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**Name** TestBanks Chapter 12 Multiple-Choice Questions  
**Description** Question pool for TestBanks Chapter 12 Multiple-Choice Questions  
**Instructions**

[Modify](#)

[Add Question Here](#)

Question 1 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**  
Short-run fluctuations in an economy's output are called:

**Answer**

- growth bursts.
- business cycles.
- output gaps.
- recessions.

[Add Question Here](#)

Question 2 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**  
The "normal" level of output an economy can produce is called:

**Answer**

- potential output.
- full-capacity output.
- maximum output.
- carrying capacity.

[Add Question Here](#)

Question 3 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**  
The unemployment rate is the:

**Answer**

- percentage of the population out of work but not seeking jobs.
- percentage of the total population without jobs.
- percentage of the labor force without jobs.
- number of unemployed persons in an economy.

[Add Question Here](#)

Question 4 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**  
The output gap is:

**Answer**

- the percentage change in output from last period.
- the difference between actual output and the unemployment rate.
- negative during recessions.
- positively related to the unemployment rate.

[Add Question Here](#)

Question 5 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**  
The normal rate of output is called (the) \_\_\_\_\_, and the corresponding unemployment rate is the \_\_\_\_\_.

**Answer**

- full capacity output; normal rate
- potential output; natural rate
- normal rate; potential rate
- natural rate; potential rate

[Add Question Here](#)

Question 6 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**  
Potential output depends on \_\_\_\_\_ and \_\_\_\_\_.

**Answer**

- available resources; the level of technology
- labor; capital stocks only
- the current level of technology; unexpected shocks
- the unemployment rate; inflation rates

[Add Question Here](#)

Question 7 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**  
Economic growth is the \_\_\_\_\_ change in \_\_\_\_\_.

**Answer**

- short-run; maximum output
- short-run; potential output
- long-run; potential output
- short-run; carrying capacity

[Add Question Here](#)

Question 8 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

An economy \_\_\_\_\_ produce more than potential output \_\_\_\_\_.

- Answer**
- cannot; because potential output is the maximum level of output
  - can; by labor working overtime
  - can never; because the economy is always producing efficiently
  - will; in the long run

[Add Question Here](#)

Question 9 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

Since the mid-1990s the growth rate of potential output has been about:

- Answer**
- 1–2 percent.
  - 3 percent.
  - 2.5 percent.
  - 12 percent.

[Add Question Here](#)

Question 10 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

The unemployment rate is at its natural rate when:

- Answer**
- the economy is producing at potential output.
  - the unemployment rate is 4 percent.
  - the economy is producing at its maximum output.
  - labor is working a 40-hour workweek.

[Add Question Here](#)

Question 11 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

The natural rate of unemployment is lowest in:

- Answer**
- Greece.
  - France.
  - Germany.
  - the United States.

[Add Question Here](#)

Question 12 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

Why does the natural rate of unemployment change over time?

- I. changing age of workers
- II. productivity growth
- III. changing oil prices

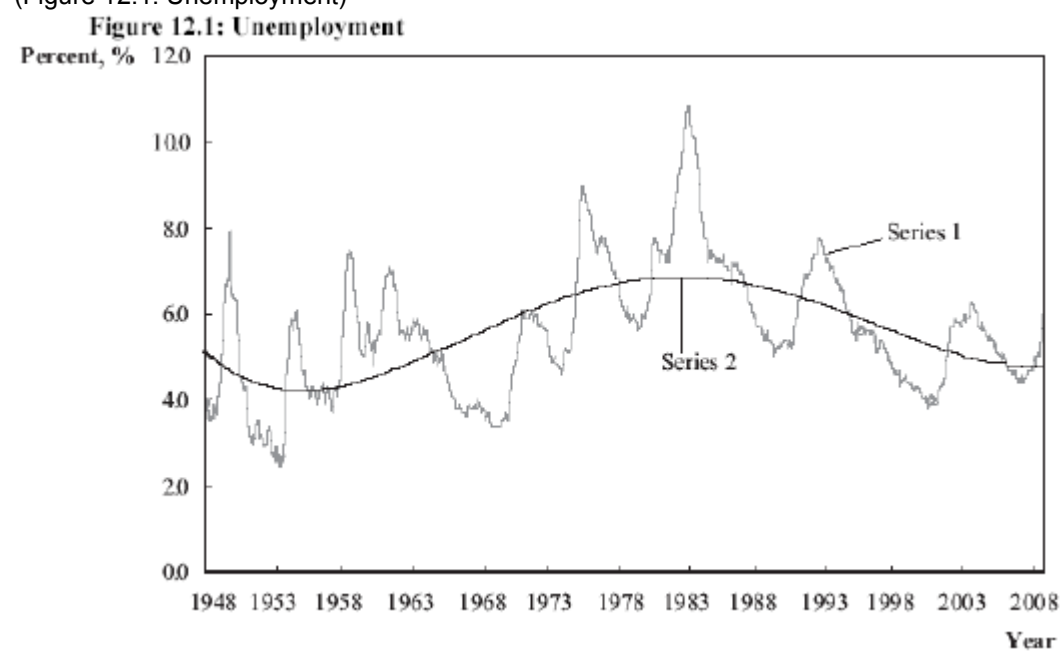
- Answer**
- I and II
  - I and III
  - II only
  - III only

[Add Question Here](#)

Question 13 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

(Figure 12.1: Unemployment)



Series 1 is the \_\_\_\_\_ and Series 2 is the \_\_\_\_\_.

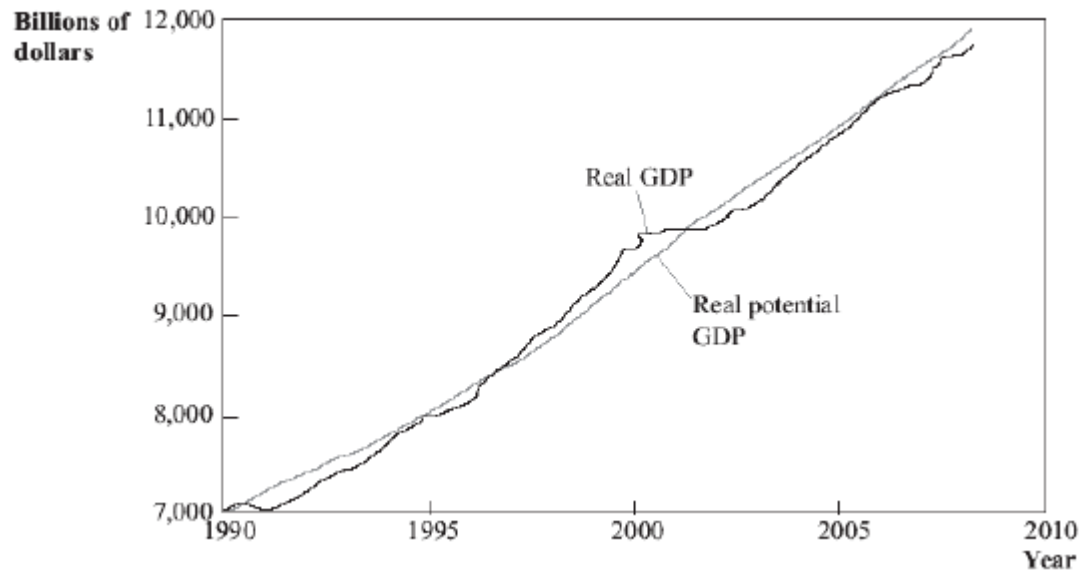
- Answer**
- natural rate of unemployment; unemployment rate
  - cyclical unemployment rate; unemployment rate
  - unemployment rate; natural rate of unemployment
  - cyclical unemployment rate; frictional unemployment rate

[Add Question Here](#)

Question 14 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

Figure 12.2: Real GDP



Reference: Ref 12-1

(Figure 12.2: Real GDP) According to the data, recessions occurred in approximately which periods?

- Answer**
- 1991–1995
  - 2001–2006
  - 1990–1991
  - 1991–1995 and 2001–2006

[Add Question Here](#)

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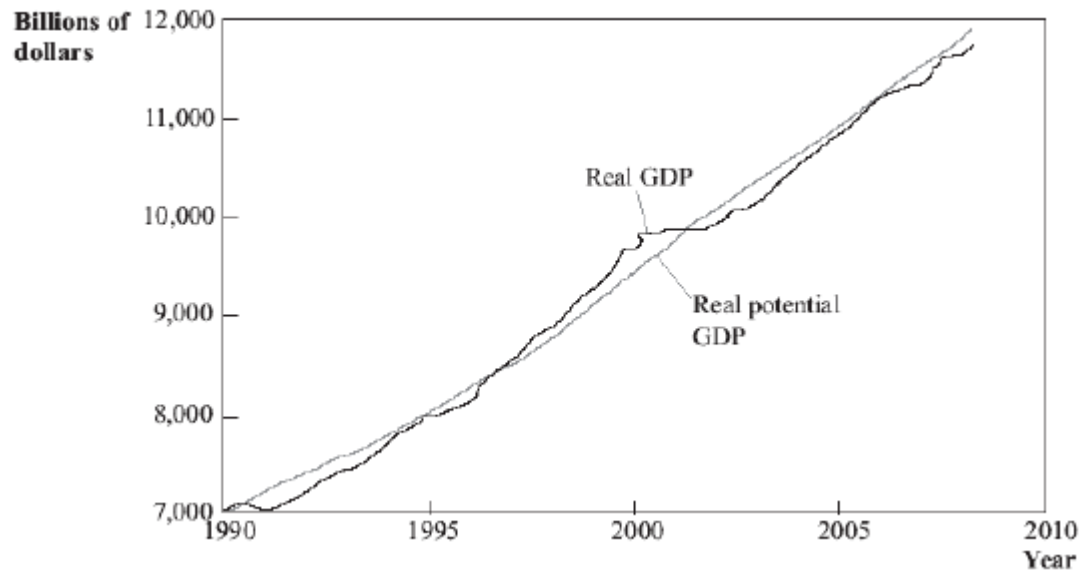
Question 15

**Multiple Choice**

**0 points**

**Question**

Figure 12.2: Real GDP



Reference: Ref 12-1

(Figure 12.2: Real GDP) According to the data, economic booms occurred in approximately which periods?

