University of Lethbridge — Department of Economics
ECON 1012 — Introduction to Macroeconomics
Instructor: Michael G. Lanyi

CH 26 — AD & AS

Use the figure below to answer the following questions.

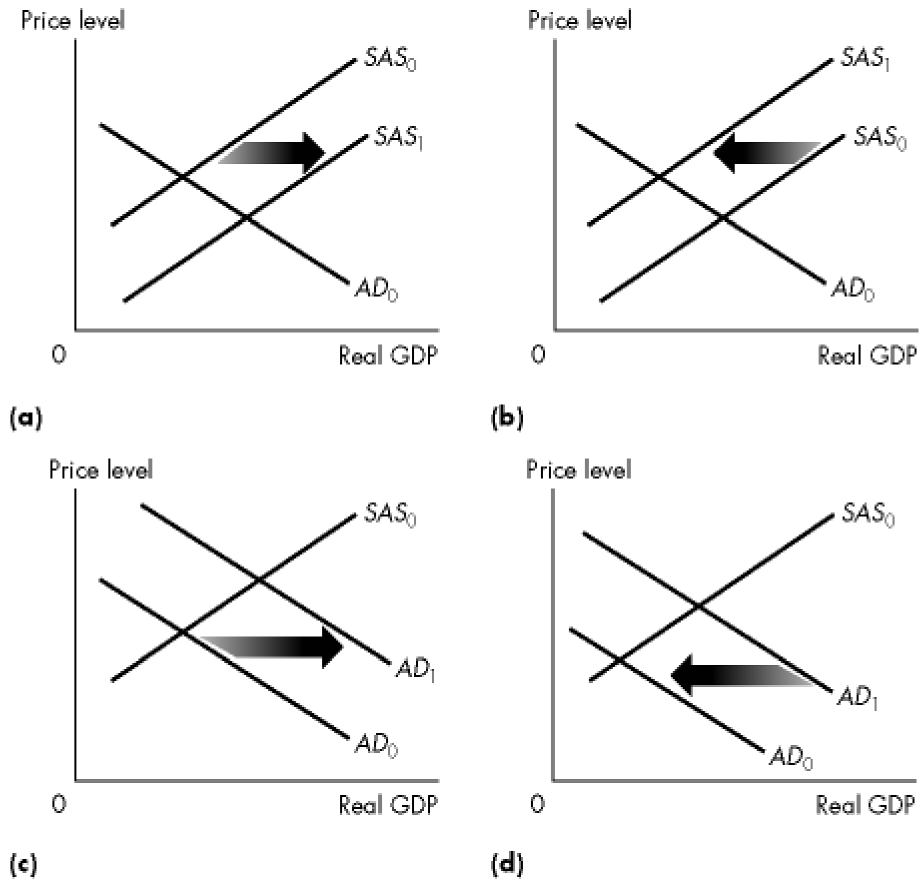

Figure 26.1.1

1) Refer to Figure 26.1.1. Which graph illustrates what happens when factor prices decrease?
A) (a)
B) (b)
C) (c)
D) (d)
E) (a) and (b)

Topic: Aggregate Supply

2) Refer to Figure 26.1.1. Which graph illustrates what happens when factor prices rise?
A) (a)
B) (b)
C) (c)
D) (d)
E) (a) and (b)

Topic: Aggregate Supply

3) Which one of the following newspaper quotations describes a movement along an *LAS* curve?
A) "Growth has been unusually high the last few years due to more women entering the labour force."
B) "The decrease in consumer spending may lead to a recession."
C) "The recent tornadoes destroyed many factories in Calgary and Edmonton."
D) "Recent higher wage settlements are expected to cause higher inflation this year."
E) "The increase in consumer spending is expected to lead to inflation, without any increase in real GDP."

Topic: Aggregate Supply

4) Which one of the following newspaper quotations describes a shift of only the *SAS* curve?
A) "The increase in consumer spending is expected to lead to inflation, without any increase in real GDP."
B) "Recent higher wage settlements are expected to cause higher inflation this year."
C) "Growth has been unusually high the last few years due to more women entering the work force."
D) "The decrease in consumer spending may lead to a recession."
E) "The recent tornadoes destroyed many factories in Calgary and Edmonton."

Topic: Aggregate Supply

5) Which one of the following newspaper quotations describes a rightward shift of the *LAS* curve?
A) "The recent tornadoes destroyed many factories in Calgary and Edmonton."
B) "Recent higher wage settlements are expected to cause higher inflation this year."
C) "The increase in consumer spending is expected to lead to inflation, without any increase in real GDP."
D) "Growth has been unusually high the last few years due to more women entering the work force."
E) "The decrease in consumer spending may lead to a recession."

Topic: Aggregate Supply

6) Which one of the following newspaper quotations describes a leftward shift of the *LAS* curve?
A) "The increase in consumer spending is expected to lead to inflation, without any increase in real GDP."
B) "The decrease in consumer spending may lead to a recession."
C) "Recent higher wage settlements are expected to cause higher inflation this year."
D) "The recent tornadoes destroyed many factories in Calgary and Edmonton."
E) "Growth has been unusually high the last few years due to more women entering the work force."

Topic: Aggregate Supply

7) Which of the following does not change short-run aggregate supply?
A) A change in the full-employment quantity of labour.
B) A change in expected future profits.
C) Technological change.
D) A change in the money wage rate.
E) An increase in the quantity of capital.

Topic: Aggregate Supply

8) Complete the following sentence. Potential GDP
A) does not vary with the price level.
B) never changes.
C) increases as the price level rises.
D) increases as the quantity of money in the economy increases.
E) is the level of real GDP when unemployment is zero.

Topic: Aggregate Supply

9) A vertical long-run aggregate supply curve indicates that
A) an increase in the price level will permit the economy to achieve a higher level of output.
B) an increase in the price level will increase technological change and economic growth.
C) the long-run aggregate supply curve never shifts.
D) output rates greater than the long-run output rate are unattainable.
E) an increase in the price level will not expand an economy's output in the long run.

