Macro Test Prep 3

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) According to ________, the business cycle is the result of aggregate demand growing at a fluctuating rate. 1) ________
A) the Keynesian, monetarist, and new classical cycle theories
B) the Keynesian cycle theory only
C) real business cycle theory
D) the Keynesian, monetarist, and real business cycle theories
E) only the Keynesian and monetarist cycle theories

2) Which of the following are business cycle theories that regard fluctuations in aggregate demand as the factor that creates business cycles? 2) ________
I. Keynesian cycle theory
II. real business cycle theory
III. monetarist cycle theory
A) I and II B) I only C) I, II and III D) II and III E) I and III

3) Which of the following is *not* a mainstream theory of the business cycle? 3) ________
A) new Keynesian cycle theory
B) Keynesian cycle theory
C) new classical cycle theory
D) monetarist cycle theory
E) real business cycle theory

4) In the Keynesian business cycle theory, business cycles begin with a change in 4) ________
A) business confidence.
B) inflation expectations.
C) monetary policy.
D) the money wage rate.
E) government expenditure.

5) ________ states that the main source of economic fluctuations is fluctuations in business confidence. 5) ________
A) New classical cycle theory
B) Real business cycle theory
C) Monetarist cycle theory
D) Keynesian cycle theory
E) None of the above

Use the figure below to answer the following questions.

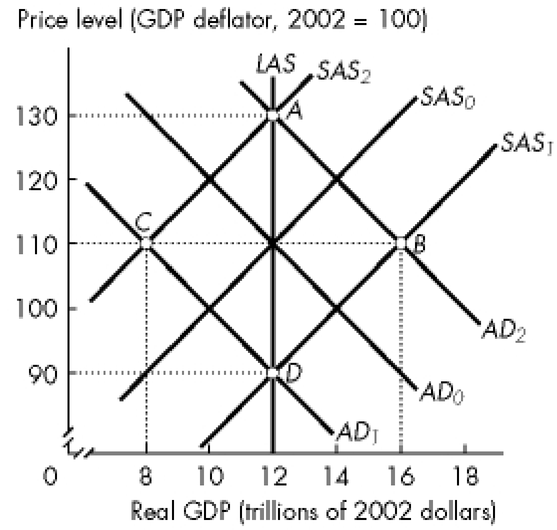

Figure 28.1.1

6) Refer to Figure 28.1.1. Suppose the economy moves from point *A* to point *C*. According to the monetarist theory of the business cycle, what could have caused this movement? 6) _______

A) a decrease in the growth rate of the quantity of money
B) an increase in uncertainty
C) animal spirits
D) an increase in the money wage rate
E) an increase in the growth rate of the quantity of money

7) Refer to Figure 28.1.1. Suppose the economy moves from point *D* to point *B*. According to the monetarist theory of the business cycle, what could have caused this movement? 7) _______

A) an increase in the growth rate of the quantity of money
B) a decrease in exports
C) a decrease in the money wage rate
D) an increase in the money wage rate
E) an increase in uncertainty about future sales and profits

8) Both new Keynesian and new classical cycle theories claim that 8) _______

A) shifts in the *SAS* curve are the main impulse for a business cycle.
B) expected changes in the quantity of money can trigger a business cycle.
C) animal spirits can trigger a business cycle.
D) unexpected changes in aggregate demand trigger a business cycle.
E) a change in the price of oil is the major cause of a business cycle.

9) The key difference between new classical cycle theory and new Keynesian cycle theory is that the new classical cycle theory believes that ________ while the new Keynesian cycle theory believes that ________. 9) ________

A) expected changes in aggregate demand change real GDP; expected changes in aggregate demand do not change real GDP
B) only unexpected changes in aggregate demand change real GDP; only expected changes in aggregate demand change real GDP
C) expected and unexpected changes in aggregate demand change real GDP; only changes in labour productivity change aggregate demand
D) the short-run aggregate supply curve is horizontal; the short-run aggregate supply curve is vertical.
E) only unexpected changes in aggregate demand change real GDP; both expected and unexpected changes in aggregate demand change real GDP

10) The ________ cycle theory states that only unexpected fluctuations in aggregate demand bring fluctuations in real GDP around potential GDP. 10) ________

A) monetarist
B) new Keynesian
C) Keynesian
D) real business
E) new classical

11) In new classical cycle theory, ________ bring fluctuations in real GDP around potential GDP. 11) ________

A) fluctuations in investment coupled with rigid wages
B) expected changes in labour productivity
C) expected changes in aggregate demand
D) unexpected changes in aggregate demand
E) fluctuations in money growth with rigid wages

12) The new classical theory argues that the primary factor leading to business cycles is 12) ________

A) expected fluctuations in short-run aggregate supply.
B) expected fluctuations in aggregate demand.
C) unexpected fluctuations in long-run aggregate supply.
D) unexpected fluctuations in short-run aggregate supply.
E) unexpected fluctuations in aggregate demand.

13) New Keynesian economists believe that ________ is influenced by ________. 13) ________

A) yesterday's money wage rate; today's rational expectations of the money wage
B) today's money wage rate; animal spirits
C) today's money wage rate; today's rational expectations of the price level
D) yesterday's rational expectations of the price level; today's money wage rate
E) today's money wage rate; yesterday's rational expectations of the price level

14) Which business cycle theory emphasizes that, because of previously negotiated wage agreements, both expected and unexpected fluctuations in aggregate demand can change real GDP? 14) ________

A) the new Keynesian cycle theory
B) the new classical cycle theory
C) the Keynesian cycle theory
D) the real business cycle theory
E) the monetarist cycle theory

15) The factor leading to business cycles in the ________ cycle theory is unexpected fluctuations in aggregate demand while in the ________ cycle theory both unexpected and expected fluctuations in aggregate demand are factors that lead to business cycles. 15) ______

A) real business; monetarist
B) new classical; monetarist
C) monetarist; new Keynesian
D) new Keynesian; Keynesian
E) new classical; new Keynesian

16) According to ________ theory, a decrease in productivity growth shifts the ________. 16) ______