- Answer**
- 1990–1991
  - 1996–2001
  - 1991–1996
  - 1990–1991 and 1996–2001

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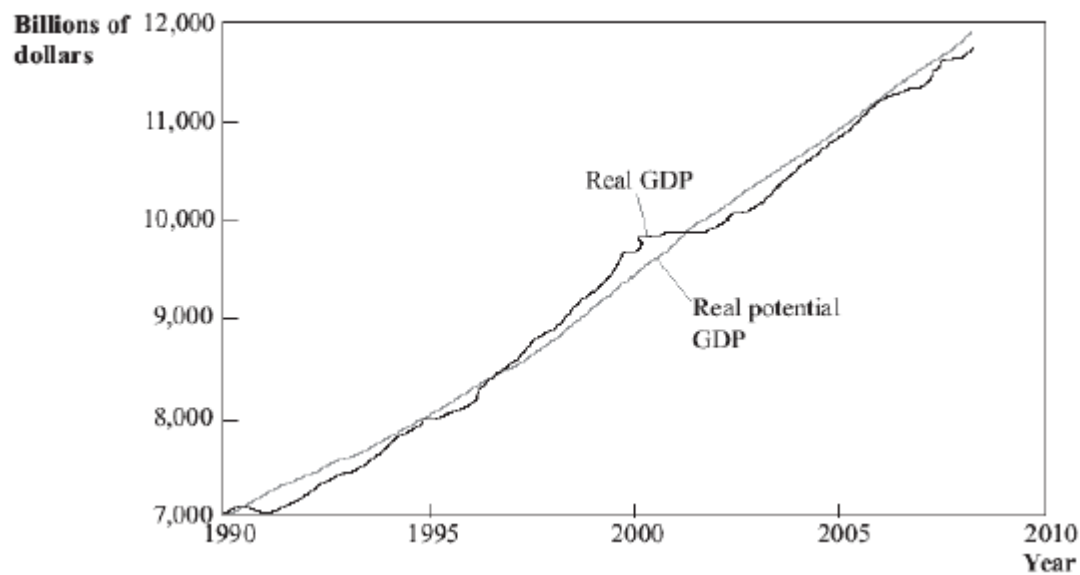
Question 16

**Multiple Choice**

**0 points**

**Question**

Figure 12.2: Real GDP



Reference: Ref 12-1

(Figure 12.2: Real GDP) According to the data, the length of the longest economic boom between 1990 and 2008 occurred in approximately which period?

- Answer**
- 1991–1996
  - 2001–2008
  - 1996–2001
  - There is not enough information provided to answer the question.

Question 17

Multiple Choice

0 points

[Add Question Here](#)[Modify](#) [Remove](#)**Question**

The output gap is:

- Answer** ✓ the percentage difference between the actual level of output and potential output.  
 the difference between the actual level of output and potential output.  
 the actual level of output divided by the natural rate of output.  
 zero.

Question 18

Multiple Choice

0 points

[Add Question Here](#)[Modify](#) [Remove](#)**Question**

Which of the following equations is the output gap?

- Answer** ✓  $\text{output gap} = \frac{Y - Y^*}{Y^*}$   
 $\text{output gap} = Y - Y^*$   
 $\text{output gap} = \frac{Y}{Y^*}$   
 $\text{output gap} = \frac{Y^* - Y}{Y}$

Question 19

Multiple Choice

0 points

[Add Question Here](#)[Modify](#) [Remove](#)**Question**

If the economy is in recession, which of the following is true about the output gap?

- Answer**
- $\frac{Y^*}{Y} < 0$   
 $Y - Y^* < 0$   
 $\frac{Y - Y^*}{Y^*} > 0$   
 ✓  $\frac{Y - Y^*}{Y^*} < 0$

Question 20

Multiple Choice

0 points

[Add Question Here](#)[Modify](#) [Remove](#)**Question**

If the economy is experiencing an economic boom, which of the following is true about the output gap?

- Answer**
- $Y - Y^* > 0$   
 ✓  $\frac{Y - Y^*}{Y^*} > 0$   
 $\frac{Y - Y^*}{Y^*} < 0$   
 $\frac{Y^*}{Y} > 0$

Question 21

Multiple Choice

0 points

[Add Question Here](#)[Modify](#) [Remove](#)**Question**

When the unemployment rate is above the natural rate of unemployment, the economy is:

- Answer**
- experiencing an economic boom.  
 ✓ in recession.  
 is producing at its maximum.  
 There is not enough information provided to answer the question.

Question 22

Multiple Choice

0 points

[Add Question Here](#)[Modify](#) [Remove](#)**Question**

When the unemployment rate is below the natural rate of unemployment the economy is:

- Answer**
- in recession.  
 is producing at its maximum.  
 ✓ experiencing an economic boom.  
 There is not enough information provided to answer the question.

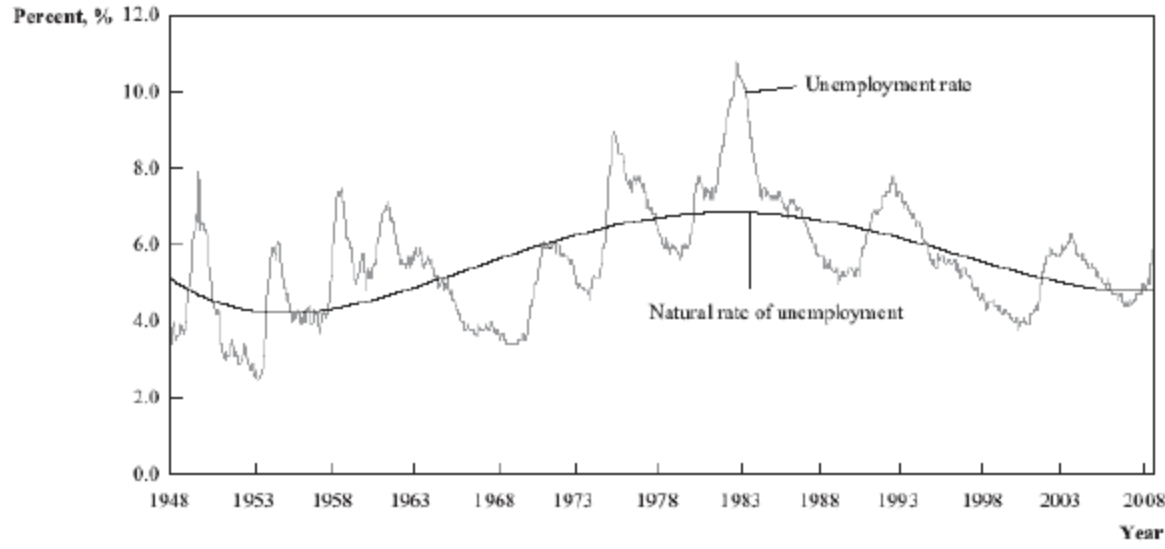
Question 23

Multiple Choice

0 points

[Add Question Here](#)[Modify](#) [Remove](#)**Question**

Figure 12.3: Unemployment



Reference: Ref 12-2

(Figure 12.3: Unemployment) During approximately which period(s) is the economy in recession?

- Answer 1981–1986
- 2001–2005
- 1974–1977
- ✓ All of the answers are correct.

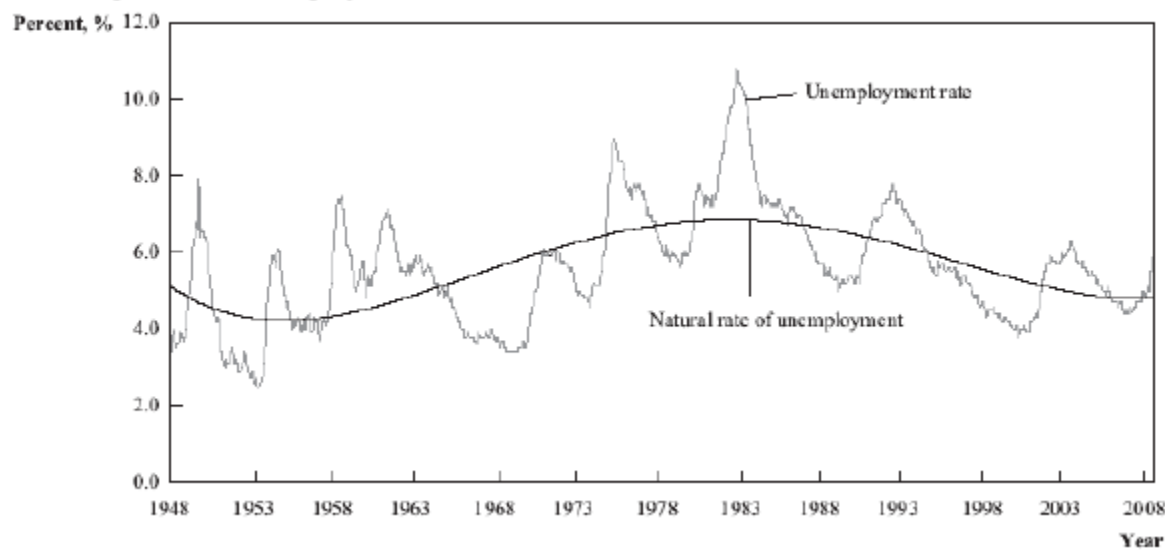
◀ Add Question Here

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Question 24 Multiple Choice 0 points

Question

Figure 12.3: Unemployment



Reference: Ref 12-2

(Figure 12.3: Unemployment) During approximately which period is the economy in an economic boom?

- Answer 1974–1977
- 2001–2005
- 1981–1986
- ✓ None of the answers are correct.

