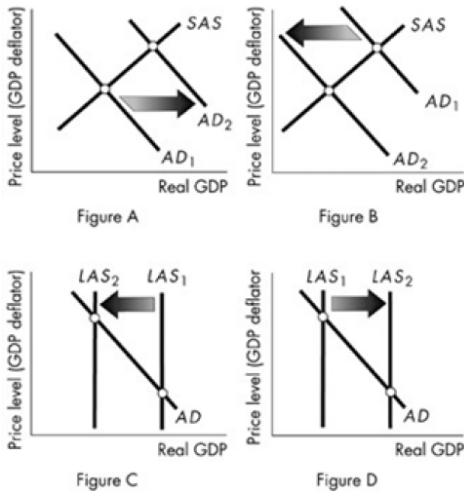


Practice Exam

Name: _____

Date: _____

- When workers and employers correctly anticipate an increase in inflation caused by an increase in aggregate demand,
 - workers will underestimate the real wage rate
 - workers will overestimate the real wage rate
 - unemployment will be at the natural rate
 - there will be no unemployment
- Which of the figures best shows the start of a demand-pull inflation?



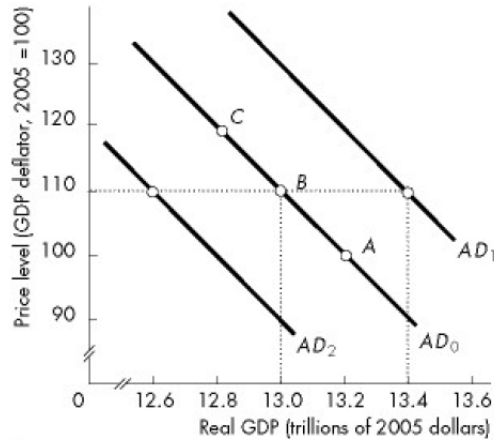
- Figure A
 - Figure B
 - Figure C
 - Figure D
- The data in the table indicate that autonomous expenditure is

Real GDP (trillions of 2005 dollars)	Aggregate expenditure (trillions of 2005 dollars)
0	0.3
1.0	1.2
2.0	2.1
3.0	3.0
4.0	3.9
5.0	4.8

- \$3.0 trillion
- \$0.3 trillion
- \$4.8 trillion
- indeterminate from the information given

4. One reason the aggregate expenditure curve slopes upward is because _____ increases when real GDP increases.
- (a) investment
 - (b) exports
 - (c) consumption expenditure
 - (d) government expenditures on goods and services
5. If the annual interest paid on a \$500 loan is \$25, the nominal interest rate is _____ percent per year. If the inflation rate is 2 percent a year, the real interest rate is _____ per year.
- (a) 5; 7
 - (b) 5; 3
 - (c) 4; 2
6. The quantity of real GDP demanded equals \$12.2 trillion when the GDP deflator is 90. If the GDP deflator rises to 95, the quantity of real GDP demanded equals
- (a) less than \$12.2 trillion
 - (b) \$12.2 trillion
 - (c) more than \$12.2 trillion
 - (d) more information is needed to determine if the quantity of real GDP demanded increases, decreases, or does not change
7. If real disposable income increases by \$1500, consumption expenditures will
- (a) increase by more than \$1500
 - (b) increase by less than \$1500
 - (c) decrease by less than \$1500
 - (d) stay constant
8. The size of the multiplier
- (a) decreases in the longer run
 - (b) stays positive in the longer run
 - (c) increases in the longer run
 - (d) is unaffected by the amount of time that elapses
9. A fall in the price level
- (a) shifts the aggregate demand curve rightward and increases equilibrium GDP
 - (b) shifts both the aggregate planned expenditures curve and aggregate demand curve upward
 - (c) decreases aggregate planned expenditures and shifts the aggregate demand curve leftward
 - (d) shifts the aggregate planned expenditure curve upward and increases the quantity of real GDP demanded

10. In the figure, the economy is initially at point B.

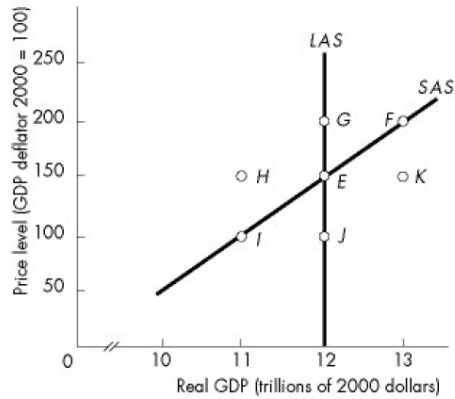


If the government decreases transfer payments, there is

- (a) a shift to AD_2
 - (b) a movement to point A
 - (c) a movement to point C
 - (d) a shift to AD_1
11. 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
12. 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
13. 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
14. Which of the following is NOT a potential start of a demand-pull inflation?
- (a) an increase in the money supply
 - (b) an increase in exports
 - (c) an increase in government expenditure
 - (d) an increase in taxes