Topic: Aggregate Supply

10) The long–run aggregate supply curve is vertical because
A) potential GDP is independent of the price level.
B) potential GDP never changes.
C) a vertical long–run supply curve indicates that an increase in aggregate demand will lead to a larger real GDP, but not a larger nominal GDP.
D) actual output can never exceed, even temporarily, the output rate implied by the economy's long–run aggregate supply curve.
E) a vertical long–run aggregate supply curve indicates the maximum output rate that an economy can ever reach.
Topic: Aggregate Supply

11) The short–run aggregate supply curve indicates
A) the relationship between the price level and real GDP demanded by consumers, investors, governments, and net exporters.
B) the relationship between the price level and the natural unemployment rate.
C) the relationship between the quantity of real GDP supplied and the price level when the money wage rate, the prices of other resources, and potential GDP remain constant.
D) the various quantities of real GDP producers supply at different income levels.
E) the relationship between the purchasing power of wages and the quantity of labour supplied by households.
Topic: Aggregate Supply

12) The long–run aggregate supply curve is
A) negatively sloped.
B) positively sloped but extremely steep.
C) almost flat.
D) positively sloped at low levels of real GDP and vertical at high levels of real GDP.
E) vertical.
Topic: Aggregate Supply

13) The short–run aggregate supply curve is the relationship between the quantity of real GDP supplied and
A) the quantity of real GDP demanded.
B) the price level.
C) the real interest rate.
D) real income.
E) the inflation rate.
Topic: Aggregate Supply

14) Everything else remaining the same, the short–run aggregate supply curve shifts rightward if
A) the quantity of capital decreases.
B) aggregate demand increases.
C) factor prices increase.
D) the money wage rate increases.
E) the full–employment quantity of labour increases.
Topic: Aggregate Supply

15) Which one, if any, of the following events shift the short–run aggregate supply curve but not the long–run aggregate supply curve?
A) An increase in the full–employment quantity of labour.
B) A change in factor prices.
C) A change in the quantity of capital.
D) An advance in technology.
E) None of the above.
Topic: Aggregate Supply

16) Suppose there is an increase in the quantity of capital. As a result, the *SAS*
A) curve does not shift but the *LAS* curve shifts rightward.
B) and the *LAS* curves both shift leftward.
C) shifts rightward, but the *LAS* curve does not shift.
D) and the *LAS* curves both shift rightward.
E) curve does not shift but the *LAS* curve shifts leftward.

Topic: Aggregate Supply

17) Potential GDP is the level of real GDP at which
A) there is over-full employment.
B) aggregate demand equals short-run aggregate supply.
C) prices are sure to rise.
D) there is full employment.
E) there is a recessionary gap.

Topic: Aggregate Supply

18) A technological advance shifts
A) *LAS* rightward but leaves *SAS* unchanged.
B) both *SAS* and *LAS* leftward.
C) both *SAS* and *LAS* rightward.
D) both *SAS* and *AD* rightward.
E) *SAS* rightward but leaves *LAS* unchanged.

Topic: Aggregate Supply

19) An increase in oil prices to a country that is a net importer of oil shifts
A) the short-run aggregate supply curve leftward, but leaves the long-run aggregate supply curve unchanged.
B) the short-run aggregate supply curve leftward, but shifts the long-run aggregate supply curve rightward.
C) both the short-run aggregate supply and long-run aggregate supply curves leftward.
D) both the short-run aggregate supply and long-run aggregate supply curves rightward.
E) the long-run aggregate supply curve rightward, but leaves the short-run aggregate supply curve unchanged.

Topic: Aggregate Supply

20) If the money wage rate falls, then
A) firms hire less labour.
B) the *SAS* curve shifts rightward.
C) the *AD* curve shifts rightward.
D) the *LAS* curve shifts rightward.
E) C and D.

Topic: Aggregate Supply

21) Long-run aggregate supply will increase for all of the following reasons *except*
A) a fall in the money wage rate.
B) an increase in human capital.
C) an increase in the full-employment quantity of labour.
D) an increase in the quantity of capital.
E) the introduction of new technology.

Topic: Aggregate Supply

22) An increase in the money wage rate shifts
A) *SAS* leftward, but leaves *LAS* unchanged.
B) *SAS* rightward, but leaves *LAS* unchanged.
C) both *SAS* and *LAS* leftward.
D) *LAS* rightward, but leaves *SAS* unchanged.
E) both *SAS* and *LAS* rightward.

Topic: Aggregate Supply

23) Aggregate demand

A) increases when the price level falls.
B) measures the amount of a nation's labor, capital and and technology that people are willing to buy.
C) measures the amount of a nation's goods and services that people are willing to buy.
D) is a relationship between the quantity of real GDP demanded and the price level.
E) both C and D are correct.

Topic: Aggregate Demand

24) Which of the following situations illustrates how fiscal policy can influence aggregate demand?

A) Investors, anticipating an erosion of financial wealth due to inflation, decide to save more. As a result, aggregate demand decreases.
B) The Bank of Canada raises interest rates so people plan to buy less consumer durables. As a result, the aggregate demand curve shifts leftward.
C) The government reduces the goods and services tax. As a result, consumption expenditure increases and aggregate demand increases.
D) The exchange rate value of the Canadian dollar rises. As a result, people living near the US–Canada border increase their imports of goods and net exports decrease.
E) Both A and C are examples of fiscal policy.

Topic: Aggregate Demand

25) Which of the following situations illustrates how fiscal policy can influence aggregate demand?

A) The Bank of Canada raises interest rates so people plan to buy less consumer durables. As a result, the aggregate demand curve shifts leftward.
B) The government reduces the goods and services tax. As a result, consumption expenditure increases and aggregate demand increases.
C) Investors, anticipating an erosion of financial wealth due to inflation, decide to save more. As a result, aggregate demand decreases.
D) The exchange rate value of the Canadian dollar rises. As a result, people living near the US–Canada border increase their imports of goods and net exports decrease.
E) Both A and C are examples of fiscal policy.

Topic: Aggregate Demand

26) Which of the following situations illustrates how monetary policy can influence aggregate demand?

A) The Bank of Canada raises interest rates so people plan to buy less consumer durables. As a result, the aggregate demand curve shifts leftward.
B) The exchange rate value of the Canadian dollar rises. As a result, people living near the US–Canada border increase their imports of goods and net exports decrease.
C) Investors, anticipating an erosion of financial wealth due to inflation, decide to save more. As a result, aggregate demand decreases.
D) The government reduces the goods and services tax. As a result, consumption expenditure increases and aggregate demand increases.
E) Both A and D are examples of monetary policy.

Topic: Aggregate Demand

27) Disposable income is aggregate income

A) minus fixed expenses such as rent and utilities.
B) plus transfer payments.
C) minus taxes.
D) minus taxes and benefits.
E) minus taxes plus transfer payments.

Topic: Aggregate Demand

28) The quantity of real GDP demanded is composed of the purchases of
A) consumers, firms, and governments only.
B) households and net exporters only.
C) firms and governments only.
D) consumers, firms, governments, and net exporters.
E) firms, bondholders, and net exporters only.

Topic: Aggregate Demand

29) The quantity of real GDP demanded does *not* depend on decisions made by
A) households.
B) foreigners.
C) suppliers.
D) governments.
E) firms.