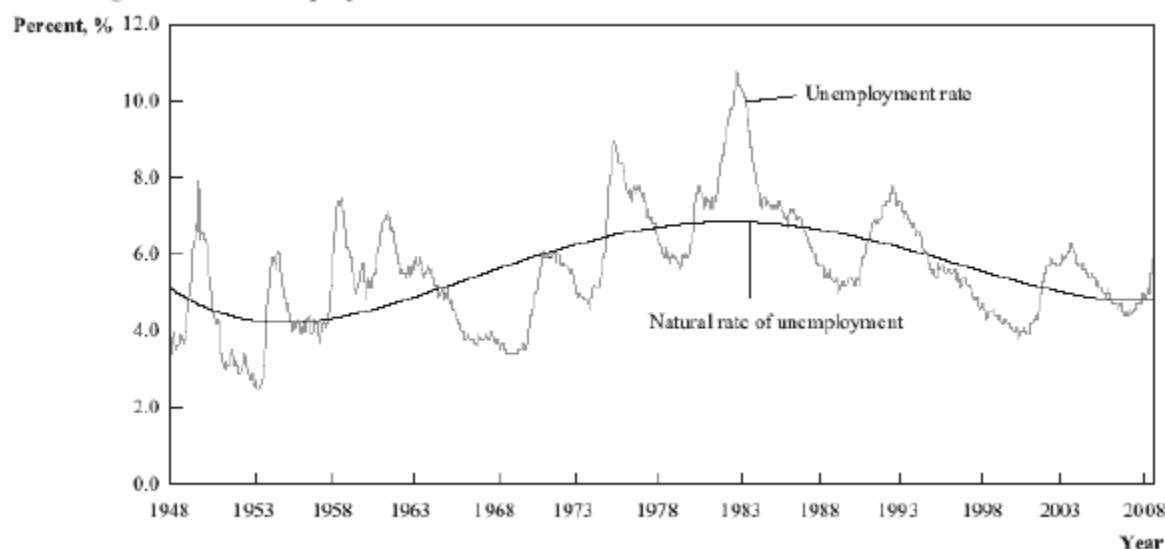
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Question 25 Multiple Choice 0 points

Question

Figure 12.3: Unemployment



Reference: Ref 12-2

(Figure 12.3: Unemployment) During approximately which period(s) was the economy in an economic boom?

- Answer 1986–1991
- 1996–2001
- 1991–1995
- ✓ 1996–2001 and 1986-1991

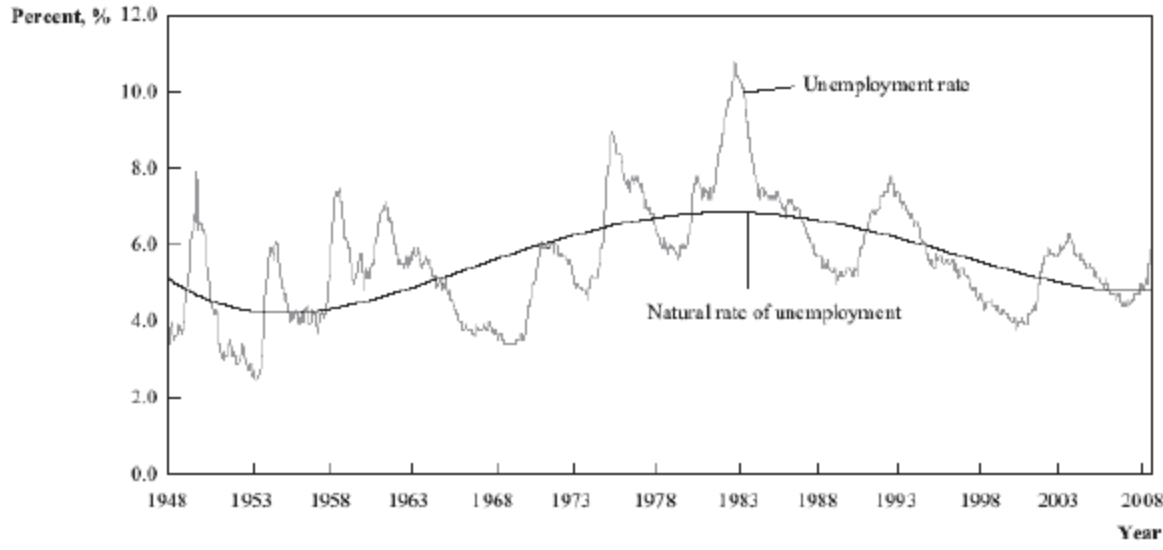
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Question 26 Multiple Choice 0 points

**Question**

**Figure 12.3: Unemployment**



Reference: Ref 12-2

(Figure 12.3: Unemployment) Your local congressman shows you this data and asks you during which period was there an economic boom? Your answer is:

- Answer** ✓ "1994–2001, because the actual unemployment rate was below the natural rate."  
 "2001–2006, because the actual unemployment rate was above the natural rate."  
 "1948–1964, because the natural rate of unemployment was 'troughing.'"  
 "You haven't given me enough information to answer the question."

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 27

**Multiple Choice**

**0 points**

**Question**

The relationship between the output gap and unemployment is called:

- Answer** the Fisher relation.  
 the Phillips curve.  
 ✓ Okun's law.  
 the unemployment boom effect.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 28

**Multiple Choice**

**0 points**

**Question**

Which of the following equations is Okun's law?

- Answer** ✓  $\frac{Y - Y^*}{Y^*} = -2(U - U^*)$   
 $\frac{Y - Y^*}{Y^*} = -(1/2)(U - U^*)$   
 $Y - Y^* = -2(U - U^*)$   
 $\frac{Y - Y^*}{Y^*} = 2(U - U^*)$

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 29

**Multiple Choice**

**0 points**

**Question**

Okun's law demonstrates:

- Answer** ✓ how firms hire more workers during economic booms, and lay off workers during recessions.  
 the trade-off between inflation and unemployment.  
 that when inflation is expected to rise, nominal interest rates will also rise.  
 that when  $U = U^*$ , the output gap is positive.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 30

**Multiple Choice**

**0 points**

**Question**

The Great Depression was the result of:

- Answer** high inflation.  
 a fall in potential output.  
 ✓ a fall in aggregate expenditure.  
 low unemployment.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 31

**Multiple Choice**

**0 points**

**Question**

If the natural rate of unemployment is 4 percent and the actual rate of unemployment is 5 percent, Okun's law states that the output gap is \_\_\_\_\_ and the economy is in a(n) \_\_\_\_\_.

- Answer** 2 percent; economic boom  
 ✓ -2 percent; recession  
 -0.5 percent; recession  
 -1 percent; recession

[Add Question Here](#)

- Question 32 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
If the natural rate of unemployment is 4 percent and the actual rate of unemployment is 3 percent, Okun's law states that the output gap is \_\_\_\_\_ and the economy is in a(n) \_\_\_\_\_.
- Answer**
- 0.5 percent; recession
  - 2 percent; recession
  - 2 percent; economic boom
  - 1 percent; economic boom
- [Add Question Here](#)
- Question 33 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
If the natural rate of unemployment is 4 percent and the actual rate of unemployment is 4 percent, Okun's law states that the output gap is \_\_\_\_\_ and the economy is \_\_\_\_\_.
- Answer**
- 0 percent; at its potential
  - 2 percent; in a recession
  - 1 percent; in an economic boom
  - 0.5 percent; in a recession
- [Add Question Here](#)
- Question 34 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
Which of the following is *not* correct with respect to the definition of a recession as used by the NBER?
- Answer**
- A recession is characterized by lower levels of economic activity.
  - The exact length of time needed for a downturn to be declared a recession is not specified.
  - Many key economic indicators are used, some of which may move in opposite directions.
  - A recession occurs when there is a dip in the growth rate.
- [Add Question Here](#)
- Question 35 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
The NBER defines a recession as:
- Answer**
- the period when actual output is below potential output.
  - a period when output falls a substantial amount.
  - two consecutive years of 1 percent or less economic growth.
  - a period when the natural rate of unemployment is above 6 percent.
- [Add Question Here](#)
- Question 36 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
The "official dates" of a recession are determined by the:
- Answer**
- Board of Governors of the Federal Reserve.
  - Business Cycle Dating Committee.
  - Treasury Secretary.
  - Chancellor of the Exchequer.
- [Add Question Here](#)
- Question 37 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
From 1960 to 2007, the NBER has identified \_\_\_\_\_ recessions.
- Answer**
- seven
  - three
  - twelve
  - nine
- [Add Question Here](#)
- Question 38 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
One way of reconciling the different definitions of the business cycle is that NBER recessions would be:
- Answer**
- the opposite of a recessionary output gap.
  - the same as a recessionary output gap.
  - a deep recession using the output gap.
  - There is no connection.
- [Add Question Here](#)
- Question 39 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**  
Aggregate expenditure reflects total spending in an economy by:
- Answer**
- firms.
  - households.
  - local, state, and federal governments.
  - All of the answers are correct.
- [Add Question Here](#)
- Question 40 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question**

Potential output in the United States grew \_\_\_\_ in the mid-1990s than in the 1970s and 1980s due to \_\_\_\_.

**Answer**

- faster; reduced unemployment
- faster; the spread of technologies
- slower; the dot-com bubble
- slower; higher inflation.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 41

**Multiple Choice****0 points****Question**

The natural rate of unemployment can fall due to:

- I. an increase in the average age of workers.
- II. a reduction in productivity growth.
- III. a rise in potential output.

**Answer**

- I only
- I and II
- II only
- III only

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 42

**Multiple Choice****0 points****Question**

If the natural rate of unemployment is 5 percent and the actual rate of unemployment is 9 percent, Okun's law says that the output gap is \_\_\_\_ and the economy is in a(n) \_\_\_\_.

**Answer**

- 8 percent; recession
- 8 percent; recession
- 4 percent; recession
- 4 percent; expansion

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 43

**Multiple Choice****0 points****Question**

The text book and the NBER do not define recessions in the same way. The NBER defines a recession as \_\_\_\_ and the book defines it as \_\_\_\_.

**Answer**

- two quarters of negative economic growth; potential output below actual output
- a period when output falls substantially; a negative output gap
- a period when output rises more slowly than optimal; a positive output gap
- a period when output falls substantially; unemployment above its natural rate

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 44

**Multiple Choice****0 points****Question**

Prior to Keynes, economists believed that the business cycle was caused by \_\_\_\_; Keynes developed the idea that the business cycle was caused by \_\_\_\_.