A) real business cycle; *AD* curve rightward
B) Keynesian cycle; *SAS* curve leftward
C) real business cycle; *AD* curve leftward
D) real business cycle; demand for loanable funds curve leftward
E) Keynesian cycle; *SAS* curve rightward

17) The key ripple effect in real business cycle theory is the ________ decision and it depends on the ________. 17) ______

A) when-to-work; real interest rate
B) where-to-work; real wage rate
C) when-to-invest; real interest rate
D) what-to-save; nominal interest rate
E) when-to-work; rigidity of the money wage rate

18) According to the real business cycle theory, what effects follow from a change in productivity? 18) ______

I. Investment demand changes.
II. The demand for labour changes.
III. Government expenditure changes.

A) I B) I and II C) I and III D) II and III E) I, II and III

19) "Intertemporal substitution" in real business cycle theory refers to the change in the ________ as a result of the change in the real interest rate. 19) ______

A) consumer demand for goods
B) supply of labour
C) demand for labour
D) personal tax rate
E) demand for loanable funds

20) In real business cycle theory, a decrease in productivity leads to all of the following events *except* 20) ______

A) a rise in the real wage rate.
B) a decrease in the demand for loanable funds.
C) a decrease in the supply of labour.
D) a decrease in the demand for labour.
E) a fall in the real interest rate.

21) In real business cycle theory, the supply of labour 21) ______

A) decreases if the real interest rate rises.
B) decreases if the real wage rate decreases.
C) is independent of the real interest rate.
D) increases if the nominal interest rate rises.
E) decreases if the real interest rate falls.

22) Suppose that a severe shock that decreases the demand for loanable funds hits Canada. Which of the following can we expect to occur according to real business cycle theory? 22) _______

A) The demand for loanable funds will decrease.
B) The real interest rate will fall.
C) The real wage rate will fall.
D) People will work fewer hours.
E) All of the above are true.

23) According to real business cycle theory, an increase in productivity ________ the demand for loanable funds, ________ the demand for labour, and ________ the supply of labour. The real interest rate will ________. 23) _______

A) increases; increases; increases; rise
B) increases; increases; does not change; rise
C) decreases; decreases; decreases; fall
D) increases; increases; does not change; fall
E) increases; increases; increases; fall

24) According to the real business cycle theory, during a recession the demand for labour ________ and the supply of labour ________. 24) _______

A) decreases; increases
B) increases; decreases
C) decreases; does not change
D) decreases; decreases
E) does not change; decreases

25) According to real business cycle theory, workers' decisions to work now versus later depend on 25) _______

A) the real interest rate.
B) the real wage rate today but not the real wage rate in the future.
C) labour productivity.
D) the money wage rate.
E) none of the above

26) Suppose that in response to a decrease in real interest rates, a person decides to reduce his supply of labour today and increase it in the future. This behaviour is most consistent with the 26) _______

A) new classical cycle theory.
B) Keynesian cycle theory.
C) real business cycle theory.
D) monetarist cycle theory.
E) new Keynesian cycle theory.

27) According to real business cycle theory, if the Bank of Canada increases the quantity of money when real GDP decreases, real GDP 27) _______

A) will increase but only temporarily.
B) will increase permanently.
C) will be unaffected, but the price level will rise.
D) will decrease due to the inefficiencies introduced into production as a result.
E) and the price level will both be unaffected.

28) Suppose that the business cycle in Canada is best described by RBC theory. An advance in technology increases productivity. The when-to-work decision depends on the real interest rate. The ________ the real interest rate, other things remaining the same, the ________ is the supply of labour today. RBC theorists believe the when-to-work effect is ________. 28) ______

A) higher; larger; large
B) higher; larger; small
C) higher; smaller; small
D) lower; larger; large
E) lower; smaller; small

29) According to mainstream business cycle theory, ________ grows at a steady rate and ________ grows at a fluctuating rate. 29) ______

A) short-run aggregate supply; long-run aggregate supply
B) short-run aggregate supply; aggregate demand
C) potential GDP; aggregate demand
D) potential GDP; short-run aggregate supply
E) aggregate demand; long-run aggregate supply

30) In real business cycle theory, ________ are the main source of economic fluctuations. 30) ______

A) changes in the quantity of money
B) random fluctuations in productivity
C) unexpected changes in government expenditure
D) unexpected changes in the full-employment quantity of labour
E) random fluctuations in investment

31) In real business cycle theory, the supply of labour 31) ______

A) increases if the demand for loanable funds decreases.
B) increases if the demand for labour decreases.
C) is not influenced by changes in the real interest rate.
D) increases if the real interest rate falls.
E) increases if the real interest rate rises.

32) According to real business cycle theory, a fall in the real interest rate ________ the supply of labour and ________ employment. 32) ______

A) increases; increases
B) decreases; decreases
C) decreases; increases
D) increases; decreases
E) does not change; does not change

33) Real business cycle theorists believe that the intertemporal substitution effect ________. Many other economists believe that the intertemporal substitution effect ________. 33) ______

A) is negligible; is large
B) is large; is negligible
C) occurs in the money market; occurs in the labour market
D) occurs in the labour market; occurs in the money market
E) none of the above

Use the figure below to answer the following questions.

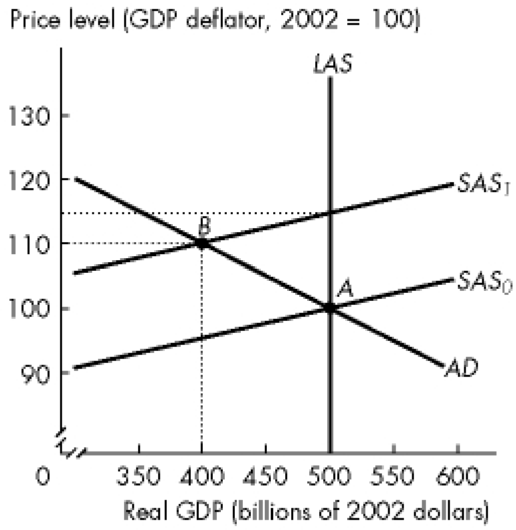

Figure 28.2.2

34) Refer to Figure 28.2.2. The vertical distance between *SAS_0* and *SAS_1* represents the   34) ______

A) actual decrease in real GDP.
B) expected decrease in the real wage rate.
C) actual inflation rate.
D) expected inflation rate.
E) expected increase in real GDP.