Topic: Aggregate Demand

30) The quantity of real GDP demanded is the sum of real consumption expenditure (*C*), investment (*I*),
A) and government expenditure (*G*).
B) government expenditure (*G*), and exports (*X*) minus imports (*M*).
C) exports (*X*), and imports (*M*).
D) and exports (*X*) minus imports (*M*).
E) government expenditure (*G*), exports (*X*), and imports (*M*).

Topic: Aggregate Demand

31) The aggregate demand curve is a relationship between
A) the price level and nominal GDP.
B) real aggregate expenditure and real GDP.
C) the price level and the quantity of real GDP demanded.
D) real prices and real GDP.
E) real income and real GDP.

Topic: Aggregate Demand

32) Which one of the following variables is *not* held constant along a given aggregate demand curve?
A) tax rates
B) real income
C) fiscal policy
D) the price level
E) expectations about inflation

Topic: Aggregate Demand

33) Which one of the following variables can change without creating a shift of the aggregate demand curve?
A) Expectations about inflation.
B) The interest rate.
C) Price level.
D) The tax rate.
E) Monetary policy.

Topic: Aggregate Demand

34) Your total wealth is $1,000, which you are holding in your savings account. If the price level rises by 10 percent, your wealth

A) is worth 10 percent less than before the price level change.
B) is unchanged.
C) increases by an unknown amount.
D) decreases to $990.
E) increases to $1,100.

Topic: Aggregate Demand

35) If the price level rises, then the wealth effect leads to

A) a decrease in real wealth, a decrease in current consumption expenditure, and an increase in saving.
B) an increase in real wealth, an increase in current consumption expenditure, and an increase in saving.
C) a decrease in real wealth, an increase in current consumption expenditure, and a decrease in saving.
D) an increase in real wealth, an increase in current consumption expenditure, and a decrease in saving.
E) a decrease in real wealth, an increase in current consumption expenditure, and an increase in saving.

Topic: Aggregate Demand

36) Which one of the following factors will *not* shift the aggregate demand curve?

A) An increase in the quantity of money.
B) An increase in the interest rate.
C) An increase in the price level.
D) An increase in the expected inflation rate.
E) An increase in expected future profits.

Topic: Aggregate Demand

37) If a change in wealth is induced by a change in the price level, then this would be shown as a

A) movement along the aggregate demand curve due to the substitution effects.
B) movement along the aggregate demand curve.
C) movement along the aggregate supply curve.
D) shift of the aggregate demand curve due to the wealth effect.
E) shift of the aggregate demand curve due to the substitution effects.

Topic: Aggregate Demand

38) Everything else remaining the same, an increase in the quantity of money

A) creates a movement down along the aggregate demand curve.
B) shifts the aggregate supply curve rightward.
C) shifts the aggregate demand curve leftward.
D) shifts the aggregate supply curve leftward.
E) shifts the aggregate demand curve rightward.

Topic: Aggregate Demand

39) Everything else remaining the same, which one of the following increases aggregate demand?

A) A decrease in the price level.
B) An increase in taxes.
C) An increase in transfer payments.
D) A decrease in government spending.
E) A decrease in the quantity of money.

Topic: Aggregate Demand

40) Everything else remaining the same, an increase in the interest rate increases saving and
A) increases aggregate demand through the wealth effect.
B) decreases aggregate demand through the international substitution effect.
C) increases aggregate demand through the international substitution effect.
D) decreases aggregate demand through the intertemporal substitution effect.
E) increases aggregate demand through the intertemporal substitution effect.

Topic: Aggregate Demand

41) Everything else remaining the same, an increase in foreign income
A) increases Canada's aggregate demand.
B) decreases Canada's aggregate supply.
C) decreases Canada's aggregate demand.
D) creates a movement downward along Canada's aggregate demand curve.
E) increases Canada's aggregate supply.

Topic: Aggregate Demand

42) Which one of the following is a reason for the negative slope of the aggregate demand curve?
A) the real wage effect
B) the substitution effects
C) the income effect
D) the expected inflation effect
E) the nominal balance effect

Topic: Aggregate Demand

43) Which one of the following shifts the aggregate demand curve leftward?
A) An increase in taxes.
B) A decrease in the interest rate.
C) An increase in the money wage rate.
D) An increase in the price level.
E) An increase in expected inflation.

Topic: Aggregate Demand

Use the figure below to answer the following questions.

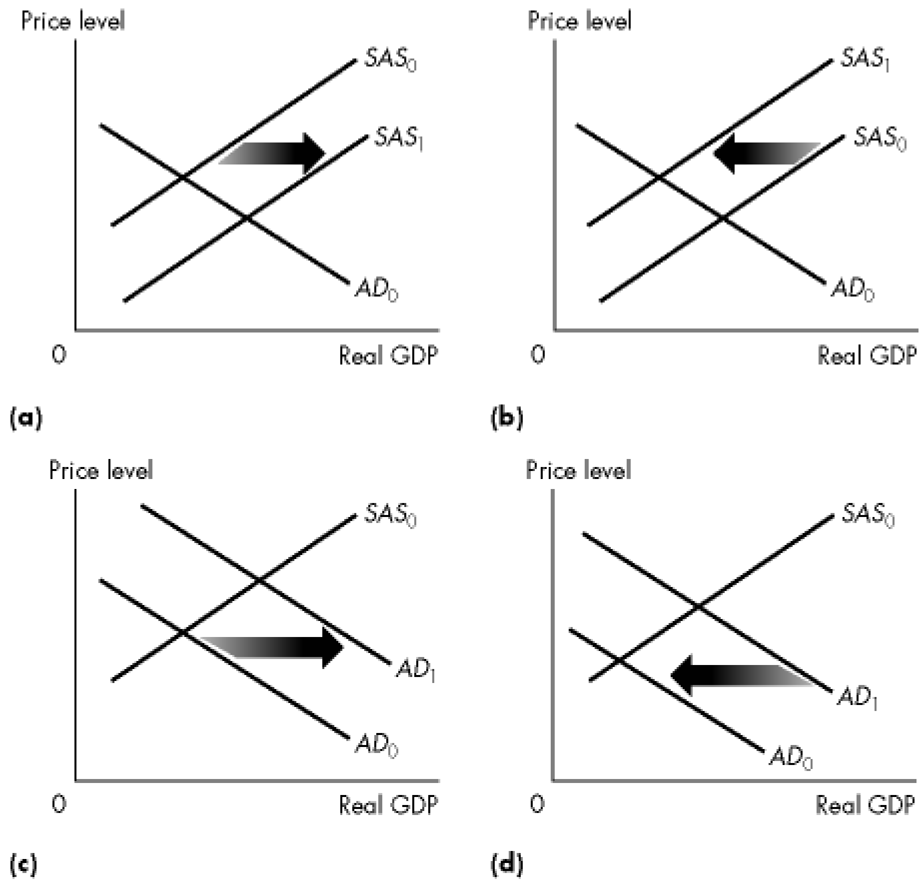

Figure 26.2.1

44) Refer to Figure 26.2.1. Which graph illustrates what happens when government expenditure increases?