**Answer**

- changes in aggregate expenditure; shifts in resources
- high unemployment; changes in government spending
- deviations from potential output; animal spirits
- shifts in resources; changes in aggregate expenditure

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 45

**Multiple Choice****0 points****Question**

Which of the following is/are condition(s) for long-term economic growth?

**Answer**

- capital accumulation
- technology innovation
- labor force growth
- All of the answers are correct.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 46

**Multiple Choice****0 points****Question**

Which of the following statements about the natural rate of unemployment is true?

**Answer**

- The natural rate of unemployment is zero.
- Unemployment is at the natural rate when output is above its potential.
- The natural rate of unemployment is the unemployment rate that occurs when resources are idle.
- The natural rate of unemployment varies across countries and time periods.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 47

**Multiple Choice****0 points****Question**

Economists measure the size of booms and recessions with the:

**Answer**

- production gap.
- output gap.
- production spread.
- output spread.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 48

**Multiple Choice****0 points**

**Question**

When actual output exceeds potential output, the economy experiences a(n) \_\_\_\_\_, where the output gap is \_\_\_\_\_.

- Answer**
- recession; negative
  - recession; positive
  - ✓ economic boom; positive
  - economic boom; negative

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 49 **Multiple Choice** **0 points**

**Question**

During a recession, unemployment is \_\_\_\_\_ the natural rate of unemployment and the output gap is \_\_\_\_\_.

- Answer**
- ✓ above; negative
  - above; positive
  - below; negative
  - below; positive

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 50 **Multiple Choice** **0 points**

**Question**

Okun's law relates changes in the unemployment rate to changes in:

- Answer**
- investment.
  - ✓ the output gap.
  - consumption expenditures.
  - inflation.

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 51 **Multiple Choice** **0 points**

**Question**

According to Okun's law, when unemployment rises 2 percentage points above its natural rate, the output gap \_\_\_\_\_ by \_\_\_\_\_ percentage points.

- Answer**
- increases; 4
  - ✓ decreases; 4
  - increases; 2
  - decreases; 2

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 52 **Multiple Choice** **0 points**

**Question**

The components of aggregate expenditure include purchases by:

- Answer**
- households.
  - firms.
  - the rest of the world.
  - ✓ All of the answers are correct.

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 53 **Multiple Choice** **0 points**

**Question**

Household consumption includes:

- I. purchases of goods.
- II. home purchases.
- III. purchases of services.

- Answer**
- ✓ I and III
  - I only
  - II only
  - I and II

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 54 **Multiple Choice** **0 points**

**Question**

Aggregate expenditure equals:

- Answer**
- Consumption + Investment + Government purchases + Transfers
  - ✓ Consumption + Investment + Government purchases + Net exports
  - Consumption + Investment + Federal government purchases + Exports
  - Consumption + Government purchases – Net exports

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 55 **Multiple Choice** **0 points**

**Question**

Aggregate expenditure:

- Answer**
- is the same thing as aggregate demand.
  - ✓ is the amount of spending on goods and services for a given real interest rate.
  - is how much it costs firms to produce the goods and services they sell.
  - is always equal to potential output.

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 56 **Multiple Choice** **0 points**

**Question**

As the real interest rate rises:

- I. consumption rises.
- II. net exports fall.
- III. investment rises.

**Answer** ✓ II only  
 I only  
 I and III  
 III only

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 57 **Multiple Choice** **0 points**

**Question**

The ex ante real interest is given by:

**Answer**  $r = i - \pi$ .  
 $r = i + \pi^e$ .  
 ✓  $r = i - \pi^e$ .  
 $r = \pi^e$ .

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 58 **Multiple Choice** **0 points**

**Question**

If the real interest rate rises, there is an incentive for \_\_\_\_\_ and makes it \_\_\_\_\_, which causes \_\_\_\_\_.

**Answer** ✓ households to save; more expensive for firms to finance new capital purchases; aggregate expenditure to fall.  
 households to purchase homes; less expensive for firms to finance new capital purchases; aggregate expenditure to rise.  
 firms to buy new capital goods; less expensive for households to buy new goods; aggregate expenditure to rise.  
 firms to hire more workers; more expensive for households to borrow; the natural rate of unemployment to fall.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 59 **Multiple Choice** **0 points**

**Question**

When the real interest rate rises in the United States, there is a(n) \_\_\_\_\_, which causes the dollar to \_\_\_\_\_ and aggregate expenditure \_\_\_\_\_.

**Answer** increase in net capital outflows; appreciate; to fall  
 decline in net capital outflows; depreciate; to rise  
 ✓ decline in net capital outflows; appreciate; to fall  
 decline in new capital investments; depreciate; to fall

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 60 **Multiple Choice** **0 points**

**Question**

The magnification of income changes on aggregate expenditure is called the:

**Answer** interest rate multiplier.  
 real interest rate.  
 ✓ consumption multiplier.  
 marginal propensity to consume.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 61 **Multiple Choice** **0 points**

**Question**

The aggregate expenditure curve is the \_\_\_\_\_ relationship between \_\_\_\_\_ and \_\_\_\_\_.

**Answer** positive; inflation; the output gap  
 ✓ negative; the real interest rate; output  
 negative; the unemployment rate; inflation  
 negative; the unemployment rate; the output gap

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 62 **Multiple Choice** **0 points**

**Question**

Along the aggregate expenditure curve, the level of output in the short run is determined by:

**Answer** expectations.  
 the inflation rate.  
 ✓ the real interest rate.  
 supply shocks.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 63 **Multiple Choice** **0 points**

**Question**

Which of the following would shift the aggregate expenditure curve for Mexico to the left?

**Answer** an increase in the nominal interest rate by the U.S. central bank  
 a U.S. expansion  
 an increase in the nominal interest rate by the Mexican central bank  
 ✓ a decrease in confidence of Mexican consumers

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 64 **Multiple Choice** **0 points**

**Question**

If actual output is less than potential output, the Central Bank should choose to:

- Answer**
- increase the interest rate because that would reduce unemployment.
  - decrease the interest rate because that would increase output.
  - increase the interest rate because that would decrease inflation.
  - decrease the interest rate because that would decrease output.

[Add Question Here](#)

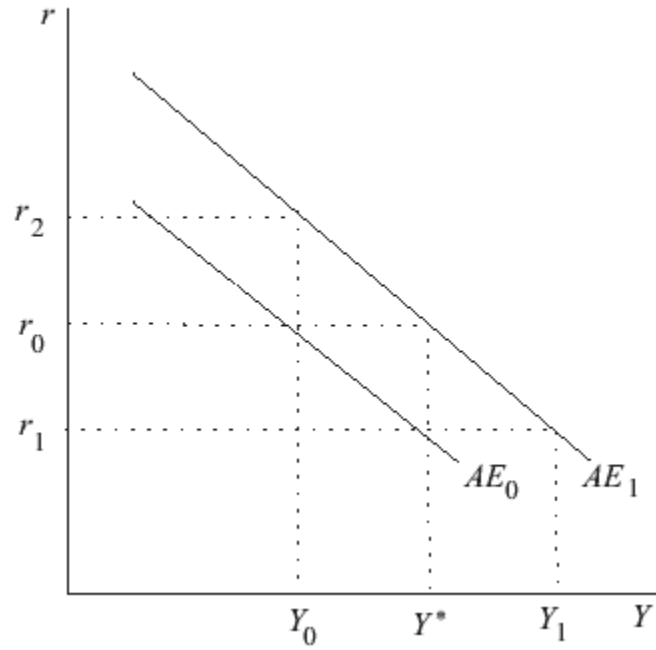
[Modify](#) [Remove](#)

Question 65 **Multiple Choice**

**0 points**

**Question**

**Figure 12.4: Aggregate Expenditure**



Reference: Ref 12-3

(Figure 12.4: Aggregate Expenditure) If you are the Fed and the economy is at  $Y_0$ , you would \_\_\_\_\_, which would move the economy \_\_\_\_\_ the  $AE_0$  curve to  $Y^*$ .

- Answer**
- reduce tax rates; along
  - reduce interest rates; to shift
  - reduce interest rates; along
  - increase government expenditure; to shift

[Add Question Here](#)

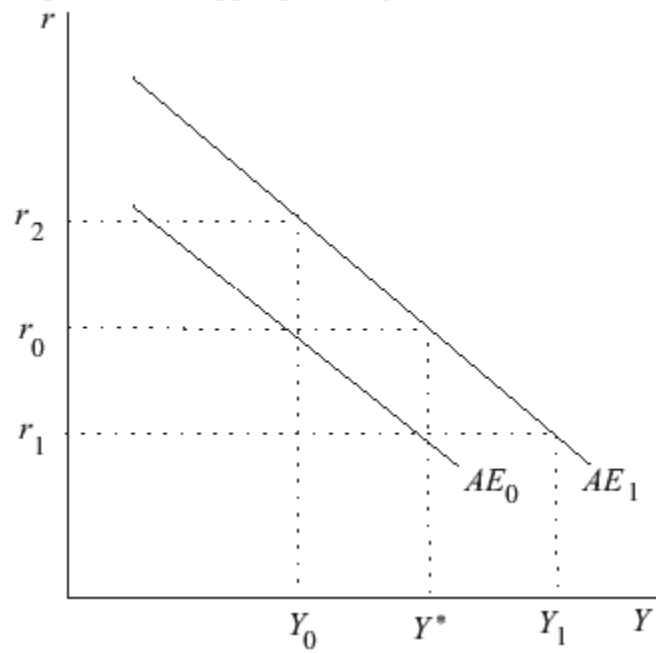
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Question 66 **Multiple Choice**

**0 points**

**Question**

**Figure 12.4: Aggregate Expenditure**



Reference: Ref 12-3

(Figure 12.4: Aggregate Expenditure) If you are the Fed and the economy is at  $Y_1$ , you would \_\_\_\_\_, which would move the economy \_\_\_\_\_ the  $AE_1$  curve to  $Y^*$ .

