

# Assignment 4

Last Name \_\_\_\_\_

First Name \_\_\_\_\_

Chapter 9					Chapter 10				
1	(a)	(b)	(c)	(d)	1	(a)	(b)	(c)	(d)
2	(a)	(b)	(c)	(d)	2	(a)	(b)	(c)	(d)
3	(a)	(b)	(c)	(d)	3	(a)	(b)	(c)	(d)
4	(a)	(b)	(c)	(d)	4	(a)	(b)	(c)	(d)
5	(a)	(b)	(c)	(d)	5	(a)	(b)	(c)	(d)
6	(a)	(b)	(c)	(d)	6	(a)	(b)	(c)	(d)
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9	(a)	(b)	(c)	(d)	9	(a)	(b)	(c)	(d)
10	(a)	(b)	(c)	(d)	10	(a)	(b)	(c)	(d)
11	(a)	(b)	(c)	(d)	11	(a)	(b)	(c)	(d)
12	(a)	(b)	(c)	(d)	12	(a)	(b)	(c)	(d)
13	(a)	(b)	(c)	(d)	13	(a)	(b)	(c)	(d)
14	(a)	(b)	(c)	(d)	14	(a)	(b)	(c)	(d)
15	(a)	(b)	(c)	(d)	15	(a)	(b)	(c)	(d)

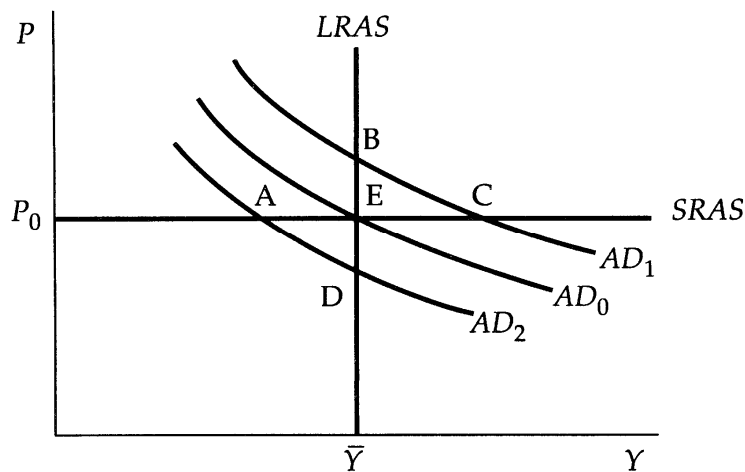
## Chapter 9

1. Recessions typically, but not always, include at least \_\_\_\_\_ consecutive quarters of declining real GDP.
  - A) two
  - B) four
  - C) six
  - D) eight
  
2. Leading economic indicators are:
  - A) the most popular economic statistics.
  - B) data that are used to construct the consumer price index and the unemployment rate.
  - C) variables that tend to fluctuate in advance of the overall economy.
  - D) standardized statistics compiled by the National Bureau of Economic Research.
  
3. Alan Blinder's survey of firms found that the theory of price stickiness accepted by the most firms was:
  - A) menu costs.
  - B) coordination failure.
  - C) nominal contracts.
  - D) procyclical elasticity.
  
4. If an aggregate demand curve is drawn with real  $GDP$  ( $Y$ ) along the horizontal axis and the price level ( $P$ ) along the vertical axis, using the quantity theory of money as a theory of aggregate demand, this curve slopes \_\_\_\_\_ to the right and gets \_\_\_\_\_ as it moves farther to the right.
  - A) downward; steeper
  - B) downward; flatter
  - C) upward; steeper
  - D) upward; flatter
  
5. The vertical long-run aggregate supply curve satisfies the classical dichotomy because the natural rate of output does *not* depend on:
  - A) the labor supply.
  - B) the supply of capital.
  - C) the money supply.
  - D) technology.

6. The short-run aggregate supply curve is horizontal at:
- A) a level of output determined by aggregate demand.
  - B) the natural level of output.
  - C) the level of output at which the economy's resources are fully employed.
  - D) a fixed price level.
7. If a short-run equilibrium occurs at a level of output above the natural rate, then in the transition to the long run, prices will \_\_\_\_\_ and output will \_\_\_\_\_.
- A) increase; increase
  - B) decrease; decrease
  - C) increase; decrease
  - D) decrease; increase
8. Starting from long-run equilibrium, if the velocity of money increases (due to, for example, the invention of automatic teller machines) and no action is taken by the government:
- A) prices will rise in both the short run and the long run.
  - B) output will rise in both the short run and the long run.
  - C) prices will rise in the short run and output will rise in the long run.
  - D) output will rise in the short run and prices will rise in the long run.