A) (a)
B) (b)
C) (c)
D) (d)
E) None of the above

Topic: Aggregate Demand

45) Refer to Figure 26.2.1. Which graph illustrates what happens when the quantity of money decreases?

A) (a)
B) (b)
C) (c)
D) (d)
E) None of the above

Topic: Aggregate Demand

46) Refer to Figure 26.2.1. Which graph illustrates what happens when expected future income increases?

A) (a)
B) (b)
C) (c)
D) (d)
E) None of the above.

Topic: Aggregate Demand

47) Refer to Figure 26.2.1. Which graph illustrates what happens when government expenditure decreases?
A) (a)
B) (b)
C) (c)
D) (d)
E) (a) and (b)
Topic: Aggregate Demand

48) Refer to Figure 26.2.1. Which graph illustrates what happens when the quantity of money increases?
A) (a)
B) (b)
C) (c)
D) (d)
E) (a) and (b)
Topic: Aggregate Demand

49) Which of the following does *not* change aggregate demand?
A) An increase in expected future income.
B) A rise in the exchange rate.
C) A change in monetary policy.
D) An advance in technology.
E) A change in fiscal policy.
Topic: Aggregate Demand

50) Everything else remaining the same, an increase in the expected inflation rate
A) shifts the aggregate demand curve rightward.
B) creates a movement up along the aggregate demand curve.
C) shifts the aggregate demand curve leftward.
D) shifts the short-run aggregate supply curve leftward.
E) shifts the long-run aggregate supply curve rightward.
Topic: Aggregate Demand

51) Which one of the following newspaper quotations describes a movement along an *SAS* curve?
A) "Recent higher wage settlements are expected to cause higher inflation this year."
B) "The recent tornadoes destroyed many factories in Calgary and Edmonton."
C) "Growth has been unusually high the last few years due to more women entering the labour force."
D) "The increase in consumer spending is expected to lead to inflation, without any increase in real GDP."
E) "The decrease in consumer spending may lead to a recession."
Topic: Explaining Macroeconomic Fluctuations

52) Full employment equilibrium occurs when
A) real GDP equals potential GDP and the wage level is set so that the GDP deflator equals 100.
B) all who are willing and able to work, are working.
C) aggregate demand equals short-run aggregate supply.
D) all who are willing and able to work, are working and the wage level is set so that the GDP deflator equals 100.
E) real GDP equals potential GDP.
Topic: Explaining Macroeconomic Fluctuations

53) A recessionary gap is the amount by which
A) demand will increase to achieve full employment at a given price level.
B) the price level must adjust to achieve full employment.
C) the supply curve must increase to achieve full employment at a given price level.
D) potential GDP exceeds real GDP.
E) real GDP exceeds potential GDP.
Topic: Explaining Macroeconomic Fluctuations

54) An inflationary gap is the amount by which
- A) supply must increase to achieve full employment at a given price level.
- B) the price level must adjust to achieve full employment.
- C) demand must increase to achieve full employment at a given price level.
- D) real GDP exceeds potential GDP.
- E) potential GDP exceeds real GDP.

Topic: Explaining Macroeconomic Fluctuations

55) When the actual unemployment rate is equal to the natural unemployment rate, then the
- A) economy is operating at potential GDP.
- B) inflation rate must be zero.
- C) short-run aggregate supply curve is vertical.
- D) the money wage rate will rise.
- E) long-run aggregate supply curve is upward sloping.

Topic: Explaining Macroeconomic Fluctuations

56) When an economy is operating on its long-run aggregate supply curve,
- A) real GDP demanded exceeds real GDP supplied.
- B) unemployment will fall to an unusually low rate that is not likely to last into the future.
- C) the actual unemployment rate equals the natural unemployment rate.
- D) the actual inflation rate is greater than the anticipated inflation rate.
- E) inflation must be positive.

Topic: Explaining Macroeconomic Fluctuations

Use the figure below to answer the following questions.

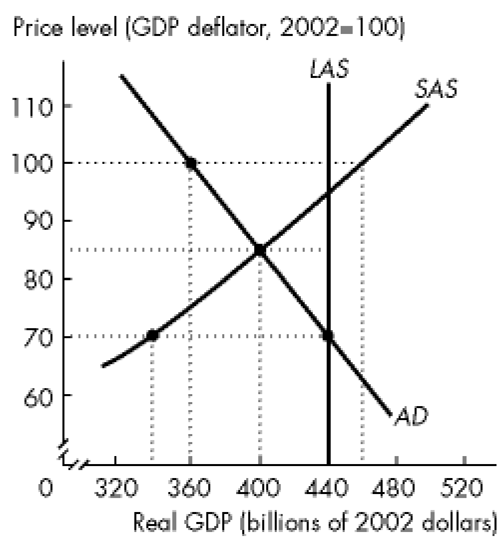

Figure 26.3.1

57) Refer to Figure 26.3.1. Short-run macroeconomic equilibrium real GDP in Econoworld is
- A) $400 billion.
- B) $520 billion.
- C) $480 billion.
- D) $360 billion.
- E) $440 billion.

Topic: Explaining Macroeconomic Fluctuations

58) Refer to Figure 26.3.1. When the economy of Econoworld is in short-run macroeconomic equilibrium, the price level is
A) 85.
B) 100.
C) 90.
D) 70.
E) 75.
Topic: Explaining Macroeconomic Fluctuations

59) Refer to Figure 26.3.1. Econoworld is at its short-run macroeconomic equilibrium. There is a difference between ________ real GDP and potential GDP of $________ billion.
A) below full-employment equilibrium; 20
B) above full-employment equilibrium; 20
C) full-employment equilibrium; 0
D) above full-employment equilibrium; 40
E) below full-employment equilibrium; 40
Topic: Explaining Macroeconomic Fluctuations

60) Refer to Figure 26.3.1. As Econoworld automatically adjusts to long-run equilibrium, the
A) *AD* curve shifts rightward.
B) *LAS* curve shifts leftward.
C) *SAS* curve shifts leftward.
D) *AD* curve shifts leftward.
E) *SAS* curve shifts rightward.
Topic: Explaining Macroeconomic Fluctuations