35) Which of the following would cause the aggregate demand curve to keep shifting rightward year after year?   35) ______

A) a persistent increase in the quantity of money
B) excess wage demands
C) a one-time increase in government expenditures on goods and services
D) inflation
E) a one-time tax cut

36) At full employment, an increase in the quantity of money (*ceteris paribus*) can start   36) ______

A) demand-pull and a cost-push inflation, as can an increase in government expenditure.
B) demand-pull inflation, as can an increase in government expenditure.
C) demand-pull inflation, but an increase in government expenditure cannot.
D) cost-push inflation, but an increase in government expenditure cannot.
E) cost-push inflation, as can an increase in government expenditure.

37) Demand-pull inflation can start   37) ______

A) unemployment that is above the natural rate.
B) aggregate supply decreases.
C) aggregate demand increases.
D) input costs rise.
E) people incorrectly forecasting inflation.

38) Inflation that starts because aggregate demand increases is called 38) _______

A) anticipated inflation.
B) political inflation.
C) cost-push inflation.
D) demand-pull inflation.
E) unanticipated inflation.

39) Which one of the following can start a demand-pull inflation? 39) _______

A) a decrease in government expenditure on goods and services
B) a sharp increase in the price of oil
C) a decrease in investment as a result of a decrease in expected future profits
D) higher wages negotiated by unions
E) a cut in the interest rate

40) Stagflation occurs when the economy experiences both a 40) _______

A) falling price level and decreasing real GDP.
B) falling price level and increasing real GDP.
C) low exports and low imports.
D) rising price level and decreasing real GDP.
E) rising price level and increasing real GDP.

41) Suppose the economy is in long-run equilibrium when the price of oil rises. Which one of the following is *not* a short-run effect of this situation? 41) _______

A) an increase in real GDP above long-run real GDP
B) an increase in unemployment
C) an increase in the price level
D) a decrease in consumer spending
E) a decrease in real GDP

42) An increase in the price level due to an increase in the price of oil 42) _______

A) increases output above potential GDP.
B) creates stagflation in the short-run and *may* trigger off a cost-push inflation.
C) leads to an increase in the money wage rate.
D) creates stagflation in the short-run and *will* trigger a cost-push inflation.
E) leads to a decrease in the money wage rate.

43) Cost-push inflation can result from an initial 43) _______

A) increase in transfer payments.
B) increase in government expenditure.
C) increase in the money wage rate.
D) decrease in personal income taxes.
E) increase in personal income taxes.

44) Stagflation can result from 44) _______

A) a leftward shift of the demand curve.
B) a rightward shift of the short-run aggregate supply curve.
C) a rightward shift of the long-run aggregate supply curve.
D) a rightward shift of the demand curve.
E) a leftward shift of the short-run aggregate supply curve.

45) A cost-price inflation spiral results if the policy response to stagflation is to keep 45) ______

A) increasing aggregate demand.
B) decreasing short-run aggregate supply.
C) decreasing aggregate demand.
D) increasing short-run aggregate supply.
E) doing nothing.

Use the figure below to answer the following question.

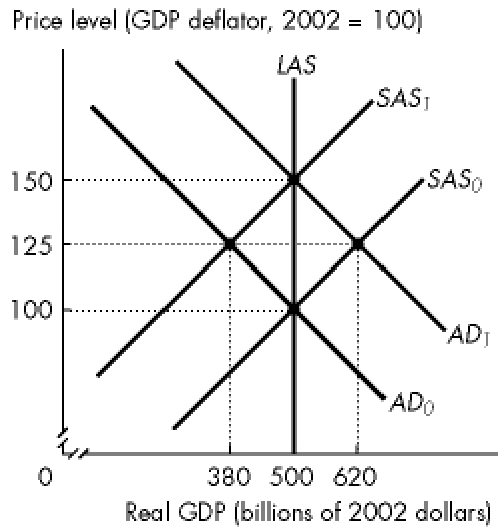

Figure 28.2.1

46) Refer to Figure 28.2.1. The figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. Which of the following shifts the short-run aggregate supply curve from SAS_0 to SAS_1? 46) ______

A) an increase in the demand for money
B) an increase in the price level
C) a decrease in the money wage rate
D) an increase in the marginal product of labour
E) an increase in the price of oil

Use the figure below to answer the following questions.

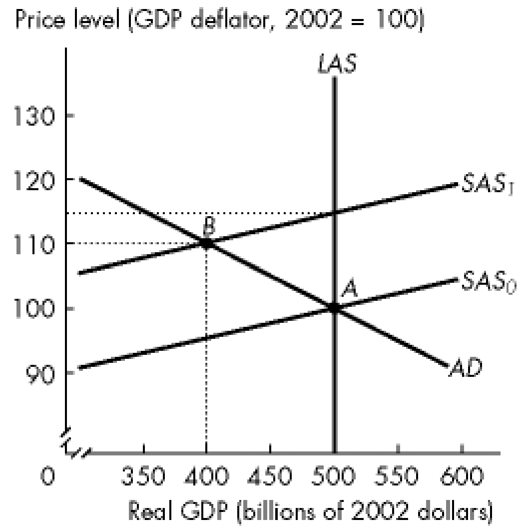

Figure 28.2.2

47) Refer to Figure 28.2.2. The economy is in long-run equilibrium. If the short-run aggregate supply curve shifts leftward from SAS_0 to SAS_1, *ceteris paribus*, then people expect 47) ______

A) a real GDP decrease of $50 billion.
B) the real wage rate to fall by 10 percent.
C) a 10 percent inflation.
D) a 15 percent inflation.
E) the price level to rise to 110.

48) Refer to Figure 28.2.2. The economy is in long-run equilibrium. If the short-run aggregate supply curve shifts leftward from SAS_0 to SAS_1, *ceteris paribus*, then the actual inflation rate 48) ______

A) is the same as the expected inflation rate.
B) is less than the expected inflation rate.
C) depends on what happens to wage settlements.
D) is greater than the expected inflation rate.
E) cannot be determined without more information.