- Answer**
- increase interest rates; along
  - reduce interest rates; to shift
  - reduce tax rates; to shift
  - increase government expenditure; to shift

[Add Question Here](#)

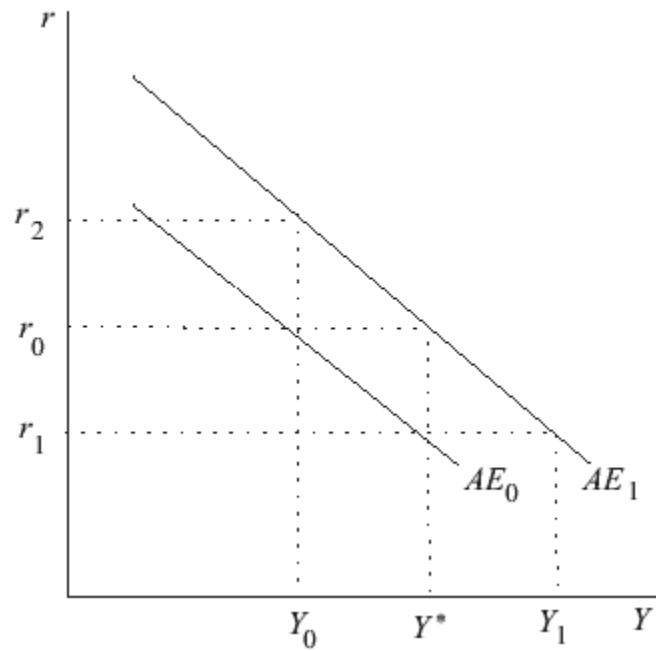
[Modify](#) [Remove](#)

Question 67 **Multiple Choice**

**0 points**

**Question**

Figure 12.4: Aggregate Expenditure



Reference: Ref 12-3

(Figure 12.4: Aggregate Expenditure) Beginning where  $Y = Y^*$ , if a country's overall wealth falls this would \_\_\_\_\_ the AE from \_\_\_\_\_ and the economy would \_\_\_\_\_.

- Answer**
- shift;  $AE_0 \rightarrow AE_1$ ; experience a boom
  - ✓ shift;  $AE_1 \rightarrow AE_0$ ; fall into recession
  - cause a movement along;  $r_0 \rightarrow r_2$ ; fall into recession
  - There is not enough information provided to answer the question.

◀ [Add Question Here](#)

Question 68 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

The Fed controls the real interest rate by:

- Answer** ✓
- setting the target nominal interest rate by adding expected inflation to the real interest rate it wishes to have.
  - setting the inflation rate to be the difference between the nominal interest rate and the real interest rate it wishes to have.
  - setting the real interest rate, and allowing the nominal interest rate to adjust to it.
  - setting both the real interest rate and the expected inflation rate.

◀ [Add Question Here](#)

Question 69 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Which of the following is *not* an expenditure shock.

- Answer**
- a change in consumer sentiment
  - a tax increase
  - ✓ a change in the nominal interest rate
  - foreign business cycles

◀ [Add Question Here](#)

Question 70 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Holding interest rates constant, an increase in government spending would have what effect?

- Answer**
- cause a movement along the AE curve, decreasing output
  - ✓ cause the AE curve to shift out, to the right, increasing output
  - cause a movement along the AE curve, increasing unemployment
  - cause the AE curve to shift back, to the left, increasing unemployment

◀ [Add Question Here](#)

Question 71 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

If consumer confidence falls, the AE curve would shift to the \_\_\_\_\_, and it is likely the central bank would \_\_\_\_\_.

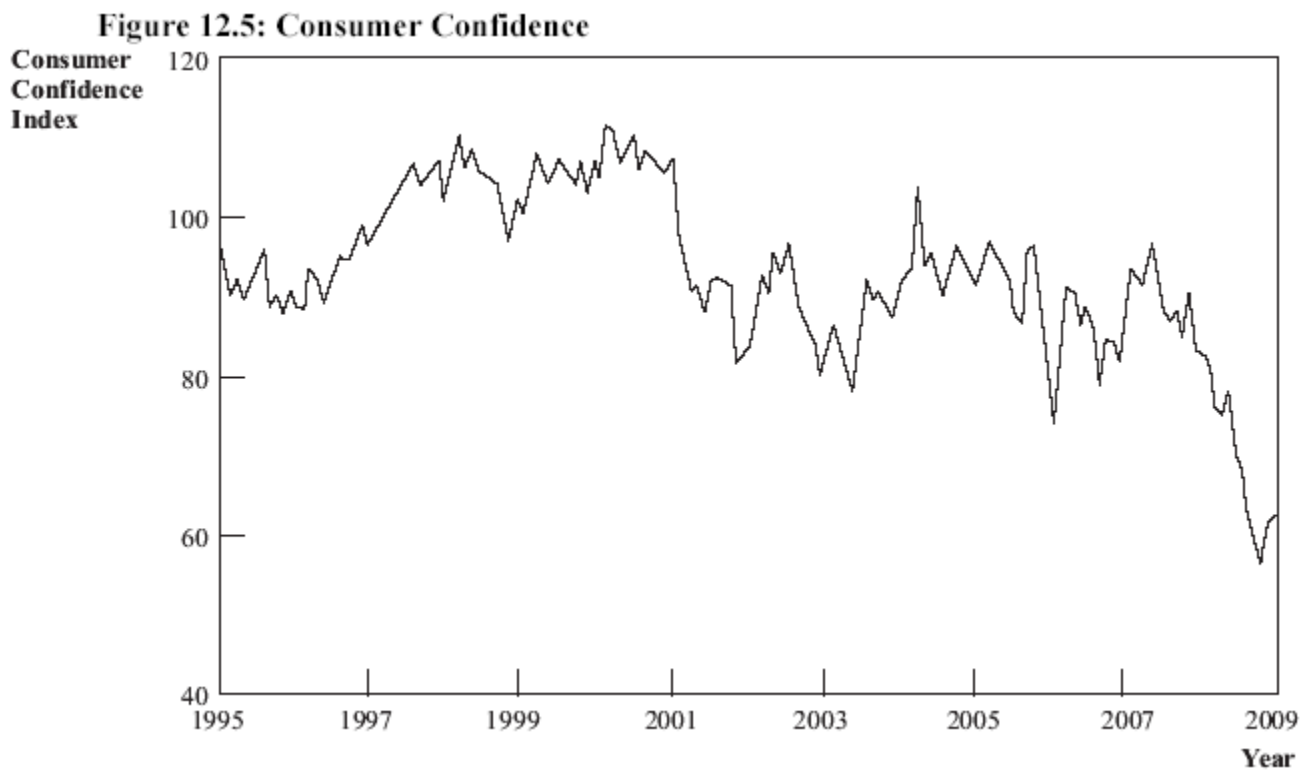
- Answer**
- right; increase interest rates to cause an increase in output
  - ✓ left; decrease interest rates to keep output constant
  - left; reduce household income taxes
  - right; wait a year and see if another expenditure shock shifts the AE curve back

◀ [Add Question Here](#)

Question 72 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**



Reference: Ref 12-4

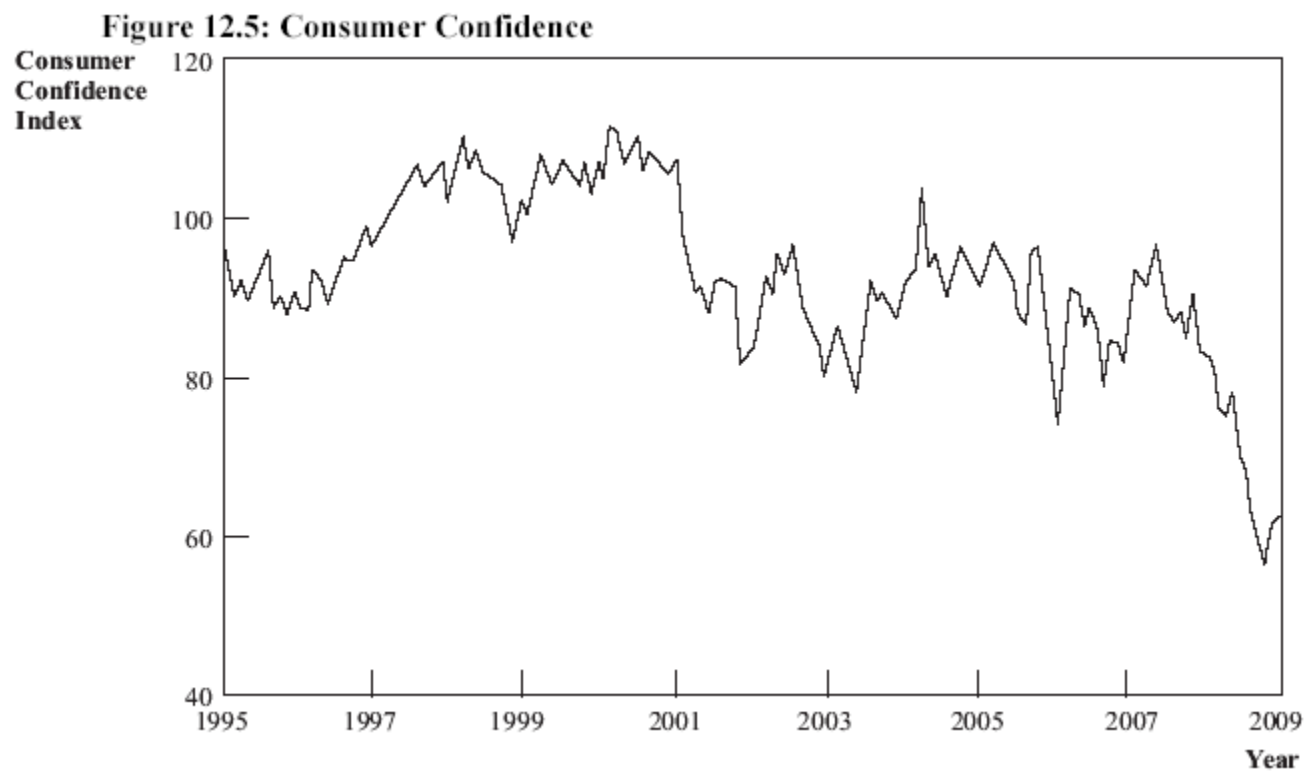
(Figure 12.5: Consumer Confidence) Between which dates, approximately, did the AE curve shift to the right?

