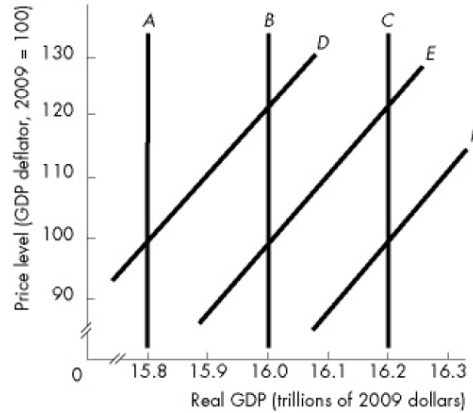


Exam 2

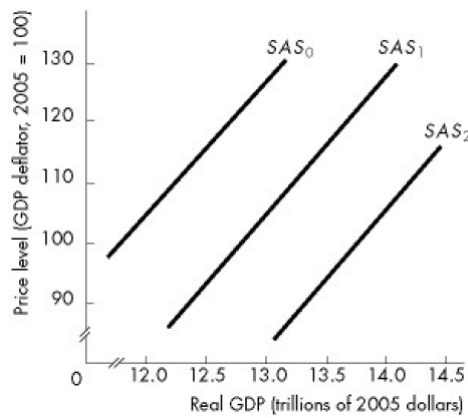
Solution is on page 8

1. 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
2. In the figure below, the short-run aggregate supply curve is SAS_1 .

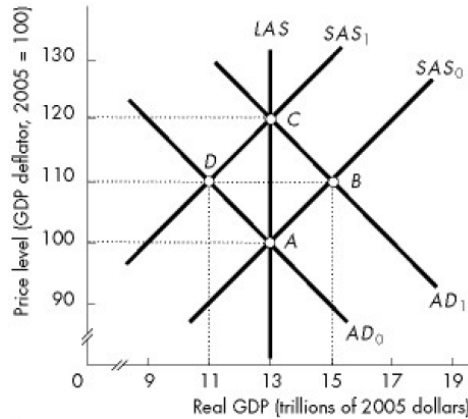


Suppose that the price level in the economy increases. As a result there is

- (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

3. If an economy at potential GDP experiences a demand shock that shifts the aggregate demand curve rightward, there will be
 - (a) upward pressure on nominal wage rates
 - (b) an eventual leftward shift in the short-run aggregate supply curve
 - (c) unemployment below the natural rate
 - (d) All of the above answers are correct
4. The multiplier effect on real GDP occurs because
 - (a) an autonomous change in expenditure causes an induced change in consumption expenditure
 - (b) of government stabilization policies
 - (c) changes in price levels affect our willingness to invest, consume, import and export
 - (d) of income taxes
5. Dissaving
 - (a) occurs when consumption is greater than disposable income
 - (b) is equal to the amount of saving when consumption is less than disposable income
 - (c) is equal to consumption expenditure when disposable income is greater than zero
 - (d) is equal to taxation when disposable income is zero
6. If aggregate demand grows only slightly faster than potential GDP, then the economy will _____
 - (a) be at a business cycle peak
 - (b) experience economic growth with low inflation
 - (c) experience economic growth with high inflation
 - (d) experience recession
7. In the very short term, in the Keynesian model, which of the following does not change when GDP changes?
 - (a) induced expenditure
 - (b) planned consumption
 - (c) planned investment
 - (d) All of the above answers are correct
8. The capital stock increases whenever
 - (a) net investment is positive
 - (b) net investment exceeds gross investment
 - (c) gross investment exceeds net investment
 - (d) gross investment is negative
9. Which of the following statements illustrates frictional unemployment?
 - (a) Robin is quitting his current job to find another that has better prospects
 - (b) Dave lost his job as he did not possess the technical skills required to do his duty
 - (c) Many bank tellers lost their jobs due to the installation of ATM machines
 - (d) Thousands of employees were laid off during the 2008-09 recession