61) Refer to Figure 26.3.1. If Econoworld automatically adjusts to a long-run equilibrium, then in the long-run macroeconomic equilibrium
A) the price level is 70.
B) real GDP is $440 billion.
C) actual unemployment exceeds the natural unemployment rate.
D) potential GDP is greater than in the short run.
E) both A and B.
Topic: Explaining Macroeconomic Fluctuations

62) Refer to Figure 26.3.1. Consider statements (1) and (2) and select the correct answer.
(1) The economy of Econoworld is experiencing an above full-employment equilibrium.
(2) *SAS* will automatically shift rightward as the economy adjusts to long-run equilibrium.
A) (1) and (2) are false.
B) (1) is true; (2) is false.
C) (1) is true; (2) is true if unemployment is below the natural rate.
D) (2) is true; (1) is false.
E) (1) and (2) are true.
Topic: Explaining Macroeconomic Fluctuations

63) Refer to Figure 26.3.1. Consider statements (1) and (2) and select the correct answer.
(1) The actual unemployment rate exceeds the natural unemployment rate.
(2) Short-run aggregate supply will automatically shift leftward as the economy adjusts to long-run equilibrium.
A) (2) is true; (1) is false.
B) (1) is true; (2) is true if the money wage rate falls.
C) (1) and (2) are false.
D) (1) is true; (2) is false.
E) (1) and (2) are true.
Topic: Explaining Macroeconomic Fluctuations

64) Refer to Figure 26.3.1. Consider statements (1) and (2) and select the correct answer.

(1) The economy of Econoworld is experiencing a below full-employment equilibrium.

(2) The actual unemployment rate equals the natural unemployment rate.

A) (1) is true; (2) is false.

B) (2) is true; (1) is false.

C) (1) is true; (2) is true if the natural unemployment rate is too high.

D) (1) and (2) are true.

E) (1) and (2) are false.

Topic: Explaining Macroeconomic Fluctuations

Use the figure below to answer the following questions.

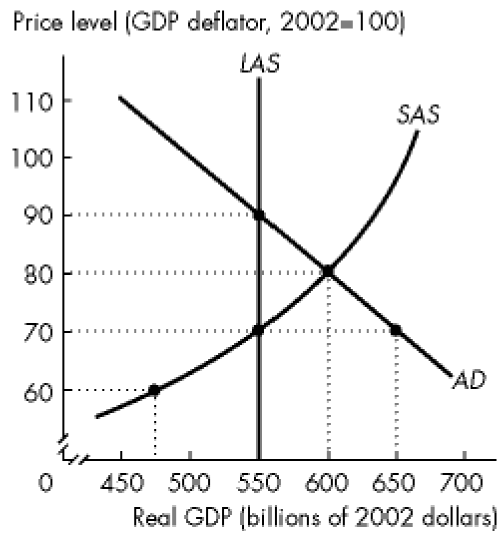

Figure 26.3.2

65) Refer to Figure 26.3.2. Short-run macroeconomic equilibrium real GDP in Mythlo is ________ billion.

A) $550

B) $600

C) $650

D) $475

E) $500

Topic: Explaining Macroeconomic Fluctuations

66) Refer to Figure 26.3.2. When the economy of Mythlo is in short-run macroeconomic equilibrium, the price level is

A) 80.

B) 95.

C) 65.

D) 70.

E) 75.

Topic: Explaining Macroeconomic Fluctuations

67) Refer to Figure 26.3.2. In Mythlo there is a difference between the ________ equilibrium real GDP and potential GDP of ________ billion.

A) above full-employment; $25

B) above full-employment; $50

C) below full-employment; $50

D) full employment; 0

E) below full-employment; $25

Topic: Explaining Macroeconomic Fluctuations

68) Refer to Figure 26.3.2. As the economy of Mythlo automatically adjusts to long-run equilibrium, the

A) *AD* curve shifts rightward.
B) *SAS* curve shifts rightward.
C) *SAS* curve shifts leftward.
D) *LAS* curve shifts rightward.
E) *AD* curve shifts leftward.

Topic: Explaining Macroeconomic Fluctuations

69) Refer to Figure 26.3.2. Currently in Mythlo

A) potential GDP is greater than equilibrium GDP.
B) there is a below full-employment equilibrium.
C) there is a recessionary gap.
D) the actual unemployment rate is less than the natural unemployment rate.
E) the actual unemployment rate is equal to the natural unemployment rate.

Topic: Explaining Macroeconomic Fluctuations

70) Refer to Figure 26.3.2. If the economy of Mythlo automatically adjusts to long-run equilibrium, then

A) real GDP is $600 billion.
B) the actual unemployment rate exceeds the natural unemployment rate.
C) the *SAS* curve shifts rightward.
D) the price level rises to 90.
E) potential GDP decreases.

Topic: Explaining Macroeconomic Fluctuations

71) Refer to Figure 26.3.2. Consider statements (1) and (2) and select the correct answer.

(1) The economy of Mythlo is experiencing an above full-employment equilibrium.
(2) *SAS* will automatically shift rightward as the economy adjusts to long-run equilibrium.

A) (2) is true; (1) is false.
B) (1) and (2) are false.
C) (1) and (2) are true.
D) (1) is true; (2) is false.
E) (1) is true; (2) is true only if the *LAS* curve shifts rightward at the same time.

Topic: Explaining Macroeconomic Fluctuations

72) Refer to Figure 26.3.2. Consider statements (1) and (2) and select the correct answer.

(1) The actual unemployment rate exceeds the natural unemployment rate in the short run.
(2) *SAS* automatically shifts rightward as the economy adjusts to long-run equilibrium.

A) (1) and (2) are false.
B) (1) is false; (2) is true if the *LAS* curve shifts rightward at the same time.
C) (1) and (2) are true.
D) (2) is true; (1) is false.
E) (1) is true; (2) is false.

Topic: Explaining Macroeconomic Fluctuations

73) Short-run macroeconomic equilibrium *always* occurs when the

A) economy is below full employment.
B) economy is above full employment.
C) *AD* curve intersects the *LAS* curve.
D) quantity of real GDP demanded equals the quantity of real GDP supplied.
E) economy is at full employment.