- Answer**
- 2003–2004
  - 1996–1998
  - ✓ 2003–2004 and 1996–1998
  - There is not enough information provided to answer the question.

[Add Question Here](#)  
[Modify](#) [Remove](#)

Question 73 **Multiple Choice** **0 points**

**Question**



Reference: Ref 12-4

(Figure 12.5: Consumer Confidence) Between which dates, approximately, did the AE curve shift to the left?

- Answer**
- 1996–1998
  - ✓ 2007–2008
  - 2003–2004
  - There is not enough information provided to answer the question.

[Add Question Here](#)  
[Modify](#) [Remove](#)

Question 74 **Multiple Choice** **0 points**

**Question**

If Europe goes into recession,

- Answer** ✓
- the U.S. aggregate expenditure curve would shift left.
  - the U.S. aggregate expenditure curve would shift right.
  - the U.S. federal funds rate would rise.
  - U.S. inflation would rise.

[Add Question Here](#)  
[Modify](#) [Remove](#)

Question 75 **Multiple Choice** **0 points**

**Question**

If consumer confidence fell, shifting the AE curve to the \_\_\_\_\_, it is likely the Fed would \_\_\_\_\_.

- Answer**
- left; decrease tax rates to keep output constant
  - right; increase interest rates to keep output constant
  - ✓ left; decrease interest rates to keep output constant
  - left; increase tax rates to reduce output

[Add Question Here](#)

Question 76	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
Government spending includes all of the following <i>except</i> :			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>military jets.</li> <li>salaries of government workers.</li> <li>roads.</li> <li>✓ All of these are included in government spending.</li> </ul>			
<a href="#">Add Question Here</a>			
Question 77	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
Two of your friends disagree about how interest rates affect the economy. Bill argues that higher interest rates are good because they lead people to save more, which helps reduce the deficit. Sally says that higher interest rates are bad because they lead people to save, which means they reduce their consumption. Which friend is correct and why?			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>Bill; a balanced budget is good for the economy.</li> <li>✓ Sally; the reduced consumption reduces aggregate expenditure and income.</li> <li>Bill; firms increase their investment spending.</li> <li>Sally; reduced consumption leads to additional government spending.</li> </ul>			
<a href="#">Add Question Here</a>			
Question 78	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
During the financial crisis of 2007–2009, investment by firms fell because:			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>loan defaults rose at savings and loans.</li> <li>firms no longer saw good investment opportunities in the high-tech sector.</li> <li>✓ the loan securitization process broke down.</li> <li>the Federal Reserve increased interest rates.</li> </ul>			
<a href="#">Add Question Here</a>			
Question 79	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
Canada experienced an economic slowdown in the most recent recession because:			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>✓ consumer spending fell in the United States.</li> <li>an increase in interest rates in the United States drove up interest rates in Canada.</li> <li>Canada's exports to the United States increased.</li> <li>U.S. imports from Canada increased.</li> </ul>			
<a href="#">Add Question Here</a>			
Question 80	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
In the most recent recession, the Federal Reserve Bank:			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>cut interest rates and made the recession worse than it might otherwise have been.</li> <li>✓ encountered a zero bound problem when it cut interest rates to near zero.</li> <li>failed to raise interest rates quickly enough and inflation rose.</li> <li>did nothing in order to avoid interfering with the business cycle.</li> </ul>			
<a href="#">Add Question Here</a>			
Question 81	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
Which of the following is/are component(s) of aggregate expenditure?			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>the daily volume of the New York Stock Exchange</li> <li>the stock of U.S. government bonds</li> <li>✓ government purchases</li> <li>purchases of stock</li> </ul>			
<a href="#">Add Question Here</a>			
Question 82	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
Which of the following is/are component(s) of aggregate expenditure?			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>the money supply</li> <li>✓ net exports</li> <li>the monetary base</li> <li>the daily net purchase of U.S. government bonds</li> </ul>			
<a href="#">Add Question Here</a>			
Question 83	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>
<b>Question</b>			
When the real interest rate increases, consumption _____ and investment _____.			
<b>Answer</b>			
<ul style="list-style-type: none"> <li>decreases; increases.</li> <li>✓ decreases; decreases</li> <li>increases; increases</li> <li>increases; decreases</li> </ul>			
<a href="#">Add Question Here</a>			
Question 84	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a>   <a href="#">Remove</a>

**Question**

When the real interest rate falls:

- Answer**
- a country's net capital outflow remains unchanged.
  - the real exchange rate remains unchanged.
  - net exports decrease.
  - the real exchange rate decreases.

[◀ Add Question Here](#)

Question 85 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Which of the following statements about aggregate expenditure is/are true?

- Answer**
- As the real interest rate falls, aggregate expenditure increases.
  - Central banks control the real interest rate in the short run.
  - The aggregate expenditure curve slopes downward.
  - All of the answers are correct.

[◀ Add Question Here](#)

Question 86 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Suppose expected inflation is 3 percent and that the central bank wants a real interest rate of 4 percent. According to this information, the central bank will set a nominal interest rate target of:

- Answer**
- 4 percent.
  - 3 percent.
  - 7 percent.
  - 1 percent.

[◀ Add Question Here](#)

Question 87 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Suppose that the government increases its purchases. Which of the following statements is correct?

- Answer**
- The aggregate expenditure curve shifts to the right.
  - The aggregate expenditure curve shifts to the left.
  - There is downward movement along aggregate expenditure curve.
  - The equilibrium moves up along the original aggregate expenditure curve in the northwest direction.

[◀ Add Question Here](#)

Question 88 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Shifts in monetary policy:

- Answer**
- create movements along the aggregate expenditure curve.
  - do not affect the real interest rate or aggregate expenditure.
  - shift the entire aggregate expenditure curve.
  - make the aggregate expenditure curve slope upward.

[◀ Add Question Here](#)

Question 89 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Which of the following include types of expenditure shocks?

- Answer**
- changes in the price of energy
  - changes in the price of raw materials
  - changes in consumer confidence
  - changes in the price of oil

[◀ Add Question Here](#)

Question 90 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Which of the following include types of expenditure shocks?

- Answer**
- an increase in the nominal interest rate engineered by the central bank
  - changes in inflation expectations
  - changes in bank lending
  - a decrease in expected long-term interest rates

[◀ Add Question Here](#)

Question 91 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Suppose that Congress enacts legislation that increases income taxes. Which of the following will result?

- Answer**
- The aggregate expenditure curve shifts to the right.
  - The aggregate expenditure curve shifts to the left.
  - There is an upward movement along the aggregate expenditure curve in the northwest direction.
  - There is an downward movement along the aggregate expenditure curve in the southeast direction.

[◀ Add Question Here](#)

Question 92 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Suppose that the European Union goes through a recession. Which of the following would be the effect on the United States business cycle?

- Answer**
- Aggregate expenditure will increase in the United States.
  - ✓ It would be considered a negative expenditure shock.
  - It would be considered a positive expenditure shock.
  - There will be no effect on the U.S. business cycle.

◀ [Add Question Here](#)

Question 93 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Suppose that investment spending falls. This would result in a shift to the \_\_\_\_ of the aggregate expenditure curve. If the Fed wants to conduct countercyclical monetary policy, it would have to \_\_\_\_ the interest rate target.

- Answer**
- right; increase
  - right; lower
  - left; increase
  - ✓ left; lower

◀ [Add Question Here](#)

Question 94 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Which of the following is an example of adaptive expectations?

- Answer**
- You flip a coin to determine if you should carry an umbrella today.
  - Even though it has not rained all week, the weather forecaster said it will rain tomorrow, so you will carry an umbrella tomorrow.
  - ✓ It rained yesterday, so you will carry an umbrella today.
  - It never rains where you live, but you carry an umbrella anyway.

◀ [Add Question Here](#)

Question 95 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Which of the following is an example of rational expectations?

- Answer**
- It rained yesterday, so you will carry an umbrella today.
  - ✓ Even though it has not rained all week, the weather forecaster said it will rain tomorrow, so you will carry an umbrella tomorrow.
  - You flip a coin to determine if you should carry an umbrella today.
  - It never rains where you live, but you carry an umbrella anyway.

◀ [Add Question Here](#)

Question 96 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Adaptive expectations is characterized by:

- Answer**
- $\pi^e = \pi(-1)$ .
  - knowledge of past levels of inflation.
  - the continuation of current levels of inflation.
  - ✓ All of the answers are correct.

◀ [Add Question Here](#)

Question 97 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

An increase in interest rates by the Fed will only affect real interest rates because:

- Answer**
- ✓ inflation is sticky in the short run.
  - prices are flexible in the short and long runs.
  - contracts only apply in the very short run.
  - None of the answers are correct.

◀ [Add Question Here](#)

Question 98 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Based on the data gathered by the Federal Reserve Bank in Philadelphia, it is clear that:

- Answer**
- adaptive expectations rarely works.
  - ✓ while not perfect, adaptive expectations works reasonably well.
  - rational expectations rarely works.
  - neither adaptive expectations nor rational expectations work well, and we need a new theory.

◀ [Add Question Here](#)

Question 99 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

During an economic boom, which of the following does *not* tend to happen?

- Answer**
- Firms raise prices faster than usual.
  - High production increases firms' marginal cost.
  - Workers push for wage increases.
  - ✓ Unemployment tends to rise.