10. 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 _____

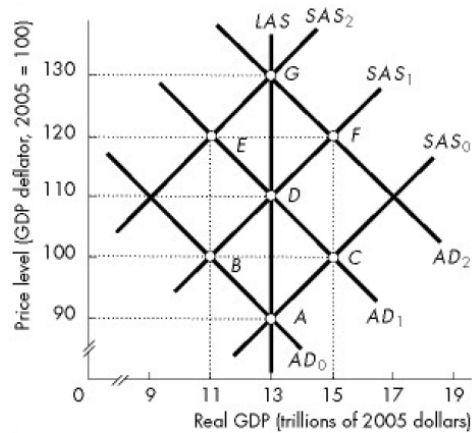
- (a) A , that is, the price level and level of real GDP will not change.
 - (b) B
 - (c) C
 - (d) D
11. At equilibrium expenditure, unplanned changes in inventory
- (a) might be either positive or negative
 - (b) must be positive
 - (c) must be zero
 - (d) must be negative
12. The table below gives the aggregate demand and aggregate supply schedules in Lotus Land.

Price level	Real GDP demanded (dollars)	Real GDP supplied	
		Short run (dollars)	Long run (dollars)
90	700	300	600
100	600	400	600
110	500	500	600
120	400	600	600

With no changes in aggregate demand or long-run aggregate supply, in long-run macroeconomic equilibrium, the price level will be _____ and real GDP will be _____.

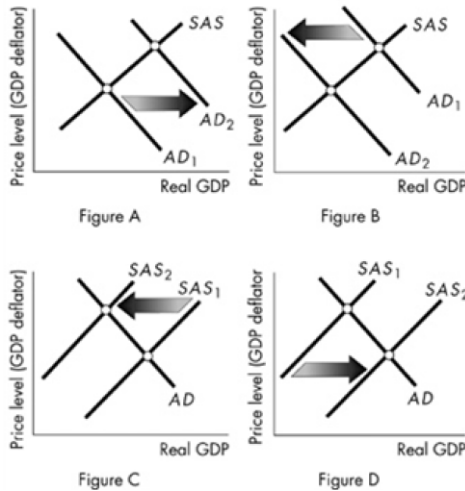
- (a) 90; \$400
- (b) 100; \$600
- (c) 120; \$400
- (d) 110; \$500

13. Demand-pull inflation starts with a shift of the
- SAS curve rightward
 - AD curve leftward
 - AD curve rightward
 - SAS curve leftward
14. If an increase in a household's disposable income from \$10,000 to \$12,000 boosts its consumption expenditure from \$8,000 to \$9,000, the
- household is dissaving
 - slope of the consumption function is 0.2
 - slope of the consumption function is 1000
 - slope of the consumption function is 0.5
15. Which of the following shifts the aggregate expenditure curve AND shifts the aggregate demand curve?
- a decrease in investment
 - a change in the price level
 - an increase in exports
- II and III
 - III only
 - I and II
 - I and III
16. In the figure, which path represents a cost-push inflation?



- point A to C to D to F to G
- point A to C to D to E to G
- point A to B to D to E to G
- point A to B to D to F to G

17. In an economy, the multiplier is 3. If government expenditure increases by \$1 million, then in the short-run, the price level _____ and real GDP _____ \$3 million.
- (a) rises; increases by less than
 (b) falls; decreases by less than
 (c) rises; equals
 (d) rises; decreases by less than
18. Which of the figures shows how inflation can start in an economy?



- (a) Figure A and Figure C
 (b) Figure A and Figure D
 (c) Figure B and Figure C
 (d) Figure B and Figure D
19. If the nominal wage and other resource prices do not change when the price level rises by 10 percent, _____.
- (a) there is movement along the short-run aggregate supply curve
 (b) the long-run aggregate supply curve shifts leftward
 (c) the short-run aggregate supply curve shifts leftward
 (d) massive labor layoffs occur
20. In the short-run with fixed prices, an increase in investment of \$100 billion
- (a) increases real GDP by \$100 billion
 (b) increases real GDP by more than \$100 billion
 (c) decreases real GDP by \$100 billion because of the decrease in induced expenditures
 (d) increases real GDP by less than \$100 billion

21. In the table below, there are no taxes and no imports or exports.

Real GDP (dollars)	Consumption expenditure (dollars)	Investment (dollars)	Government expenditure (dollars)
3,000	2,500	500	500
4,000	3,250	500	500
5,000	4,000	500	500
6,000	4,750	500	500
7,000	5,500	500	500
8,000	6,250	500	500

