.

- a-) If the target for the inflation rate is 2% and the target for the unemployment rate is 6%, what will inflation and unemployment be?
- b-) If the target for the inflation rate is 3% and the target for the unemployment rate is 4%, what will inflation and unemployment be?

## 14. CHAPTER: Stabilization Policy?

1-) The outside lag is the time between a:

- a-) Shock to the economy and the policy action responding to that shock.
- b-) Policy action and its influence on the economy.
- c-) Shock to the economy and the realization that some policy action needs to be taken.
- d-) Decision to implement a policy and the enactment of that policy.

2-) Which of the following is a FALSE statement about automatic stabilizers

- a-) They are policies that stimulate or depress the economy when necessary without any deliberate policy change
- b-) They are designed to reduce the lags associated with stabilization policy
- c-) Defense spending is one of them.

d-) The existence of automatic stabilizers is one of the arguments against active stabilization policy

3-) 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.

4-) The time-inconsistency problem in discretionary policymaking about unemployment and inflation can be effectively avoided when the:

- a-) policymaker has and is known to have an extremely strong preference for very low inflation over unemployment.
- b-) policymaker does not care about the rate of inflation and simply sets policy to avoid unemployment.
- c-) private agents in the economy are not "rational."
- d-) policymaker has more information than do the private agents in the economy

5-) The central bank often deviates from simple policy rules because

- a-) the rules are always wrong.
- b-) they have new and more detailed information.
- c-) they have no discretion.
- d-) the governments are more interested in unemployment.

6-) Monetarists believe all of the following except:

- a-) fiscal policy is responsible for most large fluctuations in the economy.
- b-) the CB should keep the money supply growing at a steady rate
- c-) slow and steady growth of the money supply would yield stable output, employment, and prices.
- d-) the CB should adjust the money supply to adjust to various shocks to the economy

7-) 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.
- e-) None of the above answers.

- 8-) What is stagflation?
- a-) Inflation and output both stay low for some years.
  - b-) Inflation stays high and output stays low for some years.
  - c-) Inflation stays low and output stays high for some years.
  - d-) Inflation and output stay high for some years.

## 15. CHAPTER: Government Debt

- 1-) The government is running a budget surplus if
- a-) government spending is greater than tax revenue.
  - b-) tax revenue is greater than government spending.
  - c-) tax revenue is greater than consumption spending.
  - d-) tax revenue is greater than investment spending
- 2-) The financing of government spending by issuing debt
- a-) causes both reserves and the monetary base to rise.
  - b-) causes both reserves and the monetary base to decline.
  - c-) causes reserves to rise, but the monetary base to decline.
  - d-) has no net effect on the monetary base.
- 3-) Which of the following shortcomings with standard national debt and deficit data cause the size of the debt or deficit to be overstated?
- a-) reporting values in nominal terms and not in real terms
  - b-) not counting capital assets
  - c-) not counting future liabilities such as government pensions or social security
  - d-) not adjusting debt levels during an economic boom because tax revenues are higher than average

4-) According to the theory of Ricardian equivalence, if consumers are forward-looking, they will view a tax cut that has no plans to reduce government spending as ..., so their consumption will ...

- a-) additional disposable income; increase.
- b-) additional disposable income; remain unchanged
- c-) a rescheduling of taxes into the future; increase.
- d-) a rescheduling of taxes into the future; remain unchanged

5-) When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$30,000 in taxes. My marginal tax rate is:

- a-) 10%
- b-) 15%
- c-) 20%
- d-) 30%

6-) Which of the following taxes is progressive?

- a-) the income tax
- c-) the cigarette tax
- b-) the sales tax
- d-) the Social Security tax