

Name _____

MULTIPLE-CHOICE QUESTIONS - CIRCLE YOUR ANSWER

1. In the very short run, the level of
 - A) output is determined by both aggregate demand and aggregate supply
 - B) output is determined by aggregate demand alone
 - C) prices will change if aggregate demand shifts
 - D) prices is determined by aggregate demand alone

2. In the very long-run AD-AS model, if the AD-curve shifts to the left, then
 - A) prices and output will both decrease
 - B) prices and output will both increase
 - C) prices will decrease but output will remain the same
 - D) output will decrease but prices will remain the same

3. If we counted the value of autoworkers' salaries, wheels, tires, steel, body parts, and final car sales in calculating GDP, then we would be
 - A) understating GDP by overlooking car dealers' profits
 - B) ignoring the contribution of capital to output
 - C) overstating GDP through double counting
 - D) calculating GDP correctly only if we excluded any imported cars

4. Assume a U.S. dealer bought 100 TVs from South Korea for \$250 each in 2009. He subsequently sold 80 of them in 2006 for \$450 each, and the rest in 2010 for \$400 each. By how much was the U.S. GDP affected in 2009?
 - A) \$45,000
 - B) \$36,000
 - C) \$19,000
 - D) \$16,000

5. Which of the following identities is FALSE?
 - A) $Y \equiv C + I + G + NX$
 - B) $YD \equiv Y - TA + TR$
 - C) $BS \equiv TA - TR - G$
 - D) $I - S \equiv (G - TA + TR) + NX$
 - E) $S + TA - TR \equiv I + G + NX$

6. If private domestic saving is 860, private domestic investment is 780, and the government spends 300 more than it receives in tax revenues, then it follows that
 - A) the trade deficit is 220
 - B) the trade deficit is 300
 - C) the trade deficit is 420
 - D) the trade surplus is 120

7. If private domestic saving exceeds private domestic investment by \$220 billion and government spending exceeds tax revenue by \$340 billion, then
- A) the trade deficit is \$560 billion
 - B) the trade surplus is \$560 billion
 - C) the trade deficit is \$120 billion
 - D) the trade surplus is \$120 billion
 - E) the trade deficit is \$340 billion
8. If the nominal interest rate on a government bond is 3.5% and the rate of inflation is 2%, what is your real rate of return on this government bond?
- A) -2%
 - B) +1.5%
 - C) +5.5%
 - D) -1.5%
 - E) +7%
9. The Keynesian aggregate supply curve implies that
- A) the economy is always at the full-employment level of output
 - B) the price level is unaffected by current levels of GDP
 - C) wages are perfectly flexible
 - D) real money balances decrease as the AD-curve shifts to the right
10. The natural rate of unemployment is
- A) always zero
 - B) the unemployment rate that exists when inflation is zero
 - C) the unemployment rate that exists when output is assumed to be at its full-employment level
 - D) the unemployment rate that exists above frictional unemployment
11. Frictional unemployment is defined as
- A) all unemployment above the natural rate
 - B) unemployment that is cyclical in nature
 - C) the natural unemployment rate minus cyclical unemployment
 - D) unemployment resulting from people shifting between jobs and looking for new jobs
 - E) any unemployment that is below 4%
12. A decrease in nominal money supply will be reflected in
- A) a shift of the AD-curve to the right
 - B) a shift of the AD-curve to the left
 - C) movement along the AD-curve from right to left
 - D) movement along the AD-curve from left to right
13. In the classical supply curve case, monetary expansion will
- A) decrease P and leave Y unchanged
 - B) increase Y and leave P unchanged
 - C) leave Y unchanged but increase P
 - D) leave Y and P unchanged

14. The “firm-miss-coordination” approach to the Phillips curve focuses on the fact that
- A) administrations have problems coordinating fiscal policy with the monetary policy of the central bank
 - B) long-term labor contracts tend to expire at different times, so firms cannot coordinate their hiring
 - C) unemployed workers are not organized enough to influence wage negotiations
 - D) firms are unsure about their competitors' behavior and are therefore reluctant to change wages and prices following a change in aggregate demand
15. The inflation-expectations-augmented Phillips curve implies that
- A) unemployment is at its natural rate when expected inflation is equal to actual inflation
 - B) stagflation occurs when expected inflation is below actual inflation
 - C) stagflation occurs when the short-run Phillips curve shifts left
 - D) the inflation rate is equal to the real output growth rate plus the monetary growth rate
16. Wages are considered to be sticky rather than flexible since
- A) firms encounter menu costs when changing wages but not when changing prices
 - B) labor contracts contain cost-of-living adjustments
 - C) firms tend to look at labor as an expendable resource
 - D) firms are unsure about their competitors' behavior and only reluctantly change prices and wages following a change in aggregate demand
17. In an AD-AS model with an upward sloping AS-curve, what would happen if oil prices increased and the Fed responded by restricting money supply?
- A) real output would increase and the price level would remain the same
 - B) real output would remain the same but the price level would decrease
 - C) real output would decrease and the price level would increase sharply
 - D) real output would decrease and the price level would decrease sharply
 - E) real output would decrease but we can't tell what would happen to the price level
18. Which of these people could officially be counted as unemployed?
- A) a garage attendant who got fired from his old job two months ago but will start a new job in two weeks
 - B) a busboy who works only four hours a day, five days a week, but would prefer to work full-time as a waiter
 - C) an accountant who quit her job when she had a baby two months ago
 - D) a woman who joined the babysitters' union several months ago and averages about five customers a week at her \$10/hour rate
19. Which of the following people is/are in the unemployment pool?
- A) Chris, who quit her job to look for other employment
 - B) Jack, who has been temporarily laid off by his employer, but who expects to be called back after one or two months
 - C) Lesley, who lost her job because her firm had to shut down
 - D) all of the above

20. The natural rate of unemployment will most likely increase if

- A) the minimum wage rate is decreased
- B) unemployment benefits are increased
- C) monetary growth is decreased
- D) income taxes are increased

21. In a "jobless recovery,"

- A) no new jobs are created during a recession
- B) firms do not hire new workers until they see the economy has recovered from the recession
- C) unemployment must go back to its natural rate before the upswing can start
- D) there is a lag between GDP growth and a drop in unemployment