The value of the multiplier for this economy is

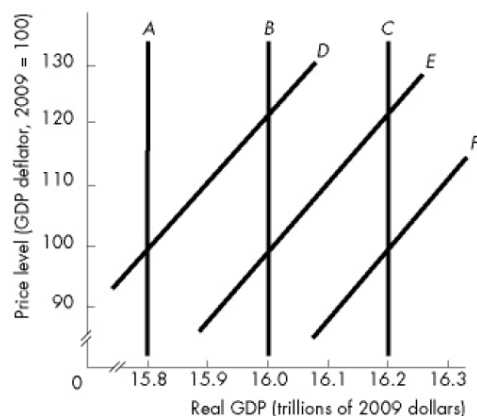
- (a) 0.75
 - (b) 4.0
 - (c) 1.33
 - (d) 0.25
22. A major characteristic of structural unemployment that differentiates it from frictional unemployment is that structural unemployment
- (a) exists only during a recession
 - (b) usually lasts much longer than frictional unemployment
 - (c) is a short-term problem
 - (d) exists in an expansion whereas there is no frictional unemployment in an expansion
23. A discretionary fiscal policy is a fiscal policy that
- (a) is triggered by the state of the economy
 - (b) involves a change in government defense spending
 - (c) requires action by the President and/or Congress
 - (d) involves a change in corporate tax rates
24. Which of the following will NOT shift the consumption function upward?
***This question is excluded from grading**
- (a) an increase in disposable income
 - (b) an increase in wealth
 - (c) an increase in saving
 - (d) an increase in price
25. Choose the statement that is incorrect:
- (a) There can be some unemployment at full employment
 - (b) At the natural unemployment rate, there is no cyclical unemployment
 - (c) All unemployment at the natural unemployment rate is structural unemployment
26. When the unemployment rate _____ the natural unemployment rate, real GDP _____ potential GDP.
- (a) is greater than; equals
 - (b) equals; is less than
 - (c) is greater than; is greater than
 - (d) is greater than; is less than

27. If the real interest rate increases from 3 percent to 5 percent,
- (a) there will be a movement up along the demand for loanable funds curve
 - (b) the supply of loanable funds curve will shift rightward
 - (c) the nominal interest rate will also increase
 - (d) the demand for loanable funds curve will shift rightward
28. In a diagram with the consumption function, the _____ shows all points where disposable income equals consumption expenditures.
- (a) saving function
 - (b) consumption function
 - (c) 45-degree line
 - (d) aggregate demand curve
29. In general, the flatter the aggregate expenditure curve, the
- (a) larger the multiplier
 - (b) larger the marginal propensity to consume
 - (c) greater the autonomous expenditure
 - (d) smaller the multiplier
30. Which of the following policies shifts the AD curve the farthest leftward?
- (a) a decrease in both government expenditure and autonomous taxes of \$10 billion
 - (b) a cut in taxes of \$10 billion
 - (c) a rise in taxes of \$10 billion
 - (d) a decrease in government expenditure of \$10 billion

Exam 2 Answer Key

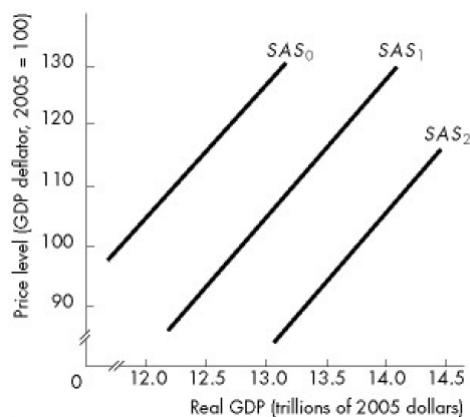
Solution is on page 8

1. 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
2. In the figure below, the short-run aggregate supply curve is SAS_1 .