15. Which of the following does NOT shift the short-run aggregate supply curve?
- (a) a change in the nominal wage rate
 - (b) technological progress
 - (c) a reduction in the price of a raw material
 - (d) a change in the price level
16. 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) answers A and C are correct
17. 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
18. According to the intertemporal substitution effect, a higher price level
- (a) makes it less costly for people to buy houses and cars
 - (b) lowers the costs of building new plants and equipment
 - (c) decreases the quantity of real GDP demanded
 - (d) increases the quantity of real GDP demanded
19. The slope of the consumption function is
- (a) negative
 - (b) 1
 - (c) less than 1
 - (d) greater than 1
20. A one-time rise in the price level can turn into a demand-pull inflation when _____.
- (a) taxes consistently increase
 - (b) the nominal wage rate continues to increase
 - (c) the quantity of money persistently increases
 - (d) the quantity of money persistently decreases
21. Which of the following would shift the aggregate demand curve leftward year after year?
- (a) a one-time tax cut
 - (b) inflation
 - (c) a one-time increase in government expenditures on goods and services
 - (d) negative growth in the quantity of money

22. An economy is at full employment when:
- There is no cyclical unemployment
 - All unemployment is structural and cyclical
 - The unemployment rate is less than the natural unemployment rate
 - All unemployment is cyclical
23. In the figure, which movement illustrates the impact of a constant price level and a rising nominal wage rate?

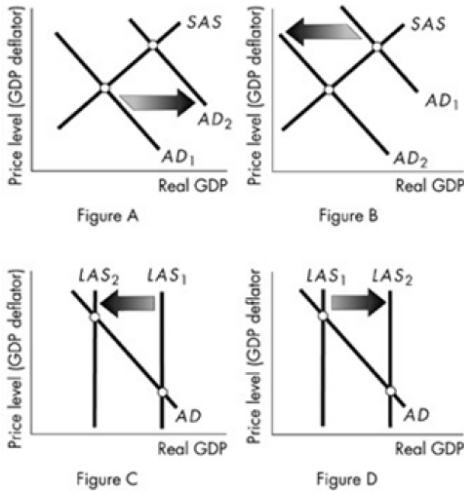


- E to J
 - E to F
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 - E to I
24. An increase in investment spending results in a _____ the aggregate planned expenditure curve and _____ the aggregate demand curve.
- shift in; has no effect on
 - movement along; a shift in
 - shift in; a shift in
 - shift in; a movement along
25. Actual aggregate expenditure is
- always equal to real GDP
 - only equal to real GDP at the equilibrium level of aggregate planned expenditure
 - never greater than real GDP but can be less than real GDP
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26. A leftward shift in the short-run aggregate supply curve
- increases both the price level and real GDP
 - is the result of consumer expenditures exceeding available output
 - is the result of the Fed increasing the quantity of money
 - is the result of a rise in the price of a key resource

27. By itself, an increase in the price of oil, which is a production input, shifts the
- (a) short-run aggregate supply curve leftward and does not shift the aggregate demand curve
 - (b) aggregate demand curve leftward and does not shift the short-run aggregate supply curve
 - (c) aggregate demand curve rightward and does not shift the short-run aggregate supply curve
 - (d) short-run aggregate supply curve rightward and does not shift the aggregate demand curve
28. In April 2008 the price of oil was approximately \$130 per barrel; in April 2015, it was approximately \$40 per barrel. This change in the price of oil could have started
- (a) both a cost-push and a demand-pull inflation
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 - (c) a demand-pull inflation
 - (d) None of the above answers are correct
29. Because of the multiplier, a one-time change in expenditure will
- (a) generate more additional income than the initial change in expenditure
 - (b) expand income by an infinite amount
 - (c) have little secondary effect on income
 - (d) decrease saving and investment activity and future income
30. If aggregate planned expenditure exceeds real GDP
- (a) actual inventories decrease below their target
 - (b) firms are not maximizing their profits
 - (c) planned consumption expenditure is less than actual consumption expenditure
 - (d) planned investment is greater than planned saving

Answer Key

- When workers and employers correctly anticipate an increase in inflation caused by an increase in aggregate demand,
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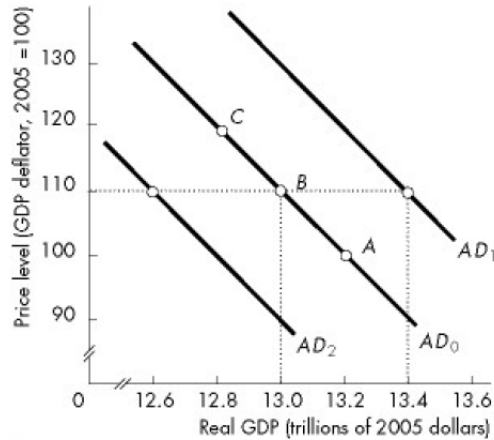
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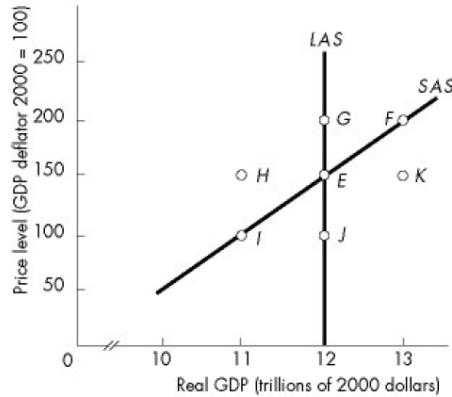
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