49) Refer to Figure 28.2.2. The vertical distance between SAS_0 and SAS_1 represents the 49) ______

A) expected increase in real GDP.
B) expected inflation rate.
C) expected decrease in the real wage rate.
D) actual inflation rate.
E) actual decrease in real GDP.

50) Refer to Figure 28.2.2. If the short-run aggregate supply curve does not shift, and remains at SAS_0, then the expected inflation rate is 50) ______

A) 5 percent.
B) 15 percent.
C) 10 percent.
D) zero.
E) -10 percent.

51) Refer to Figure 28.2.2. If *SAS* shifts from SAS_0 to SAS_1, then 51) ______

A) deflation occurs.
B) unemployment will fall.
C) potential GDP will decrease
D) inflation is expected to be 10 percent.
E) inflation will be 10 percent.

52) Refer to Figure 28.2.2. Consider the market for labour as the short-run aggregate supply curve shifts leftward from SAS_0 to SAS_1. This shift could have been the result of an agreement between workers and employers for a 52) ______

A) 15 percent increase in the money wage rate.
B) 10 percent increase in the real wage rate.
C) 10 percent decrease in the money wage rate.
D) 15 percent decrease in the money wage rate.
E) 10 percent increase in the money wage rate.

53) Refer to Figure 28.2.2. Complete the following sentence. The figure illustrates 53) ______

A) demand-pull inflation.
B) cost-push inflation.
C) a cost-push inflation spiral.
D) a one-time rise in the price level.
E) a deflation.

54) A forecast based on all the relevant information is 54) ______

A) a perfect forecast.
B) a future expectation.
C) an adaptive expectation.
D) a rational expectation.
E) always a correct expectation.

Use the figure below to answer the following questions.

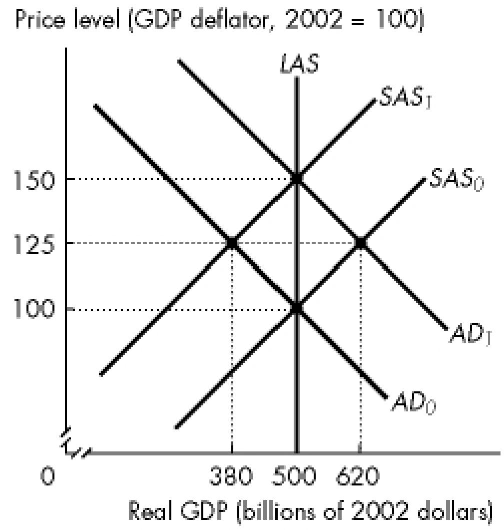

Figure 28.2.3

55) Refer to Figure 28.2.3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. If the aggregate demand curve is correctly expected to shift to AD_1, new equilibrium real GDP is _______ and the new equilibrium price level is _______. 55) ______

A) $500 billion; 150
B) $380 billion; 125
C) $500 billion; 125
D) $620 billion; 125
E) $500 billion; 100

56) Refer to Figure 28.2.3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. If the aggregate demand curve is expected to shift to AD_1 but remains at AD_0, the new equilibrium real GDP is _______ and the new equilibrium price level is _______. 56) ______

A) $380 billion; 100
B) $500 billion; 100
C) $500 billion; 150
D) $620 billion; 125
E) $380 billion; 125

57) Refer to Figure 28.2.3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. If the aggregate demand curve is expected to remain at AD_0 but shifts to AD_1, the new equilibrium real GDP is _______ and the new equilibrium price level is _______. 57) ______

A) $500 billion; 150
B) $500 billion; 100
C) $500 billion; 125
D) $380 billion; 125
E) $620 billion; 125

Use the figure below to answer the following question.

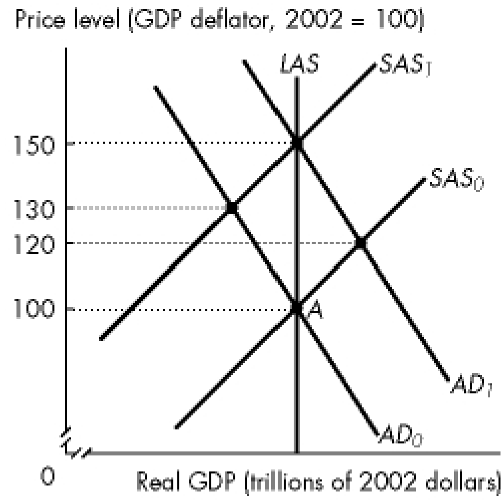

Figure 28.2.4

58) Refer to Figure 28.2.4. The figure illustrates an economy initially in equilibrium at point *A*. If the quantity of money is expected to increase by 50 percent, what is the rational expectation of the price level? 58) ______

A) 120
B) 100
C) 130
D) 150
E) We cannot tell without more information on wage negotiations.

59) A correctly anticipated increase in the quantity of money, in an economy with an unchanging long-run aggregate supply, will result in 59) ______

A) a rise in the price level and a decrease in real GDP.
B) a proportional rise in the price level and no change in real GDP.
C) a rise in the price level and an increase in real GDP.
D) no change in the price level and an increase in real GDP.
E) no change in the price level and no change in real GDP.

60) Suppose the quantity of money is expected to remain unchanged but it actually increases. The price level 60) ______

A) rises and real GDP stays the same.
B) falls and real GDP decreases.
C) rises and real GDP decreases.
D) rises and real GDP increases.
E) falls and real GDP increases.

61) An economy is in long-run equilibrium when aggregate supply unexpectedly decreases. Then real GDP (*ceteris paribus)* will be 61) _______

A) equal to potential GDP.
B) above potential GDP.
C) below potential GDP.
D) either above, below, or equal to potential GDP depending on the position of the aggregate demand curve.
E) either above or equal to potential GDP depending on the position of the aggregate demand curve.

62) A correctly anticipated increase in the quantity of money 62) _______

A) does not change the price level but decreases real GDP.
B) increases the price level and increases real GDP.
C) does not change the price level but increases real GDP.
D) increases the price level with no change in real GDP.
E) does not change the price level or real GDP.