◀ [Add Question Here](#)

Question 100 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the Phillips Curve, during a time when output is above potential output, inflation is:

- Answer** ✓ higher than expected inflation.  
 equal to expected inflation.  
 lower than expected inflation.  
 There is not enough information provided to answer the question.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 101 **Multiple Choice** **0 points**

**Question**

The Phillips curve:

- Answer** ✓ implies inflation will increase when the economy experiences a boom.  
 shifts downward when inflation expectations increase.  
 implies inflation will increase when the output gap is negative.  
 shifts downward when oil prices rise.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 102 **Multiple Choice** **0 points**

**Question**

Which of the following is the *output* Phillips curve?

- Answer** ✓  $\pi = \pi^e + \alpha \frac{(Y - Y^*)}{Y^*}$   
 $\frac{(Y - Y^*)}{Y^*} = -2(U - U^*)$   
 $\pi = \pi^e - 2\alpha(U - U^*)$   
 $r = i - \pi^e$

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 103 **Multiple Choice** **0 points**

**Question**

Which of the following is the *unemployment* Phillips curve?

- Answer**  
 $\pi = \pi^e + \alpha \frac{(Y - Y^*)}{Y^*}$   
 ✓  $\pi = \pi^e - 2\alpha(U - U^*)$   
 $\frac{(Y - Y^*)}{Y^*} = -2(U - U^*)$   
 $U^* = U + \pi^e$

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 104 **Multiple Choice** **0 points**

**Question**

Which of the following is the *output* Phillips curve with adaptive expectations?

- Answer** ✓  $\pi = \pi(-1) + \alpha \left( \frac{Y - Y^*}{Y^*} \right)$   
 $\pi + \pi(-1) = \alpha \left( \frac{Y - Y^*}{Y^*} \right)$   
 $\pi = \pi(-1) + \alpha Y$   
 $\pi = \pi(1) = \alpha \left( \frac{Y - Y^*}{Y^*} \right)$

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 105 **Multiple Choice** **0 points**

**Question**

The *output* Phillips curve with adaptive expectations relates the:

- Answer**  
 rate of inflation to the output gap.  
 ✓ change in inflation to the output gap.  
 unemployment rate to the output gap.  
 real interest rate to the nominal interest rate.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 106 **Multiple Choice** **0 points**

**Question**

The acronym NAIRU stands for the:

- Answer**  
 nonaccelerating interest rate of unemployment.  
 ✓ nonaccelerating inflation rate of unemployment.  
 natural aggregate inflation rate of unemployment.  
 nonaccruing investment relative to unemployment.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 107 **Multiple Choice** **0 points**

**Question**

If the rate of unemployment is at NAIRU then  $U$  equals \_\_\_\_\_ and \_\_\_\_\_.

**Answer**

- ✓  $U^*$ ;  $\Delta\pi = 0$
- zero;  $Y = Y^*$
- $U^*$ ;  $\pi = 0$
- zero;  $(Y - Y^*)/Y^* = 0$

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 108 **Multiple Choice**

**0 points**

**Question**

Which of the following is(are) *not* an adverse supply shock?

**Answer**

- a terrorist attack
- a hurricane knocking out oil refineries in the Gulf of Mexico
- ✓ a new method for producing ethanol
- increased regulations

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 109 **Multiple Choice**

**0 points**

**Question**

In the Phillips curve  $\pi = \pi^e + \alpha(Y - Y^*)/Y^* + v$ ,  $v$  is:

**Answer**

- ✓ a supply shock.
- a demand shock.
- a permanent price trend.
- fiscal policy shock.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 110 **Multiple Choice**

**0 points**

**Question**

Recent energy legislation that dictates increased use of ethanol as automobile fuel might \_\_\_\_\_ overall inflation because corn prices \_\_\_\_\_, impacting all downstream industries that use corn \_\_\_\_\_.

**Answer**

- increase; will rise; as a final good
- decrease; will rise; as a final good
- ✓ increase; will rise; as an input
- There is not enough information provided to answer the question.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 111 **Multiple Choice**

**0 points**

**Question**

Oil prices are closely watched because:

**Answer**

- they only impact inflation directly.
- ✓ they impact inflation both directly and indirectly.
- it hurts automobile owners.
- of their immediate impact on subsidies and taxes.

◀ [Add Question Here](#)

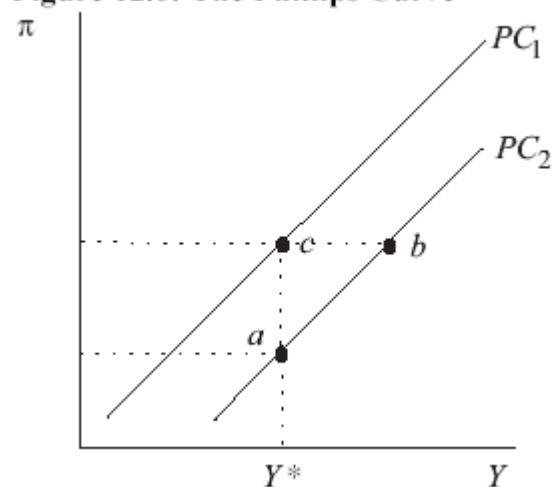
[Modify](#) | [Remove](#)

Question 112 **Multiple Choice**

**0 points**

**Question**

Figure 12.6: The Phillips Curve



Reference: Ref 12-5

(Figure 12.6: The Phillips Curve) An unexpected increase in oil prices will move the economy from:

**Answer**

- point  $c$  to  $b$ .
- ✓ point  $a$  to  $c$ .
- point  $b$  to  $c$ .
- There is not enough information provided to answer the question.

◀ [Add Question Here](#)

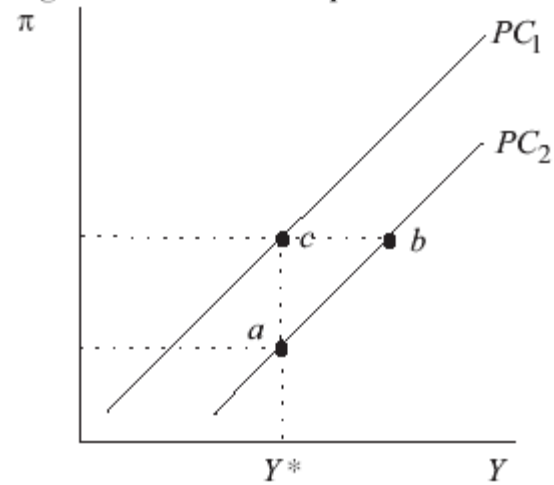
[Modify](#) | [Remove](#)

Question 113 **Multiple Choice**

**0 points**

**Question**

Figure 12.6: The Phillips Curve



Reference: Ref 12-5

(Figure 12.6: The Phillips Curve) An unexpected decrease in oil prices will move the economy from:

- Answer** ✓ point c to a.  
 point c to b.  
 point b to c.  
 There is not enough information provided to answer the question.

[Add Question Here](#)[Modify](#) [Remove](#)Question 114 **Multiple Choice** **0 points****Question**

Consider the Phillips curve equation  $\pi = \pi(-1) + \alpha \frac{(Y - Y^*)}{Y^*} + v$  where  $\alpha = 2$ , and  $\pi(-1) = 4\%$ . Suppose an oil price shock occurs such that  $v = 1.5$ . If inflation remains at 4 percent following the shock, the output gap will be \_\_\_\_\_.

- Answer**
- 4 percent
  - 1.5 percent
  - 2 percent
  - ✓ 0.75 percent

[Add Question Here](#)[Modify](#) [Remove](#)Question 115 **Multiple Choice** **0 points****Question**

Consider the Phillips curve equation  $\pi = \pi(-1) + \alpha \frac{(Y - Y^*)}{Y^*} + v$  where  $\alpha = 2$ , and  $\pi(-1) = 4\%$ . Suppose an oil price shock occurs such that  $v = 1.5$ . If policymakers fully accommodate the shock, inflation will be \_\_\_\_\_ and the output gap will be \_\_\_\_\_.

- Answer**
- 1.5 percent; zero
  - ✓ 5.5 percent; zero
  - 4 percent; 2 percent
  - 7.5 percent; 2 percent

[Add Question Here](#)[Modify](#) [Remove](#)Question 116 **Multiple Choice** **0 points****Question**

Many economists believe that by comparison with rational expectations, adaptive expectations are a good way to measure expected inflation because:

- Answer** ✓ although they are not always accurate, they work reasonably well.  
 people are not rational in their expectations.  
 professional economists are very good at predicting inflation  
 the inflation rate doesn't change very much over time, so it doesn't matter what people believe.

[Add Question Here](#)[Modify](#) [Remove](#)Question 117 **Multiple Choice** **0 points****Question**

When output deviates from potential, inflation moves in the \_\_\_\_ direction and when unemployment deviates from potential, inflation moves in the \_\_\_\_ direction.

- Answer**
- same; same
  - ✓ same; opposite
  - opposite; same
  - opposite; opposite

[Add Question Here](#)[Modify](#) [Remove](#)Question 118 **Multiple Choice** **0 points****Question**

A 1 percentage point increase in the unemployment rate has \_\_\_\_ impact on inflation as a 1 percentage point increase in the output gap.

- Answer**
- twice as big an
  - the same
  - ✓ There is not enough information provided to answer this question.
  - There is no relation between the two.

[Add Question Here](#)[Modify](#) [Remove](#)Question 119 **Multiple Choice** **0 points**

**Question**

How much prices will rise over the previous year prices depends on:

- Answer**
- expected inflation.
  - output.
  - supply shocks.
  - All of the answers are correct.

[Add Question Here](#)

Question 120 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Suppose that the inflation rate last year was 2 percent. According to adaptive expectations, inflation this year is expected to be:

- Answer**
- 2 percent.
  - 2 percent plus the real interest rate.
  - 2 percent minus the real interest rate.
  - There is not enough information provided to determine expected inflation.

[Add Question Here](#)

Question 121 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the Phillips curve, when output is above potential, \_\_\_\_\_ marginal costs push inflation \_\_\_\_\_ expected inflation.

- Answer**
- lower; above
  - lower; below
  - higher; above
  - higher; below

[Add Question Here](#)

Question 122 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

The Phillips curve shows the short-run relationship between:

- Answer**
- investment and inflation.
  - output (or unemployment) and inflation.
  - output (or unemployment) and the real interest rate.
  - investment and the real interest rate.