Topic: Explaining Macroeconomic Fluctuations

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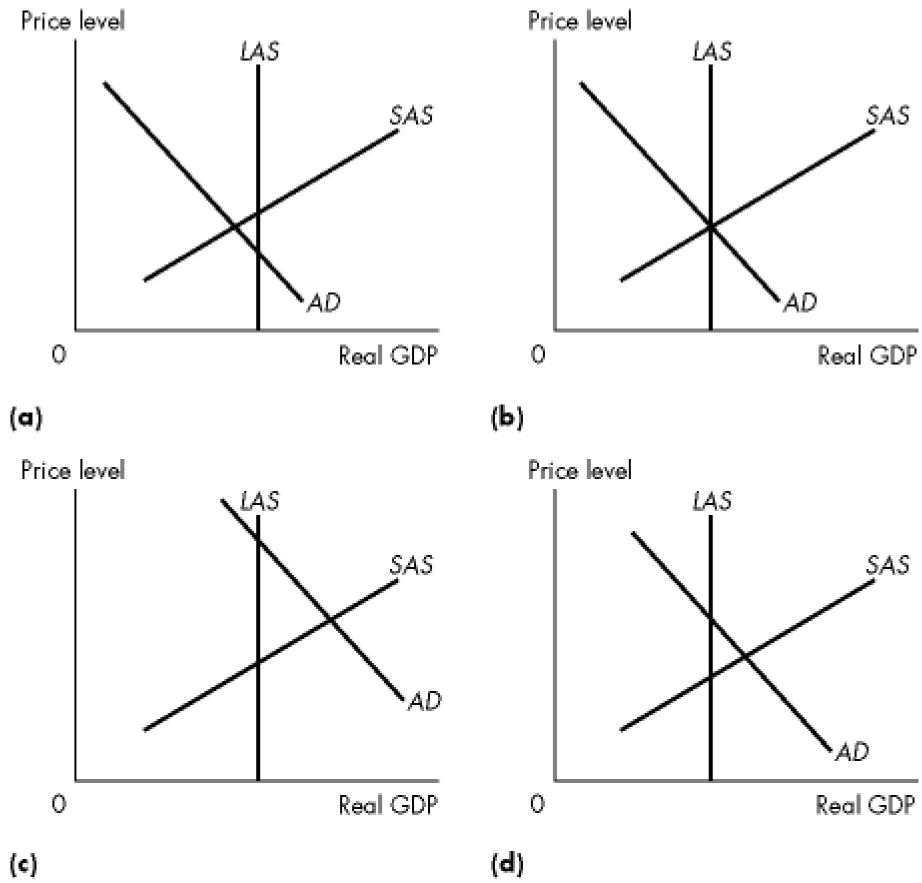

Figure 26.3.3

74) Refer to Figure 26.3.3. Which one of the graphs illustrates a below full-employment equilibrium?
A) (a) only
B) (b) only
C) (c) only
D) (d) only
E) both (c) and (d)

Topic: Explaining Macroeconomic Fluctuations

75) Refer to Figure 26.3.3. Which of the graphs illustrates an above full-employment equilibrium?
A) (a) only
B) (b) only
C) (c) only
D) (d) only
E) both (c) and (d)

Topic: Explaining Macroeconomic Fluctuations

76) Refer to Figure 26.3.3. In which of the graphs would we predict that eventually the price level will rise and real GDP will fall, all else remaining the same?
A) (a) only
B) (d) only
C) (b) only
D) (c) and (d)
E) (c) only

Topic: Explaining Macroeconomic Fluctuations

77) Refer to Figure 26.3.3. In which of the graphs would we predict that eventually the price level will fall and real GDP will decrease, all else remaining the same?

A) (a)
B) (b)
C) (c)
D) (d)
E) none of the graphs

Topic: Explaining Macroeconomic Fluctuations

78) Refer to Figure 26.3.3. Which one of the graphs illustrates a full-employment equilibrium?

A) (a) only
B) (b) only
C) (c) only
D) (d) only
E) (c) and (d)

Topic: Explaining Macroeconomic Fluctuations

79) Refer to Figure 26.3.3. In which of the graphs would we predict that eventually the price level will fall and real GDP will increase, all else remaining the same?

A) (a) only
B) (b) only
C) (c) only
D) (d) only
E) (c) and (d)

Topic: Explaining Macroeconomic Fluctuations

80) Refer to Figure 26.3.3. In which of the graphs would we predict that eventually the price level will fall and real GDP will increase, all else remaining the same?

A) (a) only
B) (b) only
C) (c) only
D) (d) only
E) (c) and (d)

Topic: Explaining Macroeconomic Fluctuations

81) Refer to Figure 26.3.3(a). You might expect the government to

A) raise taxes.
B) do nothing except maintain the current equilibrium.
C) increase government expenditure.
D) pursue trade policies that reduce exports.
E) cut government expenditure.

Topic: Explaining Macroeconomic Fluctuations

82) Refer to Figure 26.3.3(b). You might expect the government to

A) raise taxes.
B) increase government expenditure.
C) pursue trade policies that reduce exports.
D) cut government expenditure.
E) do nothing except maintain the current equilibrium.

Topic: Explaining Macroeconomic Fluctuations

83) If real GDP is greater than potential GDP, the economy is
A) not in short-run equilibrium.
B) in a below full-employment equilibrium.
C) in a recessionary equilibrium.
D) in long-run equilibrium.
E) in an above full-employment equilibrium.

Topic: Explaining Macroeconomic Fluctuations

84) If factor prices remain constant , an increase in aggregate demand
A) increases the price level, and leaves real GDP unchanged.
B) increases the price level and increases real GDP.
C) increases the price level and decreases real GDP.
D) decreases the price level and increases real GDP.
E) decreases the price level and decreases real GDP.

Topic: Explaining Macroeconomic Fluctuations

85) Beginning at a long-run equilibrium, an increase in aggregate demand
A) decreases the price level and in the long run decreases real GDP.
B) decreases the price level and in the long run increases real GDP.
C) increases the price level and in the long run decreases real GDP.
D) increases the price level, but in the long run there is no change in real GDP.
E) increases the price level and in the long run increases real GDP.

Topic: Explaining Macroeconomic Fluctuations

86) We observe an increase in the price level and a decrease in real GDP. Which of the following is a possible explanation?
A) An increase in factor prices.
B) An increase in expected future income.
C) An increase in the quantity of money.
D) An increase in the quantity of capital.
E) An increase in expected future profits.

Topic: Explaining Macroeconomic Fluctuations

87) We observe an increase in the price level and an increase in real GDP. Which of the following is a possible explanation?
A) An increase in expected future profits.
B) A decrease in expected future income.
C) An increase in the quantity of capital.
D) A decrease in the quantity of money.
E) An increase in factor prices.

Topic: Explaining Macroeconomic Fluctuations

88) We observe a decrease in the price level and a decrease in real GDP. Which of the following is a possible explanation?
A) An increase in expected future income.
B) An increase in factor prices.
C) An increase in the quantity of capital.
D) A decrease in the quantity of money.
E) An increase in expected future profits.