63) A forecast that is based on all the relevant information available is 63) _______

A) usually no better than a random guess given that the future bears many uncertainties.
B) useful only in the prediction of cost-push inflation.
C) called a rational expectation.
D) useful only in the prediction of demand-pull inflation.
E) usually accurate.

Use the figure below to answer the following question.

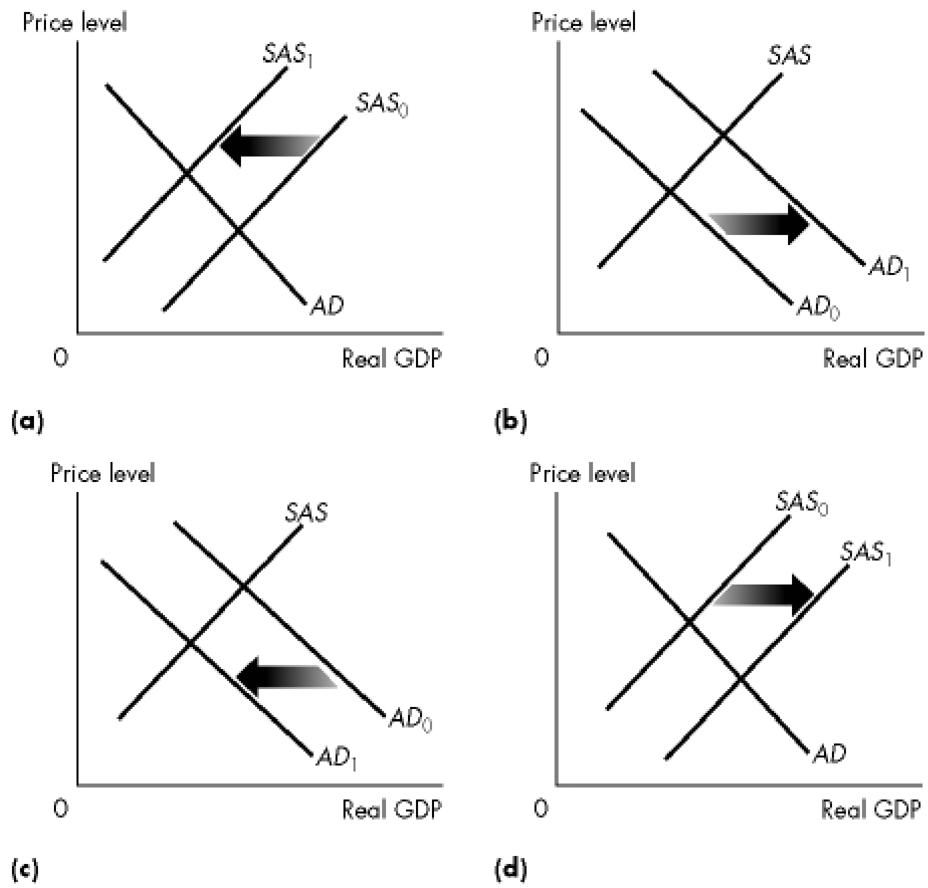

Figure 28.2.5

64) Refer to Figure 28.2.5. Which one of the graphs in the figure represents an economy experiencing stagflation? 64) ______

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

65) The economy starts out at a full-employment equilibrium. Some events then occur that generate a demand-pull inflation. All of the following events *except* an increase in ________ might start a demand-pull inflation. 65) ______

A) the money wage rate
B) government expenditure
C) exports
D) transfer payments
E) the quantity of money

Use the figure below to answer the following questions.

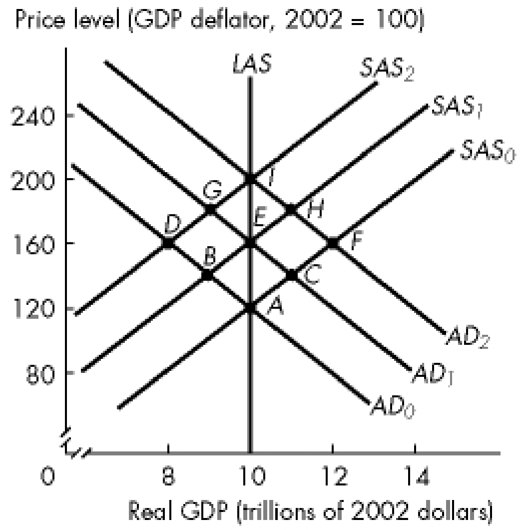

Figure 28.2.6

66) Refer to Figure 28.2.6. Starting at point *A*, the initial effect of a demand-pull inflation is a move to point _______. As a demand-pull inflation spiral proceeds, it follows the path _______. 66) ______

A) *E; I*
B) *C; F, H, I*
C) *C; E, H, I*
D) *C; B, H, G, I*
E) *B; E, G, I*

67) Refer to Figure 28.2.6. Starting at point *A*, the initial effect of a cost-push inflation is a move to point _______. As a cost-push inflation spiral proceeds, it follows the path _______. 67) ______

A) *C; E, H, I*
B) *E; I*
C) *C; B, H, G, I*
D) *B; D, G, I*
E) *B; E, G, I*

68) The economy starts out at a full-employment equilibrium. Some events then occur that generate a cost-push inflation. Which of the following events might start a cost-push inflation? 68) ______

A) an increase in taxes
B) a decrease in exports
C) an increase in the money wage rate or an increase in the money prices of raw materials
D) a decrease in government expenditure
E) an increase in the quantity of money

69) Suppose that the money prices of raw materials rise. With no action by the Bank of Canada, 69) ______

I. the aggregate demand curve shifts rightward and the price level rises.
II. the aggregate demand curve shifts rightward and the aggregate supply curve shifts leftward.
III. the initial outcome is lower employment and a rise in the price level.

A) I only
B) II only
C) III only
D) I and II only
E) I, II, and III

70) Stagflation is the result of 70) ______

A) an increase in short-run aggregate supply.
B) a decrease in aggregate demand.
C) a decrease in short-run aggregate supply.
D) a decrease in short-run aggregate supply combined with a simultaneous increase in aggregate supply.
E) an increase in aggregate demand.

