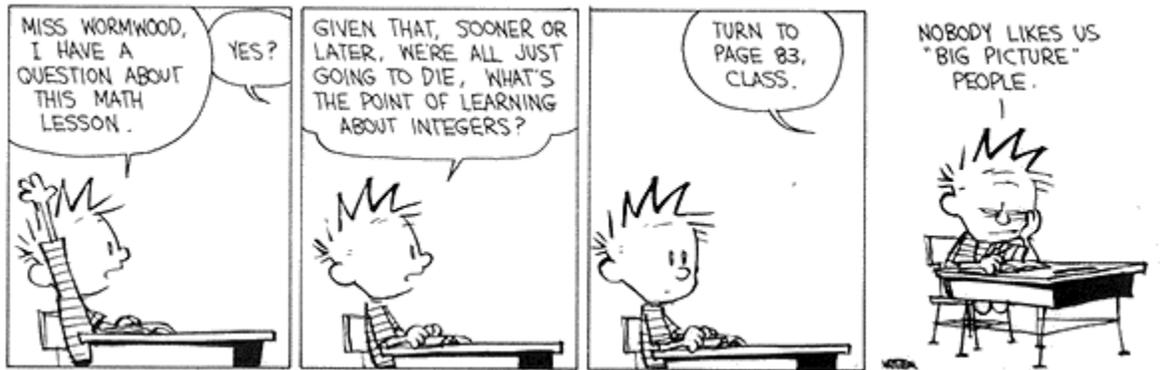


## Assignment: Chapter 15



Use this print out copy of the assignment to work on it at your leisure and to keep it as part of your study notes. For your assignment to be graded you **MUST** submit all you answers on the Blackboard.

Good luck!

### Multiple Choice

Identify the choice that best completes the statement or answers the question.

- \_\_\_ 1. During a recession the economy experiences
  - a. rising employment and income.
  - b. rising employment and falling income.
  - c. rising income and falling employment.
  - d. falling employment and income.
  
- \_\_\_ 2. Which of the following is correct?
  - a. Real GDP is the variable most commonly used to measure short-run economic fluctuations. These fluctuations can be predicted with some accuracy.
  - b. Real GDP is the variable most commonly used to measure short-run economic fluctuations. It is almost impossible to predict these fluctuations with much accuracy.
  - c. Nominal GDP is the variable most commonly used to measure short-run economic fluctuations. These fluctuations can be predicted with some accuracy.
  - d. Nominal GDP is the variable most commonly used to measure short-run economic fluctuations. It is almost impossible to predict these fluctuations with much accuracy.
  
- \_\_\_ 3. During recessions
  - a. sales and profits fall.
  - b. sales and profits rise.
  - c. sales rise, profits fall.
  - d. profits fall, sales rise.
  
- \_\_\_ 4. During recessions which type of spending falls?
  - a. consumption and investment
  - b. investment but not consumption
  - c. consumption but not investment
  - d. neither consumption nor investment

- \_\_\_\_\_ 5. The aggregate demand and aggregate supply graph has
- the price level on the horizontal axis. The price level can be measured by the GDP deflator.
  - the price level on the horizontal axis. The price level can be measured by real GDP.
  - the price level on the vertical axis. The price level can be measured by the GDP deflator.
  - the price level on the vertical axis. The price level can be measured by GDP.
- \_\_\_\_\_ 6. The aggregate demand and aggregate supply graph has
- quantity of output on the horizontal axis. Output can be measured by the GDP deflator.
  - quantity of output on the horizontal axis. Output can be measured by real GDP.
  - quantity of output on the vertical axis. Output can be measured by the GDP deflator.
  - quantity of output on the vertical axis. Output can be measured by real GDP.
- \_\_\_\_\_ 7. Aggregate demand includes
- only the quantity of goods and services households want to buy.
  - only the quantity of goods and services households and firms want to buy.
  - only the quantity of goods and services households, firms, and the government want to buy.
  - the quantity of goods and services households, firms, the government, and customer abroad want to buy.
- \_\_\_\_\_ 8. The model of aggregate demand and aggregate supply
- is different from the model of supply and demand for a particular market, in that we cannot focus on the substitution of resources between markets to explain aggregate relationships.
  - is different from the model of supply and demand for a particular market, in that we have to separate real and nominal variables in the aggregate model.
  - is a straightforward extension of the model of supply and demand for a particular market, in which substitution of resources between markets is highlighted.
  - is a straightforward extension of the model of supply and demand for a particular market, in which the interaction between real and nominal variables is highlighted.
- \_\_\_\_\_ 9. The wealth effect, interest-rate effect, and exchange-rate effect are all explanations for
- the slope of short-run aggregate supply.
  - the slope of long-run aggregate supply.
  - the slope of the aggregate-demand curve.
  - everything that makes the aggregate-demand curve shift.
- \_\_\_\_\_ 10. Changes in the price level affect which components of aggregate demand?
- only consumption and investment
  - only consumption and net exports
  - only investment
  - consumption, investment, and net exports