Use the following to answer questions 9-10:

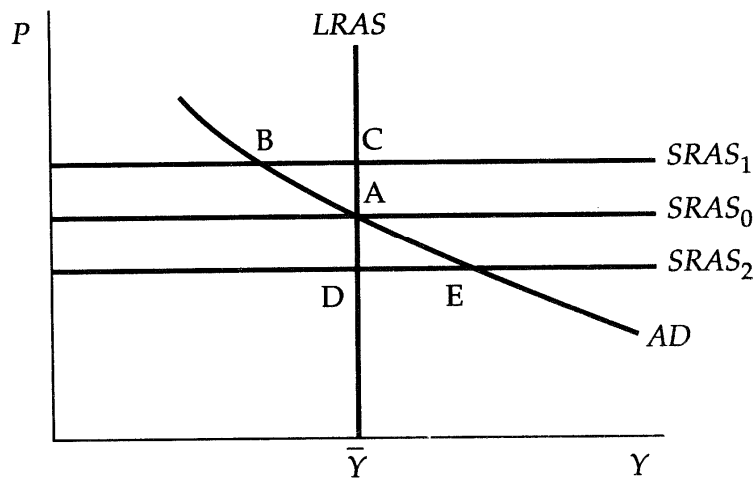
Exhibit: Shift in Aggregate Demand



9. (Exhibit: Shift in Aggregate Demand) In this graph, initially the economy is at point E, with price  $P_0$  and output  $Y$ . Aggregate demand is given by curve  $AD_0$ , and  $SRAS$  and  $LRAS$  represent, respectively, short-run and long-run aggregate supply. Now assume that the aggregate demand curve shifts so that it is represented by  $AD_1$ . The economy moves first to point \_\_\_\_\_ and then, in the long run, to point \_\_\_\_\_.
- A) A; D  
 B) D; A  
 C) C; B  
 D) B; C
10. (Exhibit: Shift in Aggregate Demand) Assume that the economy is initially at point A with aggregate demand given by  $AD_2$ . A shift in the aggregate demand curve to  $AD_0$  could be the result of either a(n) \_\_\_\_\_ in the money supply or a(n) \_\_\_\_\_ in velocity.
- A) increase; increase  
 B) increase; decrease  
 C) decrease; increase  
 D) decrease; decrease

Use the following to answer questions 11-12:

Exhibit: Supply Shock



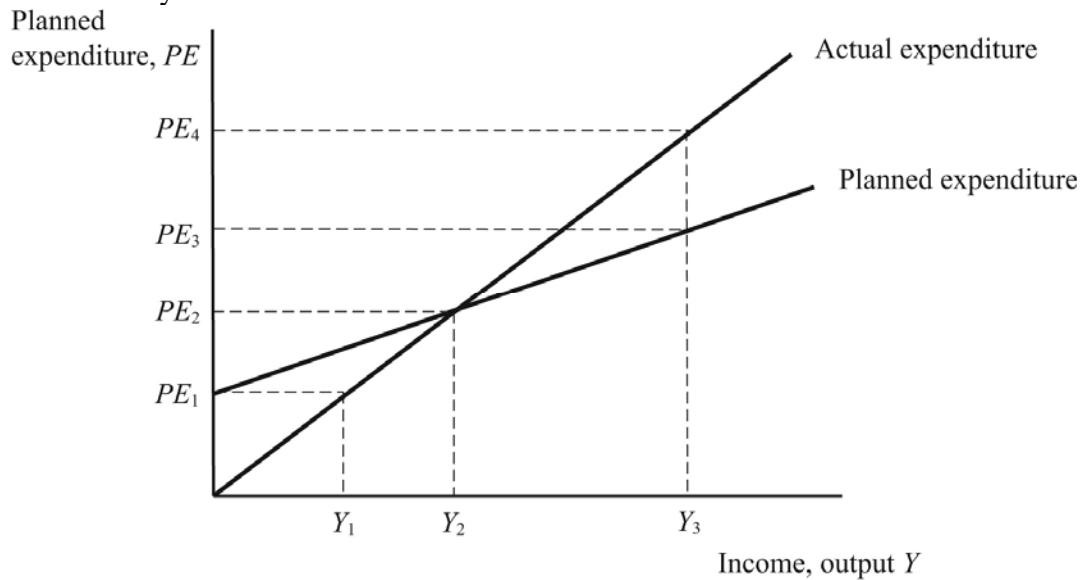
11. (Exhibit: Supply Shock) In this graph, assume that the economy starts at point A and there is a favorable supply shock that does not last forever. In this situation, point \_\_\_\_\_ represents short-run equilibrium and point \_\_\_\_\_ represents long-run equilibrium.
- A) B; C
  - B) B; A
  - C) E; D
  - D) E; A
12. (Exhibit: Supply Shock) Assume that the economy is at point E. With no further shocks or policy moves, the economy in the long run will be at point:
- A) A.
  - B) B.
  - C) C.
  - D) D.
13. In the short run, an adverse supply shock causes:
- A) both prices and output to rise.
  - B) prices to rise and output to fall.
  - C) prices to fall and output to rise.
  - D) both prices and output to fall.
14. If the Fed accommodates an adverse supply shock, output falls \_\_\_\_\_ and prices rise \_\_\_\_\_.
- A) less; more
  - B) less; less
  - C) more; less
  - D) more; more
15. Starting from long-run equilibrium, if a drought pushes up food prices throughout the economy, the Fed could move the economy more rapidly back to full employment output by:
- A) increasing the money supply, but at the cost of permanently higher prices.
  - B) decreasing the money supply, but at the cost of permanently lower prices.
  - C) increasing the money supply, which would restore the original price level.
  - D) decreasing the money supply, which would restore the original price level.