Topic: Explaining Macroeconomic Fluctuations

89) We observe a decrease in the price level and an increase in real GDP. Which of the following is a possible explanation?
A) A decrease in the quantity of money.
B) An increase in factor prices.
C) A decrease in expected future income.
D) An increase in expected future profits.
E) An increase in the quantity of capital.
Topic: Explaining Macroeconomic Fluctuations

90) The economy cannot remain indefinitely with real GDP greater than potential GDP because the money wage rate will
A) increase, shifting the SAS curve rightward.
B) decrease, shifting the LAS curve rightward.
C) increase, shifting the LAS curve leftward.
D) increase, shifting the SAS curve leftward.
E) decrease, shifting the SAS curve rightward.
Topic: Explaining Macroeconomic Fluctuations

91) If real GDP is less than potential GDP, then the economy is
A) not in short-run equilibrium.
B) in a full-employment equilibrium.
C) in an above full-employment equilibrium.
D) in long-run equilibrium.
E) in a below full-employment equilibrium.
Topic: Explaining Macroeconomic Fluctuations

Use the table below to answer the following questions.

Table 26.3.1

Price Level (2002=100)	Aggregate Demand (billions of 2002 dollars)	Short-Run Aggregate Supply (billions of 2002 dollars)	Long-Run Aggregate Supply (billions of 2002 dollars)
100	800	300	600
110	700	400	600
120	600	500	600
130	500	600	600
140	400	700	600

92) Refer to Table 26.3.1. Consider the economy represented in the table. In short-run macroeconomic equilibrium, the price level is ________ and the level of real GDP is ________ billion.
A) 120; $500
B) 125; $550
C) 130; $600
D) 130; $500
E) 120; $600
Topic: Explaining Macroeconomic Fluctuations

93) Refer to Table 26.3.1. Consider the economy represented in the table. The economy is in
A) a below full-employment equilibrium, and factor prices will decrease.
B) a below full-employment equilibrium, and factor prices will increase.
C) an above full-employment equilibrium, and factor prices will increase.
D) an above full-employment equilibrium, and factor prices will decrease.
E) a long-run equilibrium, and resource prices will not change.
Topic: Explaining Macroeconomic Fluctuations

94) Refer to Table 26.3.1. Consider the economy represented in the table. There is
A) neither an inflationary nor a recessionary gap because the economy is at full employment.
B) an inflationary gap equal to $50 billion.
C) a recessionary gap equal to $100 billion.
D) a recessionary gap equal to $50 billion.
E) an inflationary gap equal to $100 billion.

Topic: Explaining Macroeconomic Fluctuations

95) Refer to Table 26.3.1. Consider the economy represented in the table. The economy eventually moves to its long-run equilibrium. In long-run equilibrium, the price level is ________ and real GDP is ________ billion.
A) 120; $600
B) 130; $500
C) 125; $550
D) 130; $600
E) 120; $500

Topic: Explaining Macroeconomic Fluctuations

96) Refer to Table 26.3.1. As this economy moves to long-run equilibrium, the
A) *LAS* curve shifts leftward.
B) *SAS* curve shifts leftward.
C) *SAS* curve shifts rightward.
D) *AD* curve shifts rightward.
E) *AD* curve shifts leftward.

Topic: Explaining Macroeconomic Fluctuations

97) Consider an economy starting from a position of full employment. Which one of the following changes does *not* occur as a result of a decrease in aggregate demand?
A) The level of real GDP decreases in the short run.
B) A recessionary gap arises.
C) The price level decreases.
D) The long-run aggregate supply curve shifts leftward to create the new long-run equilibrium.
E) Factor prices decrease in the long run, shifting the short-run aggregate supply curve rightward.

Topic: Explaining Macroeconomic Fluctuations

98) Consider an economy starting from a position of full employment. Which one of the following occurs as a result of an advance in technology?
A) Factor prices rise in the long run, shifting the short-run aggregate supply curve leftward.
B) The price level falls.
C) The long-run aggregate supply curve shifts leftward to create the new long-run equilibrium.
D) Real GDP decreases in the short run.
E) An inflationary gap arises.

Topic: Explaining Macroeconomic Fluctuations

99) Consider an economy starting from a position of full employment. Which one of the following changes does *not* occur as a result of an increase in aggregate demand?
A) Real GDP increases in the short run.
B) An inflationary gap arises.
C) The price level rises.
D) Factor prices rise in the long run, shifting the short-run aggregate supply curve to the left.
E) The long-run aggregate supply curve shifts rightward to create the new long-run equilibrium.

Topic: Explaining Macroeconomic Fluctuations

Use the figure below to answer the following question.

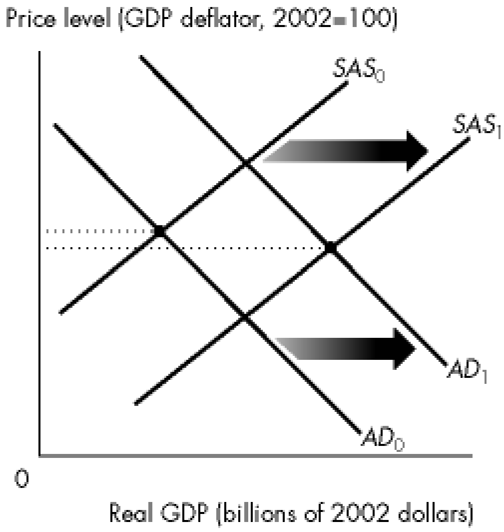

Figure 26.3.4

100) Refer to Figure 26.3.4. The changes represented
A) increase real GDP.
B) lead to an inflationary gap.
C) cannot occur because aggregate demand and short–run aggregate supply cannot change at the same time.
D) cause a proportionate increase in long run aggregate supply.
E) lead to a recessionary gap.
Topic: Explaining Macroeconomic Fluctuations

101) All of the following will raise the price level *except*
A) an increase in the quantity of money.
B) aggregate demand increases.
C) aggregate demand increases and short–run aggregate supply decreases.
D) short–run aggregate supply decreases.
E) an increase in the quantity of capital.
Topic: Explaining Macroeconomic Fluctuations

102) Which of the following will lower the price level for sure?
A) The *LAS* curve shifts leftward.
B) The *AD* curve shifts rightward and the *SAS* curve remains unchanged.
C) The *AD* curve shifts rightward and the *SAS* curve shifts leftward.
D) The *SAS* curve shifts leftward.
E) None of the above.
Topic: Explaining Macroeconomic Fluctuations

103) If real GDP is greater than potential GDP, we would expect
A) potential GDP to decrease.
B) the money wage rate to rise.
C) the money wage rate to fall.
D) potential GDP to increase.
E) A and C.
Topic: Explaining Macroeconomic Fluctuations

104) If real GDP is less than potential GDP, we would expect
A) the money wage rate to fall.
B) the money wage rate to rise.
C) potential GDP to decrease.
D) potential GDP to increase.
E) A and C.
Topic: Explaining Macroeconomic Fluctuations

Use the table below to answer the following question.

