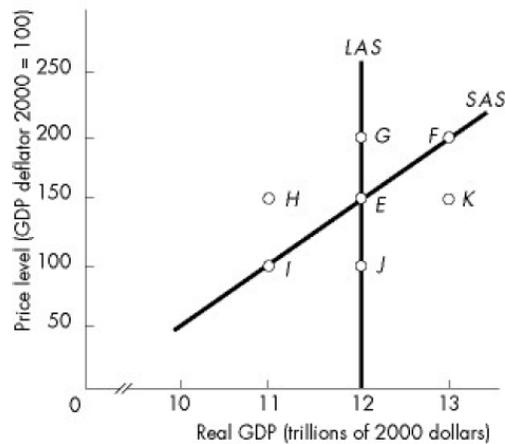


Practice Test 1: Multiple Choice

- If aggregate planned expenditure exceeds real GDP
 - actual inventories decrease below their target.
 - firms are not maximizing their profits.
 - planned consumption expenditure is less than actual consumption expenditure.
 - planned investment is greater than planned saving.
- Which of the following counts as part of money?
 - \$10,000 in corporate bonds
 - \$10,000 in a checking account
 - \$10,000 in gold bars
 - \$10,000 in government bonds
- One reason the aggregate expenditure curve slopes upward is because _____ increases when real GDP increases.
 - investment
 - exports
 - consumption expenditure
 - government expenditures on goods and services
- In the figure, which movement illustrates the impact of a constant price level and a rising money wage rate?

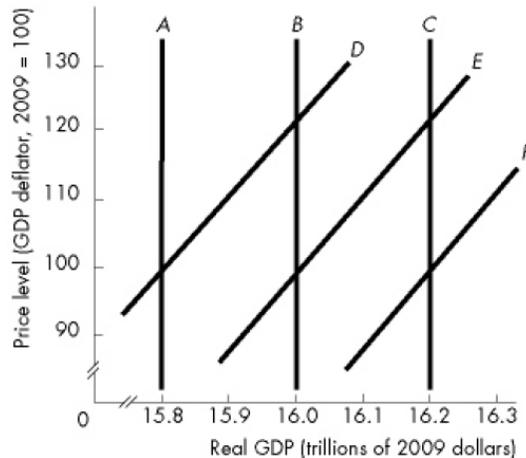


- E to J
 - E to F
 - E to H
 - E to I
- A fall in the price level
 - shifts the aggregate demand curve rightward and increases equilibrium GDP.
 - shifts both the aggregate expenditures curve and aggregate demand curve upward.
 - decreases aggregate planned expenditures and shifts the aggregate demand curve leftward.
 - shifts the aggregate expenditure curve upward and increases the quantity of real GDP demanded.
 - Because of the multiplier, a one time change in expenditure will
 - generate more additional income than the initial change in expenditure.
 - expand income by an infinite amount.

- C. have little secondary effect on income.
 D. decrease saving and investment activity and future income.
7. An increase in investment spending results in a _____ the aggregate expenditure curve and _____ the aggregate demand curve.
- A. shift in; has no effect on
 B. movement along; a shift in
 C. shift in; a shift in
 D. shift in; a movement along
8. If investment increases by \$300 and, in response, equilibrium aggregate expenditure increases by \$600, then the multiplier must be
- A. 0.5.
 B. 5.
 C. 0.2.
 D. 2.
9. A leftward shift in the short-run aggregate supply curve
- A. increases both the price level and real GDP.
 B. is the result of consumer expenditures exceeding available output.
 C. is the result of the Fed increasing the quantity of money.
 D. is the result of a rise in the price of a key resource.
10. If demand pull inflation occurs when the economy is already at potential GDP, then following the initial increase in aggregate demand, the
- A. LAS curve shifts rightward.
 B. SAS curve shifts rightward.
 C. SAS curve shifts leftward.
 D. LAS curve shifts leftward.
11. Which of the following can start an inflation?
- A. a decrease in aggregate supply
 B. an increase in aggregate supply
 C. an increase in aggregate demand
 D. Both answers A and C are correct.
12. In the macroeconomic long-run,
- A. regardless of the price level, the economy is producing at potential GDP.
 B. the economy is at full employment.
 C. real GDP equals potential GDP.
 D. All of the above are correct.
13. A lower price level combined with a decrease in real GDP occurs when the
- A. short run aggregate supply curve shifts leftward.
 B. short run aggregate supply curve shifts rightward.
 C. aggregate demand curve shifts rightward.
 D. aggregate demand curve shifts leftward.
14. Stagflation occurs when the
- A. price level decreases and real GDP increases.
 B. price level and real GDP decrease at the same time.
 C. price level increases and real GDP decreases.
 D. price level and real GDP increase at the same time.