71) When the price level is rising and, simultaneously, real GDP is decreasing, 71) ______

A) the natural unemployment rate is rising.
B) potential GDP is decreasing.
C) stagflation is occurring.
D) the economy is experiencing an expansionary gap.
E) the natural unemployment rate is falling.

72) Suppose aggregate demand increases by more than expected. Which of the following does *not* occur? 72) ______

A) Unemployment falls.
B) Stagflation occurs.
C) The price level rises.
D) The natural unemployment rate does not change.
E) Real GDP is greater than potential GDP.

Use the information below to answer the following question.

Fact 28.2.1 High Food and Energy Prices Here to Stay

On top of rising energy prices, a severe drought, bad harvests, and a poor monsoon season in Asia have sent grain prices soaring. Globally, this is the third major food price shock in five years.
Source: *The Telegraph*, August 29, 2012

73) Consider Fact 28.2.1. The news clip is describing ________ inflation. 73) ______

A) demand-push
B) expected
C) cost-push
D) demand-pull
E) cost-pull

74) Choose the statement that is *incorrect*. 74) _______

A) During a period of deflation, the inflation rate is negative.
B) A one-time fall in the price level is not deflation.
C) The price level falls if aggregate supply increases at a persistently slower rate than aggregate demand.
D) Deflation can end if the central bank ensures that the quantity of money grows at the target inflation rate plus the growth rate of potential GDP minus the growth rate of the velocity of circulation.
E) An economy experiences deflation when it has a persistently falling price level.

75) Suppose OPEC unexpectedly collapses, which leads to a fall in the price of oil. As a result, the price level 75) _______

A) rises, and real GDP decreases.
B) falls, and real GDP decreases.
C) rises, and real GDP increases.
D) rises, and real GDP remains the same.
E) falls, and real GDP increases.

76) Deflation is 76) _______

A) a persistent and ongoing falling price level.
B) unknown in the twenty-first century.
C) always accompanied by an increase in the natural unemployment rate.
D) a one-time fall in the price level.
E) always accompanied by a decrease in the natural unemployment rate.

77) An unanticipated deflation does all of the following *except* 77) _______

A) redistributes income.
B) decreases the real wages of workers with long-term wage contracts.
C) redistributes wealth.
D) lowers real GDP.
E) lowers employment.

78) Deflation ends with 78) _______

A) an increase in the growth rate of the money stock.
B) a rise in the interest rate.
C) a one-time increase in the quantity of money.
D) a one-time decrease in the quantity of money.
E) a decrease in the growth rate of the money stock.

79) Choose the statement that is *incorrect*. 79) _______

A) A one-time fall in the price level occurs either because aggregate demand decreases or because short-run aggregate supply increases.
B) In a deflation, the price level persistently falls.
C) A one-time fall in the price level is not a deflation.
D) A one-time fall in the price level occurs when there is an increase in capital that increases potential GDP.
E) In a deflation, the inflation rate is positive but decreasing in consequent years.

80) Choose the statement that is *incorrect*. 80) _______

A) During a period of deflation, the inflation rate is negative.
B) A one-time fall in the price level is not deflation.
C) An economy experiences deflation when it has a persistently falling price level.
D) The price level falls if aggregate supply increases at a persistently slower rate than aggregate demand.
E) Deflation can end if the central bank ensures that the quantity of money grows at the target inflation rate plus the growth rate of potential GDP minus the growth rate of the velocity of circulation.

81) Deflation occurs when 81) _______

A) the quantity of money remains constant.
B) aggregate demand increases at a persistently slower rate than aggregate supply.
C) the quantity theory of money is disregarded.
D) aggregate demand increases at a persistently faster rate than aggregate supply.
E) the growth rate of potential GDP slows.

Use the table below to answer the following questions.

Table 28.4.1

Inflation (percent per year)	Unemployment (percent)
12	4
11	5
10	6
9	7
8	8
7	9

82) Refer to Table 28.4.1. The table gives points on the short-run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, what is the natural unemployment rate? 82) _______

A) 4 percent B) 5 percent C) 6 percent D) 7 percent E) 9 percent

83) Along the short-run Phillips curve, everything remaining the same, the higher the 83) _______

A) price level, the lower the inflation rate.
B) money wage rate, the lower is the unemployment rate.
C) growth rate of the quantity of money, the higher the inflation rate.
D) unemployment rate, the lower the inflation rate.
E) quantity of money, the lower the unemployment rate.

84) The short-run Phillips curve shows the relationship between ________, holding constant the expected inflation rate and the natural unemployment rate. 84) _______

A) the inflation rate and the economic growth rate
B) the inflation rate and the unemployment rate
C) growth and potential GDP.
D) unemployment and the economic growth rate
E) the inflation rate and the growth of the money wage rate.

85) If the unemployment rate rises and the inflation rate falls, while the natural unemployment rate and the expected inflation rate remain constant, then we are studying a movement along the 85) _______

A) Phelps-Friedman curve.
B) aggregate demand curve.
C) short-run Phillips curve.
D) long-run aggregate supply curve.
E) Friedman curve.

86) For a given expected inflation rate, the higher the unemployment rate, the lower is the actual inflation rate. This relationship is the ________ Phillips curve. When the expected inflation rate changes, this is shown as a movement along the ________ Phillips curve. 86) _______

A) long-run; long-run
B) short-run; short-run
C) long-run; natural
D) short-run; long-run
E) natural; short-run

87) If the natural unemployment rate rises 87) _______

A) the short-run Phillips curve shifts rightward and the long-run Phillips curve does not change.
B) the long-run Phillips curve shifts rightward and the short-run Phillips curve does not change.
C) the short-run and long-run Phillips curves both shift leftward.
D) the short-run and long-run Phillips curves both shift rightward.
E) the long-run Phillips curve shifts leftward and the short-run Phillips curve does not change.

88) If the natural unemployment rate falls 88) _______

A) the long-run Phillips curve shifts leftward and the short-run Phillips curve does not change.
B) the long-run Phillips curve shifts rightward and the short-run Phillips curve does not change.
C) the short-run and long-run Phillips curves both shift rightward.
D) the short-run and long-run Phillips curves both shift leftward.
E) the short-run Phillips curve shifts rightward.