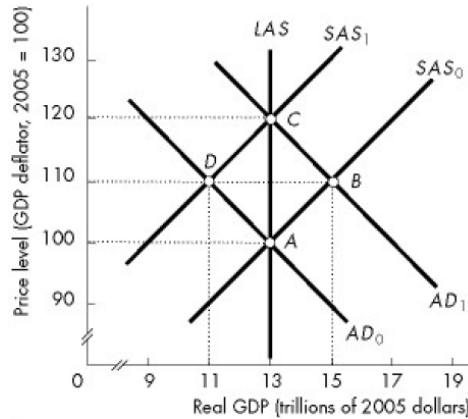


Suppose that the price level in the economy increases. As a result there is

- (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

3. If an economy at potential GDP experiences a demand shock that shifts the aggregate demand curve rightward, there will be
- (a) upward pressure on nominal wage rates
 - (b) an eventual leftward shift in the short-run aggregate supply curve
 - (c) unemployment below the natural rate
 - (d) All of the above answers are correct
4. The multiplier effect on real GDP occurs because
- (a) an autonomous change in expenditure causes an induced change in consumption expenditure
 - (b) of government stabilization policies
 - (c) changes in price levels affect our willingness to invest, consume, import and export
 - (d) of income taxes
5. Dissaving
- (a) occurs when consumption is greater than disposable income
 - (b) is equal to the amount of saving when consumption is less than disposable income
 - (c) is equal to consumption expenditure when disposable income is greater than zero
 - (d) is equal to taxation when disposable income is zero
6. If aggregate demand grows only slightly faster than potential GDP, then the economy will _____
- (a) be at a business cycle peak
 - (b) experience economic growth with low inflation
 - (c) experience economic growth with high inflation
 - (d) experience recession
7. In the very short term, in the Keynesian model, which of the following does not change when GDP changes?
- (a) induced expenditure
 - (b) planned consumption
 - (c) planned investment
 - (d) All of the above answers are correct
8. The capital stock increases whenever
- (a) net investment is positive
 - (b) net investment exceeds gross investment
 - (c) gross investment exceeds net investment
 - (d) gross investment is negative
9. Which of the following statements illustrates frictional unemployment?
- (a) Robin is quitting his current job to find another that has better prospects
 - (b) Dave lost his job as he did not possess the technical skills required to do his duty
 - (c) Many bank tellers lost their jobs due to the installation of ATM machines
 - (d) Thousands of employees were laid off during the 2008-09 recession

10. 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 _____

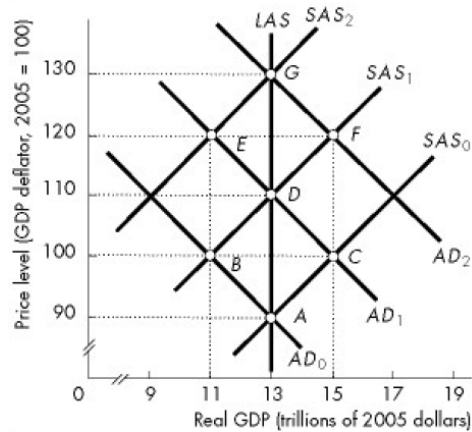
- (a) A , that is, the price level and level of real GDP will not change.
 - (b) B
 - (c) C
 - (d) D
11. At equilibrium expenditure, unplanned changes in inventory
- (a) might be either positive or negative
 - (b) must be positive
 - (c) must be zero
 - (d) must be negative
12. The table below gives the aggregate demand and aggregate supply schedules in Lotus Land.

Price level	Real GDP supplied		
	Real GDP demanded (dollars)	Short run (dollars)	Long run (dollars)
90	700	300	600
100	600	400	600
110	500	500	600
120	400	600	600

With no changes in aggregate demand or long-run aggregate supply, in long-run macroeconomic equilibrium, the price level will be _____ and real GDP will be _____.

- (a) 90; \$400
- (b) 100; \$600
- (c) 120; \$400
- (d) 110; \$500

13. Demand-pull inflation starts with a shift of the
- SAS curve rightward
 - AD curve leftward
 - AD curve rightward
 - SAS curve leftward
14. If an increase in a household's disposable income from \$10,000 to \$12,000 boosts its consumption expenditure from \$8,000 to \$9,000, the
- household is dissaving
 - slope of the consumption function is 0.2
 - slope of the consumption function is 1000
 - slope of the consumption function is 0.5
15. Which of the following shifts the aggregate expenditure curve AND shifts the aggregate demand curve?
- a decrease in investment
 - a change in the price level
 - an increase in exports
- II and III
 - III only
 - I and II
 - I and III
16. In the figure, which path represents a cost-push inflation?