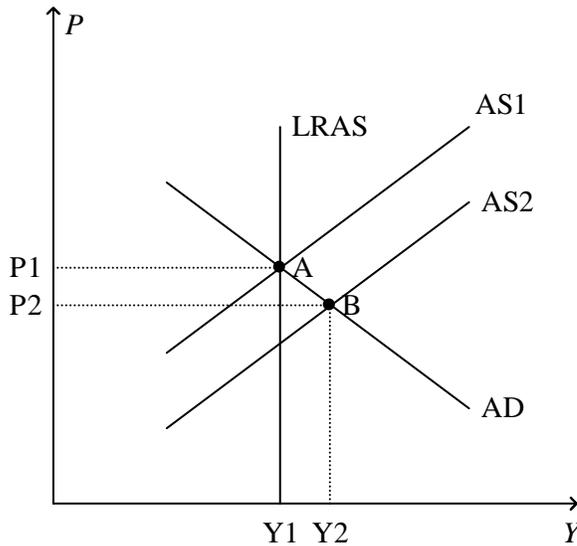
- \_\_\_ 11. If the price level falls, the real value of a dollar
- rises, so people will want to buy more. This response helps explain the slope of the aggregate demand curve.
  - rises, so people will want to buy more. This response shifts aggregate demand to the right.
  - falls, so people will want to buy less. This response helps explain the slope of the aggregate demand curve.
  - falls, so people will want to buy less. This response shifts aggregate demand to the left.
- \_\_\_ 12. The aggregate quantity of goods and services demanded changes as the price level rises because
- real wealth falls, interest rates rise, and the dollar appreciates.
  - real wealth falls, interest rates rise, and the dollar depreciates.
  - real wealth rises, interest rates fall, and the dollar appreciates.
  - real wealth rises, interest rates fall, and the dollar depreciates.
- \_\_\_ 13. When the price level increases, the real value of people's money holdings
- falls, so they buy more.
  - falls, so they buy less.
  - rises, so they buy more.
  - rises, so they buy less.
- \_\_\_ 14. As the price level rises
- people will want to hold more money, so the interest rate rises.
  - people will want to hold more money, so the interest rate falls.
  - people will want to hold less money, so the interest rate falls.
  - people will want to hold less money, so the interest rate rises.
- \_\_\_ 15. Other things the same, when the price level falls, interest rates
- rise, so firms increase investment.
  - rise, so firms decrease investment.
  - fall, so firms increase investment.
  - fall, so firms decrease investment.
- \_\_\_ 16. As the price level rises,
- the exchange rate falls, so net exports fall.
  - the exchange rate falls, so net exports rise.
  - the exchange rate rises, so net exports fall.
  - the exchange rate rises, so net exports rise.
- \_\_\_ 17. When taxes increase, consumption
- increases, so aggregate demand shifts right.
  - increases, so aggregate supply shifts right.
  - decreases, so aggregate demand shifts left.
  - decreases, so aggregate supply shifts left.
- \_\_\_ 18. Suppose businesses in general believe that the economy is likely to head into recession and so they reduce capital purchases. Their reaction would initially shift
- aggregate demand right.
  - aggregate demand left.
  - aggregate supply right.
  - aggregate supply left.