89) The short-run Phillips curve shows the relationship between 89) _______

A) unemployment and real GDP in the short run.
B) the price level and real GDP in the short run.
C) inflation and unemployment, when the expected inflation rate and the natural unemployment rate remain constant.
D) inflation and unemployment, when inflation expectations can change.
E) the price level and unemployment in the short run.

90) Along the short-run Phillips curve, if the actual unemployment rate falls below the natural unemployment rate, the 90) _______

A) expected inflation rate will fall to zero.
B) actual inflation rate will be equal to the expected inflation rate.
C) actual inflation rate may be greater than, equal to, or less than the expected inflation rate
D) actual inflation rate will be less than the expected inflation rate.
E) actual inflation rate will be greater than the expected inflation rate.

91) A movement down along the short-run Phillips curve results from an unanticipated 91) ______
A) decrease in short-run aggregate supply.
B) decrease in aggregate demand.
C) increase in the natural unemployment rate.
D) increase in aggregate demand.
E) increase in short-run aggregate supply.

92) An increase in the expected rate of inflation shifts the 92) ______
A) long-run Phillips curve rightward.
B) long-run Phillips curve upward.
C) short-run Phillips curve downward.
D) long-run Phillips curve leftward.
E) short-run Phillips curve upward.

Use the table below to answer the following questions.

Table 28.4.1

Inflation (percent per year)	Unemployment (percent)
12	4
11	5
10	6
9	7
8	8
7	9

93) Refer to Table 28.4.1. The table gives points on the short-run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, what is the natural unemployment rate? 93) ______
A) 4 percent B) 5 percent C) 6 percent D) 7 percent E) 9 percent

94) Refer to Table 28.4.1. The table gives points on the short-run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, and the inflation rate unexpectedly rises to 12 percent, what is the unemployment rate? 94) ______
A) 4 percent B) 5 percent C) 6 percent D) 7 percent E) 9 percent

95) Refer to Table 28.4.1. The table gives points on the short-run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, and the inflation rate unexpectedly falls to 8 percent, what is the unemployment rate? 95) ______
A) 4 percent B) 5 percent C) 6 percent D) 7 percent E) 8 percent

96) Refer to Table 28.4.1. The table gives points on the short-run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, and the inflation rate unexpectedly rises to 12 percent and stays there for some period of time, the expected inflation rate becomes ________ percent and the natural unemployment rate is ________ percent. 96) ______
A) 10; 4 B) 12; 5 C) 12; 4 D) 10; 6 E) 12; 6

Use the figure below to answer the following questions.

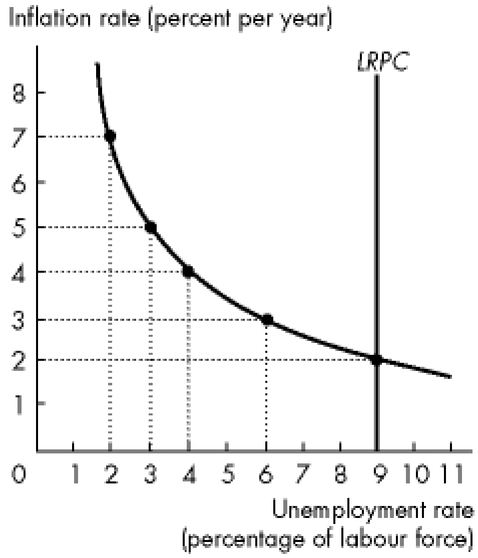

Figure 28.4.1

97) Refer to Figure 28.4.1. The figure illustrates an economy's Phillips curves. What is the natural unemployment rate? 97) _______

A) 4 percent
B) 6 percent
C) 9 percent
D) 7 percent
E) cannot be determined without more information

98) Refer to Figure 28.4.1. The figure illustrates an economy's Phillips curves. What is the expected inflation rate? 98) _______

A) 9 percent
B) 2 percent
C) 7 percent
D) 4 percent
E) cannot be determined without more information

99) Refer to Figure 28.4.1. The figure illustrates an economy's Phillips curves. If the current inflation rate is 4 percent, what is the current unemployment rate? 99) _______

A) 9 percent
B) 6 percent
C) 3 percent
D) 4 percent
E) cannot be determined without more information

100) Refer to Figure 28.4.1. The figure illustrates an economy's Phillips curves. If the current inflation rate is 3 percent, what is the current unemployment rate? 100) ______

A) 3 percent
B) 4 percent
C) 6 percent
D) 9 percent
E) cannot be determined without more information

101) Refer to Figure 28.4.1. The figure illustrates an economy's Phillips curves. If the current inflation rate is 4 percent, what is the natural unemployment rate? 101) ______

A) 3 percent
B) 6 percent
C) 4 percent
D) 9 percent
E) cannot be determined without more information

102) Refer to Figure 28.4.1. The figure illustrates an economy's Phillips curves. If the expected inflation rate changes to 3 percent, the 102) ______

A) short run Phillips curve will shift downward and the long run Phillips curve will not change.
B) short run Phillips curve will shift upward and the long run Phillips curve will not change.
C) short run Phillips curve will shift downward and the long run Phillips curve will shift rightward.
D) short run Phillips curve will shift upward and the long run Phillips curve will shift rightward.
E) short run Phillips curve will shift upward and the long run Phillips curve will shift leftward.

103) If the inflation rate is lower than the expected inflation rate, 103) ______

A) the natural unemployment rate will increase.
B) the expected inflation rate will increase.
C) the economy is not operating on the short-run Phillips curve.
D) unemployment is below the natural rate.
E) unemployment is above the natural rate.

104) If there is a fully anticipated increase in the inflation rate, 104) ______

A) the natural unemployment rate will increase.
B) unemployment will be above the natural rate.
C) the economy is operating on the *LRPC* curve.
D) unemployment will be below the natural rate.
E) the economy is not operating on the *LRPC* curve.