Chapter 10

1. The *IS-LM* model takes \_\_\_\_\_ as exogenous.  
A) the price level and national income  
B) the price level  
C) national income  
D) the interest rate
2. When planned expenditure is drawn on a graph as a function of income, the slope of the line is:  
A) zero.  
B) between zero and one.  
C) one.  
D) greater than one.

Use the following to answer questions 3-4:

Exhibit: Keynesian Cross



3. (Exhibit: Keynesian Cross) In this graph, the equilibrium levels of income and expenditure are:  
A)  $Y_1$  and  $PE_1$ .  
B)  $Y_2$  and  $PE_2$ .  
C)  $Y_3$  and  $PE_3$ .  
D)  $Y_3$  and  $PE_4$ .

4. (Exhibit: Keynesian Cross) In this graph, if firms are producing at level  $Y_3$ , then inventories will \_\_\_\_\_ inducing firms to \_\_\_\_\_ production.
- A) rise; increase
  - B) rise; decrease
  - C) fall; increase
  - D) fall; decrease
5. In the Keynesian-cross model, if government purchases increase by 100, then planned expenditures \_\_\_\_\_ for any given level of income.
- A) increase by 100
  - B) increase by more than 100
  - C) decrease by 100
  - D) increase, but by less than 100
6. According to the Keynesian-cross analysis, if  $MPC$  stands for marginal propensity to consume, then a rise in taxes of  $\Delta T$  will:
- A) decrease equilibrium income by  $\Delta T$ .
  - B) decrease equilibrium income by  $\Delta T/(1 - MPC)$ .
  - C) decrease equilibrium income by  $(\Delta T)(MPC)/(1 - MPC)$ .
  - D) not affect equilibrium income at all.
7. An increase in government spending generally shifts the  $IS$  curve, drawn with income along the horizontal axis and the interest rate along the vertical axis:
- A) downward and to the left.
  - B) upward and to the right.
  - C) upward and to the left.
  - D) downward and to the right.
8. When the  $LM$  curve is drawn, the quantity that is held fixed is:
- A) the nominal money supply.
  - B) the real money supply.
  - C) government spending.
  - D) the tax rate.

9. According to the theory of liquidity preference, if the demand for real money balances exceeds the supply of real money balances, individuals will:
- A) sell interest-earning assets in order to obtain non-interest-bearing money.
  - B) purchase interest-earning assets in order to reduce holdings of non-interest-bearing money.?
  - C) purchase fewer goods and services.
  - D) be content with their portfolios.
10. With the real money supply held constant, the theory of liquidity preference implies that a higher income level will be consistent with:
- A) no change in the interest rate.
  - B) a lower interest rate.
  - C) a higher interest rate.
  - D) first a lower and then a higher interest rate.
11. A decrease in the real money supply, other things being equal, will shift the *LM* curve:
- A) downward and to the left.
  - B) upward and to the left.
  - C) downward and to the right.
  - D) upward and to the right.
12. A decrease in the price level, holding nominal money supply constant, will shift the *LM* curve:
- A) upward and to the right.
  - B) downward and to the right.
  - C) downward and to the left.
  - D) upward and to the left.
13. Changes in monetary policy shift the:
- A) *LM* curve.
  - B) planned spending curve.
  - C) money demand curve.
  - D) *IS* curve.
14. The intersection of the *IS* and *LM* curves determines the values of:
- A)  $r$ ,  $Y$ , and  $P$ , given  $G$ ,  $T$ , and  $M$ .
  - B)  $r$ ,  $Y$ , and  $M$ , given  $G$ ,  $T$ , and  $P$ .
  - C)  $r$  and  $Y$ , given  $G$ ,  $T$ ,  $M$ , and  $P$ .
  - D)  $p$  and  $Y$ , given  $G$ ,  $T$ , and  $M$ .

15. The *IS-LM* model is generally used:
- A) only in the short run.
  - B) only in the long run.
  - C) both in the short run and the long run.
  - D) in determining the price level.