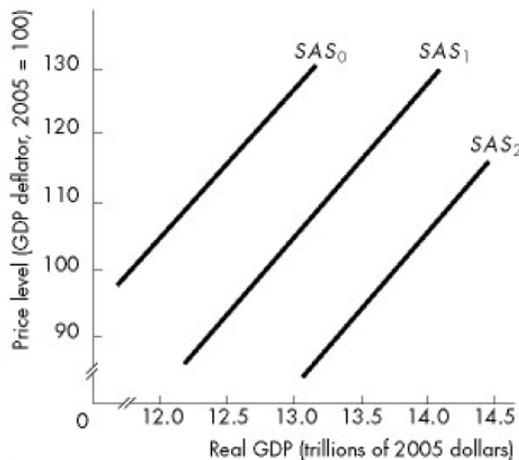
15. In the figure below, B is the current long-run aggregate supply curve and E is the current short-run aggregate supply curve. If there is an increase in the full employment quantity of labor, then the long-run aggregate supply curve and the short-run aggregate supply curve

- A. remain at B and shift at F , respectively.
- B. shift to C and F , respectively.
- C. shift to A and D , respectively.
- D. remain B and E.



16. In the figure below, the short-run aggregate supply curve is SAS_1 . Suppose that the price level in the economy increases. As a result there is

- A. a shift to SAS_0 .
- B. an upward movement along SAS_1 .
- C. a downward movement along SAS_1 .
- D. a shift to SAS_2 .

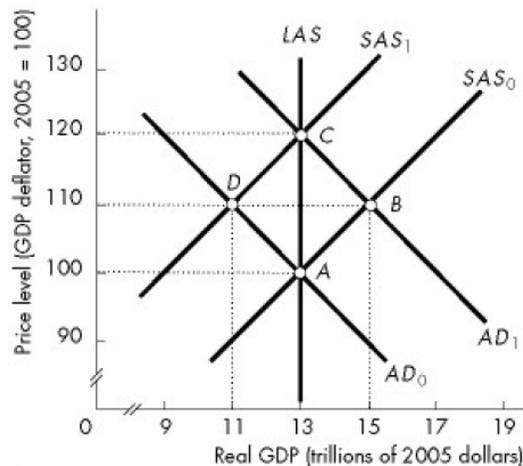


17. Depository institutions

- A. earn profit according to how much the Federal Reserve pays them.
- B. earn zero profit but receive compensation by the government because their services are so valuable.
- C. make profit from the spread between the interest rate they pay on deposits and the interest rate they receive on loans.
- D. earn money by charging the government for their services.

18. For a commercial bank, the term “reserves” refers to
- the net interest that it earns on loans.
 - a banker’s concern (“reservation”) in making loans to an individual without a job.
 - the cash in its vaults and its deposits at the Federal Reserve.
 - the profit that the bank retains at the end of the year.
19. If an economy at potential GDP experiences a demand shock that shifts the aggregate demand curve rightward, there will be
- upward pressure on money wage rates.
 - an eventual leftward shift in the short-run aggregate supply curve.
 - unemployment below the natural rate.
 - All of the above answers are correct.
20. If the Fed responds to repeated decreases in the short-run aggregate supply with repeated increases in the quantity of money, the economy will be faced with
- continuous inflation.
 - alternating periods of inflation and deflation.
 - a one time increase in prices.
 - steady decreases in real GDP.
21. The multiplier effect on real GDP occurs because
- an autonomous change in expenditure causes an induced change in consumption expenditure.
 - of government stabilization policies.
 - changes in price levels affect our willingness to invest, consume, import and export.
 - of income taxes.
22. Dissaving
- occurs when consumption is greater than disposable income.
 - is equal to the amount of saving when consumption is less than disposable income.
 - is equal to consumption expenditure when disposable income is greater than zero.
 - is equal to taxation when disposable income is zero.
23. If aggregate demand grows only slightly faster than potential GDP, then the economy will _____
- be at a business cycle peak
 - experience economic growth with low inflation
 - experience economic growth with high inflation
 - experience recession
24. In the very short term, in the Keynesian model, which of the following is fixed and does not change when GDP changes?
- planned imports
 - planned consumption
 - planned investment
 - All of the above answers are correct
25. Money _____
- requires a double coincidence of wants
 - is always composed of coins and paper
 - is any commodity that is generally acceptable as a means of payment
 - loses its value as it becomes older

26. The short-run aggregate supply curve is upward-sloping because
- money wage rates do not immediately change when the price level changes.
 - most business firms operate with long-term contracts for output but not labor.
 - a lower price level creates a wealth effect.
 - lower taxes motivate people to work more.
27. When talking about aggregate supply, it is necessary to
- focus on the long-run.
 - distinguish between long run aggregate supply and short run aggregate supply.
 - focus on the short-run.
 - distinguish between long-run full employment and short-run full employment.
28. Demand pull inflation can be started by
- a decrease in net exports.
 - an increase in government spending.
 - an increase in the price of oil.
 - a decrease in the quantity of money.
29. In the figure, suppose that the economy is at point A when the quantity of money increases. In the short-run, the economy will move to point _____
- A , that is, the price level and level of real GDP will not change.
 - B
 - C
 - D



30. If you use \$500 of currency to purchase a saving deposit,
- M1 decreases, but M2 is unchanged.
 - M1 is unchanged, but M2 increases.
 - M1 decreases and M2 increases.
 - M1 and M2 both increase.