[Add Question Here](#)

Question 123 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the output Phillips curve, if the output gap is zero:

- Answer**
- the inflation rate is zero.
  - inflation is above expected inflation.
  - inflation equals expected inflation.
  - inflation is below expected inflation.

[Add Question Here](#)

Question 124 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the unemployment Phillips curve:

- Answer**
- unemployment and inflation are negatively related.
  - as unemployment rises, inflation rises.
  - when unemployment is at the natural rate, actual inflation exceeds expected inflation.
  - unemployment and inflation are not related at all.

[Add Question Here](#)

Question 125 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the output Phillips curve with adaptive expectations, the change in inflation depends on:

- Answer**
- the unemployment gap.
  - the output gap.
  - the interest rate spread.
  - the investment gap.

[Add Question Here](#)

Question 126 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the unemployment Phillips curve with adaptive expectations:

- Answer**
- inflation falls when unemployment exceeds the natural rate.
  - inflation falls when unemployment is below the natural rate.
  - inflation equals expected inflation when unemployment is below the natural rate.
  - inflation equals expected inflation when unemployment exceeds the natural rate.

[Add Question Here](#)

Question 127 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

A decrease in the price of energy \_\_\_\_\_ firms' production costs and it is considered a(n) \_\_\_\_ supply shock.

- Answer**
- increases; adverse
  - increases; beneficial
  - decreases; adverse
  - ✓ decreases; beneficial

◀ [Add Question Here](#)

Question 128 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

An increase in the price of raw materials is considered a(n) \_\_\_\_\_ supply shock and pushes inflation \_\_\_\_\_.

- Answer**
- beneficial; up
  - ✓ adverse; up
  - beneficial; down
  - adverse; down

◀ [Add Question Here](#)

Question 129 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the output Phillips curve with adaptive expectations and supply shocks, inflation can fall because of:

- Answer**
- a positive output gap.
  - ✓ a decrease in the price of raw materials.
  - an increase in wages.
  - an increase in the price of energy.

◀ [Add Question Here](#)

Question 130 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

When the federal government reduces infrastructure expenditures, aggregate expenditure \_\_\_\_\_, and holding the real interest rate constant, inflation will \_\_\_\_\_.

- Answer**
- shifts right; increase by shifting the Phillips curve upward
  - shifts left; remain constant
  - ✓ shifts left; decrease by moving downward along the Phillips curve
  - shifts right; increase by moving upward along the Phillips curve

◀ [Add Question Here](#)

Question 131 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

One reason a disinflation policy can be costly is that:

- Answer**
- the economy adjusts quickly to potential output.
  - ✓ it takes time for inflation expectations to adjust to the policy.
  - the unemployment rate stays below the natural rate of unemployment.
  - expectations are rational.

◀ [Add Question Here](#)

Question 132 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

When the Fed reduces the federal funds rate, output \_\_\_\_\_, which \_\_\_\_\_ and \_\_\_\_\_.

- Answer** ✓
- rises along the AE curve; reduces unemployment; accelerates inflation
  - falls along the AE curve; increases unemployment; accelerates inflation
  - shifts the AE curve right; reduces unemployment; accelerates inflation
  - has no effect on the AE curve; reduces unemployment; accelerates inflation

◀ [Add Question Here](#)

Question 133 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

If there is an adverse supply shock and the Fed chooses to accommodate the shock, the Fed would:

- Answer**
- reduce the real interest rate.
  - increase the real interest rate.
  - ✓ do nothing to the federal funds rate.
  - increase taxes.

◀ [Add Question Here](#)

Question 134 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

In the early 1980s, the U.S. economy was dominated by \_\_\_\_\_, which was designed to \_\_\_\_\_.

- Answer**
- high nominal interest rates; fight high unemployment
  - ✓ high nominal interest rates; fight inflation
  - rising output; lower unemployment
  - rising income taxes; raise unemployment

◀ [Add Question Here](#)

Question 135 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

The 1990 recession was caused by:

- Answer** interest rate increases in the late 1980s.  
the S&L credit crunch.  
a fall in consumer confidence.  
✓ All of the answers are correct.

[◀ Add Question Here](#)

Question 136 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

The unemployment Phillips curve suggests that when unemployment falls \_\_\_\_\_; however, during the 1990s unemployment fell \_\_\_\_\_.

- Answer**
- inflation falls; and so did inflation
  - ✓ inflation rises; and so did inflation
  - output falls; and so did output
  - interest rates rise; and output rose

[◀ Add Question Here](#)

Question 137 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

One of the reasons the unemployment rate fell during the 1990s is:

- Answer**
- an upward shift of the Phillips curve.
  - increasing inflation expectations.
  - decreases in government expenditures.
  - ✓ improvements in productivity and technological innovation.

[◀ Add Question Here](#)

Question 138 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

The Volcker disinflation policies of the early 1980s:

- Answer**
- shifted the aggregate expenditure curve to the right.
  - were designed primarily to lower the unemployment rate, with the hope of also lowering the inflation rate.
  - ✓ resulted in an unemployment rate over 10 percent, and the nominal fed funds rate over 17 percent.
  - were ineffective since we still have inflation today.

[◀ Add Question Here](#)

Question 139 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

According to the aggregate expenditure/Phillips curve model, if interest rates rise, then output \_\_\_\_ and if output rises, inflation \_\_\_\_\_.

- Answer**
- falls; falls
  - ✓ falls; rises
  - rises; rises
  - rises; falls

[◀ Add Question Here](#)

Question 140 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

The Fed is considering how to stimulate the economy but would like to do so without driving inflation up. What is the best strategy to pursue to achieve this goal?

- Answer**
- reducing interest rates
  - keeping interest rates constant
  - increasing interest rates
  - ✓ It cannot simultaneously stimulate the economy without driving up inflation.

[◀ Add Question Here](#)

Question 141 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

If the Fed keeps real interest rates constant in the face of a surge in consumer confidence, output \_\_\_\_ and inflation \_\_\_\_; if the Fed keeps the interest rate constant in the face of a spike in productivity, output \_\_\_\_ and inflation \_\_\_\_\_.

- Answer**
- ✓ increases; rises; increases; falls
  - increases; rises; rises; rises
  - decreases; falls; falls; stays the same
  - decreases; falls; rises; falls

[◀ Add Question Here](#)

Question 142 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Suppose that output is at potential but the Fed is concerned that inflation is too low. Assuming that consumers have adaptive expectations, if the Fed wants to move inflation to a higher level it should \_\_\_\_ interest rates, which will cause output to \_\_\_\_\_ until interest rates \_\_\_\_.

- Answer**
- reduce, fall; increase
  - ✓ reduce, rise; increase
  - increase, fall; fall
  - increase, rise; fall

[◀ Add Question Here](#)

Question 143 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question**

Consider the aggregate expenditure/Phillips curve model and assume that output is at potential and inflation equals expected inflation. Assuming the central bank keeps the real interest rate constant, a positive expenditure shock:

- Answer**  shifts the aggregate expenditure curve to the right.  
 decreases output below potential.  
 decreases inflation below current expected inflation.  
 shifts the aggregate expenditure curve to the left.

[◀ Add Question Here](#)

Question 144 **Multiple Choice**

**0 points**

[Modify](#) [Remove](#)

**Question**

Consider the aggregate expenditure/Phillips curve model and assume that output is at potential and inflation equals expected inflation. Suppose an adverse supply shock hits the economy, which of the following statements would be true?

- Answer**  The central bank now faces a dilemma—higher inflation or lower output.  
 This shock will ultimately lower output, independently of the central bank's policy.  
 This shock will ultimately increase inflation, independently of the central bank's policy.  
 The central bank now faces a dilemma—a lower real interest rate or lower inflation.

[◀ Add Question Here](#)

Question 145 **Multiple Choice**

**0 points**

[Modify](#) [Remove](#)

**Question**

The principle that monetary policy cannot permanently impact real variables is called:

- Answer**  long-run money neutrality.  
 the-ineffectiveness-of-money principle.  
 the long-run Phillips curve.  
 policy ineffectiveness.

[◀ Add Question Here](#)

Question 146 **Multiple Choice**

**0 points**

[Modify](#) [Remove](#)

**Question**

Long-run monetary neutrality implies that changes in the money supply:

- Answer**  have no impact on potential real GDP.  
 will only affect prices in the long run.  
 have no impact on the natural rate of unemployment.  
 All of the answers are correct.

[◀ Add Question Here](#)

Question 147 **Multiple Choice**

**0 points**

[Modify](#) [Remove](#)

**Question**

Monetary policy is usually neutral in the long run. But, in recent years, some economists have considered that monetary policy can have long-run impacts on \_\_\_\_ because it \_\_\_\_.

- Answer**  unemployment; increases the natural rate of unemployment  
 output; increases potential output  
 inflation; increases the price level  
 exports; reduces the exchange rate

[◀ Add Question Here](#)

Question 148 **Multiple Choice**

**0 points**

[Modify](#) [Remove](#)

**Question**

Some economists believe that persistent high unemployment can drive up the natural rate of unemployment through a phenomenon known as \_\_\_\_, which was a problem in \_\_\_\_ in the 1980s.

- Answer**  contractionary monetary policy; Japan  
 the inflation–unemployment trade-off; the United States  
 contagion; Latin America  
 hysteresis; Europe

[◀ Add Question Here](#)

Question 149 **Multiple Choice**

**0 points**

[Modify](#) [Remove](#)

**Question**

According to the principle of long-run monetary neutrality, in the long run monetary policy affects which of the following variables?

- Answer**  real GDP  
 nominal interest rates  
 real interest rates  
 technology

[◀ Add Question Here](#)

Question 150 **Multiple Choice**

**0 points**

[Modify](#) [Remove](#)

**Question**

According to the principle of long-run monetary neutrality:

- Answer**  potential output is independent of monetary policy.  
 the neutral real interest rate is determined by the central bank.  
 most of the effects of monetary policy on the economy are permanent.  
 in the long run, monetary policy affects real GDP only.

[◀ Add Question Here](#)

OK