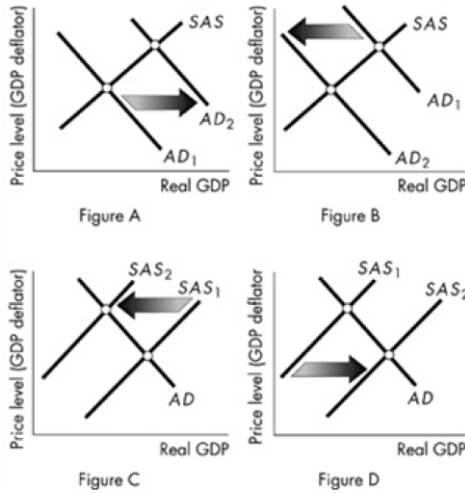


- point A to C to D to F to G
- point A to C to D to E to G
- point A to B to D to E to G
- point A to B to D to F to G

17. In an economy, the multiplier is 3. If government expenditure increases by \$1 million, then in the short-run, the price level _____ and real GDP _____ \$3 million.

- (a) rises; increases by less than
- (b) falls; decreases by less than
- (c) rises; equals
- (d) rises; decreases by less than

18. Which of the figures shows how inflation can start in an economy?



- (a) Figure A and Figure C
- (b) Figure A and Figure D
- (c) Figure B and Figure C
- (d) Figure B and Figure D

19. If the nominal wage and other resource prices do not change when the price level rises by 10 percent, _____.

- (a) there is movement along the short-run aggregate supply curve
- (b) the long-run aggregate supply curve shifts leftward
- (c) the short-un aggregate supply curve shifts leftward
- (d) massive labor layoffs occur

20. In the short-run with fixed prices, an increase in investment of \$100 billion

- (a) increases real GDP by \$100 billion
- (b) increases real GDP by more than \$100 billion
- (c) decreases real GDP by \$100 billion because of the decrease in induced expenditures
- (d) increases real GDP by less than \$100 billion

21. In the table below, there are no taxes and no imports or exports.

Real GDP (dollars)	Consumption expenditure (dollars)	Investment (dollars)	Government expenditure (dollars)
3,000	2,500	500	500
4,000	3,250	500	500
5,000	4,000	500	500
6,000	4,750	500	500
7,000	5,500	500	500
8,000	6,250	500	500

The value of the multiplier for this economy is

- (a) 0.75
 - (b) 4.0
 - (c) 1.33
 - (d) 0.25
22. A major characteristic of structural unemployment that differentiates it from frictional unemployment is that structural unemployment
- (a) exists only during a recession
 - (b) usually lasts much longer than frictional unemployment
 - (c) is a short-term problem
 - (d) exists in an expansion whereas there is no frictional unemployment in an expansion
23. A discretionary fiscal policy is a fiscal policy that
- (a) is triggered by the state of the economy
 - (b) involves a change in government defense spending
 - (c) requires action by the President and/or Congress
 - (d) involves a change in corporate tax rates
24. Which of the following will NOT shift the consumption function upward?
***This question is excluded from grading**
- (a) an increase in disposable income
 - (b) an increase in wealth
 - (c) an increase in saving
 - (d) an increase in price
25. Choose the statement that is incorrect:
- (a) There can be some unemployment at full employment
 - (b) At the natural unemployment rate, there is no cyclical unemployment
 - (c) All unemployment at the natural unemployment rate is structural unemployment
26. When the unemployment rate _____ the natural unemployment rate, real GDP _____ potential GDP.
- (a) is greater than; equals
 - (b) equals; is less than
 - (c) is greater than; is greater than
 - (d) is greater than; is less than

27. If the real interest rate increases from 3 percent to 5 percent,
- (a) there will be a movement up along the demand for loanable funds curve
 - (b) the supply of loanable funds curve will shift rightward
 - (c) the nominal interest rate will also increase
 - (d) the demand for loanable funds curve will shift rightward
28. In a diagram with the consumption function, the _____ shows all points where disposable income equals consumption expenditures.
- (a) saving function
 - (b) consumption function
 - (c) 45-degree line
 - (d) aggregate demand curve
29. In general, the flatter the aggregate expenditure curve, the
- (a) larger the multiplier
 - (b) larger the marginal propensity to consume
 - (c) greater the autonomous expenditure
 - (d) smaller the multiplier
30. Which of the following policies shifts the AD curve the farthest leftward?
- (a) a decrease in both government expenditure and autonomous taxes of \$10 billion
 - (b) a cut in taxes of \$10 billion
 - (c) a rise in taxes of \$10 billion
 - (d) a decrease in government expenditure of \$10 billion