Table 26.3.2

	2004	2005	2006
Real GDP growth rate	8.1	8.3	7.3
Inflation	4.2	4.7	4.6

105) Refer to Table 26.3.2. The International Monetary Fund's World Economic Outlook database provides the data given in the table for India in 2004, 2005 and 2006.
The numbers in the table are consistent with
A) increases in long-run and short-run aggregate supply and even larger decreases in aggregate demand.
B) increases in short-run aggregate supply and no change in aggregate demand.
C) increases in long-run and short-run aggregate supply and even greater increases in aggregate demand.
D) increases in short-run aggregate supply and increases in aggregate demand, but the increases in aggregate demand are smaller than the increases in short-run aggregate supply.
E) decreases in long-run and short-run aggregate supply and even greater decreases in aggregate demand.
Topic: Explaining Macroeconomic Fluctuations

106) Economic growth results when there are increases in
A) the inflationary gap.
B) the real wage rate.
C) aggregate demand.
D) long-run aggregate supply.
E) short-run aggregate supply resulting from falling money wage rates and falling factor prices.
Topic: Explaining Macroeconomic Fluctuations

107) Which of the following news quotes *best* describes a *Keynesian* view of a recession?
A) "The anti-inflationary policy of the Bank of Canada is increasing spending."
B) "The unexpectedly tight fiscal policy is raising spending and lowering unemployment."
C) "Businesses are very worried about future sales and have lowered their purchases of capital equipment."
D) "Rapid computerization is creating obsolete workers and higher unemployment."
E) "The cuts in government spending have helped lower consumer spending and created unemployment."
Topic: Macroeconomic Schools of Thought

108) Which of the following news quotes *best* describes a *new classical* view of a recession?
A) "The cuts in government spending have helped lower consumer spending and created unemployment."
B) "Rapid computerization is creating obsolete workers and higher unemployment."
C) "The anti-inflationary policy of the Bank of Canada is increasing spending."
D) "Businesses are very worried about future sales and have lowered their purchases of capital equipment."
E) "The unexpectedly tight fiscal policy is raising spending and lowering unemployment."
Topic: Macroeconomic Schools of Thought

109) A ________ macroeconomist believes that the economy is self-regulating and always at full employment.
A ________ macroeconomist believes the economy requires active help from fiscal policy and monetary policy to maintain full employment.
A) Keynesian; new Keynesian
B) classical; Keynesian
C) monetarist; classical
D) new classical; monetarist
E) classical; monetarist

Topic: Macroeconomic Schools of Thought

110) A ________ macroeconomist believes that business cycle fluctuations are the efficient responses of a well-functioning market economy that is bombarded by shocks that arise from the uneven pace of technological change.
A ________ macroeconomist believes that the short-run aggregate supply curve is horizontal at a fixed price level.
A) classical; monetarist
B) new classical; new Keynesian
C) Keynesian; new Keynesian
D) monetarist; new classical
E) new classical; monetarist

Topic: Macroeconomic Schools of Thought

111) A ________ macroeconomist believes that business cycle fluctuations are the efficient responses of a well-functioning market economy that is bombarded by shocks that arise from the uneven pace of technological change.
A ________ macroeconomist believes that the short-run aggregate supply curve is horizontal at a fixed price level.
A) Keynesian; new Keynesian
B) new classical; monetarist
C) monetarist; new classical
D) classical; monetarist
E) new classical; new Keynesian

Topic: Macroeconomic Schools of Thought

112) Which of the following statements about the monetarist view of the macroeconomy is *incorrect*?
A) The money wage rate is sticky.
B) Left alone, the economy rarely operates at full employment.
C) Provided that the quantity of money is kept on a steady growth path, no active stabilization is needed to offset changes in aggregate demand.
D) Taxes should be kept low to avoid disincentive effects that decrease potential GDP.
E) All recessions result from inappropriate monetary policy.

Topic: Macroeconomic Schools of Thought

113) Which of the following statements about the Keynesian view of the macroeconomy is *incorrect*?
A) Technological change is the most significant influence on both aggregate demand and aggregate supply.
B) To achieve and maintain full employment, active help from fiscal policy and monetary policy is required.
C) Expectations are based on "animal spirits."
D) Expectations are the most significant influence on aggregate demand.
E) The money wage rate is extremely sticky in the downward direction so there is no automatic mechanism for eliminating a recessionary gap.

Topic: Macroeconomic Schools of Thought

114) The defining feature of the classical view of macroeconomics is that the economy is
A) self-regulating and always at full employment.
B) the most significant influence on aggregate demand is expectations.
C) driven by expectations called "animal spirits."
D) rarely at full employment.
E) constantly bombarded by shocks that arise from the uneven pace of technological change.

Topic: Macroeconomic Schools of Thought

115) Classical macroeconomists recommend

A) an increase in the quantity of money to offset decreases in aggregate demand and a decrease in the quantity of money to offset increases in aggregate demand.
B) policies that minimize the disincentive effects of taxes on employment, investment, and technological change.
C) policies that actively offset changes in aggregate demand that bring recession.
D) policies that actively offset changes in long-run aggregate supply that result in negative economic growth.
E) all of the above.

Topic: Macroeconomic Schools of Thought

116) The defining feature of the Keynesian view of macroeconomics is that the economy is

A) rarely at full employment.
B) self-regulating and always at full employment.
C) no active stabilization is needed to offset changes in aggregate demand.
D) that the quantity of money is the most significant influence on aggregate demand.
E) constantly bombarded by shocks that arise from the uneven pace of technological change.

Topic: Macroeconomic Schools of Thought

117) Keynesian macroeconomists recommend

A) an increase in the quantity of money to offset decreases in aggregate demand and a decrease in the quantity of money to offset increases in aggregate demand.
B) policies that minimize the disincentive effects of taxes on employment, investment, and technological change.
C) policies that actively offset changes in aggregate demand that bring recession.
D) policies that actively offset changes in long-run aggregate supply that result in negative economic growth.
E) none of the above.

Topic: Macroeconomic Schools of Thought

1) A
2) B
3) E
4) B
5) D
6) D
7) B
8) A
9) E
10) A
11) C
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13) B
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