105) If the natural unemployment rate increases, the long-run Phillips curve ________, the short-run Phillips curve ________, and the expected inflation rate ________. 105) ______

A) shifts rightward; curve does not shift; falls
B) shifts rightward; shifts rightward; does not change
C) shifts rightward; shifts rightward; falls
D) does not shift; does not shift; does not change
E) does not shift; shifts rightward; rises

106) The Canadian short-run Phillips curve ________ when the expected inflation rate rises and ________ when the expected inflation rate falls. The Canadian short-run Phillips curve ________ when the natural unemployment rate increases and ________ when the natural unemployment rate decreases. 106) ______

A) shifts upward; does not shift; shifts rightward; does not shift
B) shifts upward; shifts downward; does not shift; does not shift
C) does not shift; does not shift; shifts rightward; shifts leftward
D) shifts downward; shifts upward; shifts rightward; shifts leftward
E) shifts upward; shifts downward; shifts rightward; shifts leftward

107) The Canadian long-run Phillips curve ________ when the expected inflation rate rises and ________ when the expected inflation rate falls. The Canadian long-run Phillips curve ________ when the natural unemployment rate increases and ________ when the natural unemployment rate decreases. 107) ______

A) does not shift; does not shift; does not shift; does not shift
B) shifts rightward; shifts leftward; shifts rightward; shifts leftward
C) does not shift; does not shift; shifts rightward; shifts leftward
D) shifts upward; shifts downward; shifts rightward; shifts leftward
E) shifts rightward; shifts leftward; does not shift; does not shift

Use the table below to answer the following questions.

Table 28.4.2

Inflation rate (percent per year)	Unemployment rate (percent)
8	3
6	4
4	5
2	6

108) The economy's natural unemployment rate is 4 percent. Table 28.4.2 gives some points on the economy's short-run Phillips curve. When the unemployment rate is 4 percent, 108) ______

A) actual inflation is greater than expected inflation.
B) aggregate demand increases.
C) actual inflation is less than expected inflation.
D) and the inflation rate is 6 percent a year, the short-run and long-run Phillips curves intersect.
E) and the expected inflation rate is 8 percent a year, the short-run Phillips curve shifts downward.

109) The economy's natural unemployment rate is 4 percent. Table 28.4.2 gives some points on the economy's short-run Phillips curve. If the expected inflation rate rises to 8 percent a year, 109) ______

A) the long-run Phillips curve shifts leftward.
B) the short-run Phillips curve shifts upward.
C) the short-run Phillips curve shifts downward.
D) Both A and B are correct.
E) Both A and C are correct.

Use the information below to answer the following questions.

Fact 28.4.1 Eurozone Unemployment Hits Record High As Inflation Rises Unexpectedly

Eurozone unemployment rose to 10.7 percent. At the same time, Eurozone inflation unexpectedly rose to 2.7 percent a year, up from the previous month's 2.6 percent a year.
Source: *Huffington Post*, March 1, 2012

110) Consider Fact 28.4.1. A very high unemployment rate can be accounted for by the Phillips curve model by all of the following *except* 110) ______
A) a movement up along the long-run Phillips curve if the natural unemployment rate increases.
B) a movement down along the short-run Phillips curve if there is no change in the natural unemployment rate.
C) a rightward shift of the short-run Phillips curve if the natural unemployment rate increases.
D) a rightward shift of the long-run Phillips curve if the natural unemployment rate increases.
E) All of the above give explanations for a high unemployment rate.

111) Consider Fact 28.4.1. Choose the statement that is *incorrect* about the Eurozone economy. 111) ______
A) The large increase in the natural unemployment rate shifts the long-run Phillips curve rightward.
B) The large increase in the natural unemployment rate shifts the short-run Phillips rightward.
C) The tradeoff between inflation and unemployment became worse as the short-run Phillips curve shifted rightward.
D) A rise in the expected inflation rate shifts the short-run Phillips curve rightward.
E) The small rise in inflation brings a movement up along the short-run Phillips curve.

Use the information below to answer the following questions.

Fact 28.4.2

The Reserve Bank of New Zealand signed an agreement with the New Zealand government in which the Bank agreed to maintain inflation inside a low target range. Failure to achieve the target would result in the governor of the Bank losing his job.

112) Consider Fact 28.4.2. Choose the correct statement. 112) ______
A) A movement occurred down along the short-run Phillips curve because although the inflation rate fell, expectations did not change.
B) The short-run Phillips curve shifted downward because people believed that the Bank of New Zealand was serious about meeting the new low inflation target.
C) The short-run Phillips curve was abolished and New Zealand now has only a long-run Phillips curve.
D) Neither actual inflation nor expected inflation changed, and there was no change in the short-run Phillips curve.
E) The short-run Phillips curve shifted leftward because when inflation expectations fall, the natural unemployment rate decreases.

113) Consider Fact 28.4.2. Choose the correct statement. 113) ______

A) The long-run Phillips curve shifts rightward.
B) The long-run Phillips curve shifts leftward.
C) The long-run Phillips curve was abolished and New Zealand now has only a short-run Phillips curve.
D) The slope of the long-run Phillips curve changes when the expected inflation rate falls.
E) The long-run Phillips curve does not change because a change in the expected inflation rate does not shift the long-run Phillips curve.

Answer Key
Testname: MACRO-TEST-PREP 3

1) A
2) E
3) E
4) A
5) D
6) A
7) A
8) D
9) E
10) E
11) D
12) E
13) E
14) A
15) E
16) D
17) A
18) B
19) B
20) A
21) E
22) E
23) A
24) D
25) A
26) C
27) C
28) A
29) C
30) B
31) E
32) B
33) B
34) D
35) A
36) B
37) C
38) D
39) E
40) D
41) A
42) B
43) C
44) E
45) A
46) E
47) D
48) B
49) B
50) D

51) E
52) A
53) D
54) D
55) A
56) E
57) E
58) D
59) B
60) D
61) C
62) D
63) C
64) A
65) A
66) C
67) E
68) C
69) C
70) C
71) C
72) B
73) C
74) C
75) E
76) A
77) B
78) A
79) E
80) D
81) B
82) C
83) D
84) B
85) C
86) D
87) D
88) D
89) C
90) E
91) B
92) E
93) C
94) A
95) E
96) E
97) C
98) B
99) D
100) C

101) D
102) B
103) E
104) C
105) B
106) E
107) C
108) D
109) B
110) A
111) D
112) B
113) E