- \_\_\_\_\_ 19. The initial impact of an increase in an investment tax credit is to shift
- aggregate demand right.
  - aggregate demand left.
  - aggregate supply right.
  - aggregate supply left.
- \_\_\_\_\_ 20. When the money supply increases
- interest rates fall and so aggregate demand shifts right.
  - interest rates fall and so aggregate demand shifts left.
  - interest rates rise and so aggregate demand shifts right.
  - interest rates rise and so aggregate demand shifts left.
- \_\_\_\_\_ 21. Which of the following shifts aggregate demand to the left?
- an increase in the price level
  - a decrease in the money supply
  - an increase in net exports
  - Congress passes a new investment tax credit
- \_\_\_\_\_ 22. Which of the following shifts aggregate demand to the right?
- Congress reduces purchases of new weapons systems.
  - The Fed buys bonds in the open market.
  - The price level falls.
  - Net exports fall.
- \_\_\_\_\_ 23. Which of the following shifts aggregate demand to the left?
- The price level rises.
  - The price level falls.
  - The dollar depreciates for some reason other than a change in the price level.
  - Stock prices fall for some reason other than a change in the price level.
- \_\_\_\_\_ 24. Aggregate demand shifts left when the government
- decreases taxes.
  - cuts military expenditures.
  - creates a new investment tax credit
  - None of the above is correct.
- \_\_\_\_\_ 25. Aggregate demand shifts right when the government
- raises personal income taxes.
  - increases the money supply.
  - repeals an investment tax credit.
  - All of the above are correct.
- \_\_\_\_\_ 26. The long-run aggregate supply curve
- is vertical.
  - is a graphical representation of the classical dichotomy.
  - indicates monetary neutrality in the long run.
  - All of the above are correct.

- \_\_\_\_\_ 27. The long-run aggregate supply curve would shift right if immigration from abroad
- increased or Congress made a substantial increase in the minimum wage.
  - decreased or Congress abolished the minimum wage.
  - increased or Congress abolished the minimum wage.
  - decreased or Congress made a substantial increase in the minimum wage.
- \_\_\_\_\_ 28. The long-run aggregate supply curve shifts right if
- immigration from abroad increases.
  - the capital stock increases.
  - technology advances.
  - All of the above are correct.
- \_\_\_\_\_ 29. The long-run aggregate supply curve shifts left if
- the capital stock increases.
  - there is a natural disaster.
  - the government removes some environmental regulations that limit production methods.
  - None of the above is correct.
- \_\_\_\_\_ 30. Which of the following shifts long-run aggregate supply right?
- an increase in either the physical or human capital stock
  - an increase in the human but not the physical capital stock
  - an increase in the physical capital stock, but no the human capital stock
  - neither an increase in the physical capital stock or the human capital stock
- \_\_\_\_\_ 31. The discovery of a large amount of previously-undiscovered oil in the U.S. would shift
- the long-run aggregate-supply curve to the right.
  - the long-run aggregate-supply curve to the left.
  - the aggregate-demand curve to the left.
  - None of the above is correct.
- \_\_\_\_\_ 32. Wages tend to be sticky
- because of contracts, social norms, and notions of fairness.
  - because of contracts, but not social norms or notions of fairness.
  - because of social norms and notions of fairness, but not contracts.
  - None of the above are correct.
- \_\_\_\_\_ 33. The sticky-wage theory of the short-run aggregate supply curve says that when the price level rises more than expected,
- production is more profitable and employment rises.
  - production is more profitable and employment falls.
  - production is less profitable and employment rises.
  - production is less profitable and employment falls.
- \_\_\_\_\_ 34. Other things the same, if workers and firms expected prices to rise by 2 percent but instead they rise by 3 percent, then
- employment and production rise.
  - employment rises and production falls.
  - employment falls and production rises.
  - employment and production fall.

- \_\_\_\_\_ 35. Other things the same, if workers and firms expected inflation to be 2%, but it is only 1% then
- employment and production rise.
  - employment rises and production falls.
  - employment falls and production rises.
  - employment and production fall.
- \_\_\_\_\_ 36. The sticky-price theory implies that
- the short-run aggregate-supply curve is upward-sloping.
  - an unexpected fall in the price level induces firms to reduce the quantity of goods and services they produce.
  - menu costs influence the speed of adjustment of prices.
  - All of the above are correct.
- \_\_\_\_\_ 37. An increase in the expected price level shifts the
- short-run and long-run aggregate supply curves left.
  - the short-run but not the long-run aggregate supply curve left.
  - the long-run but not the short-run aggregate supply curve left.
  - neither the long-run nor the short-run aggregate supply curve left.
- \_\_\_\_\_ 38. A decrease in the expected price level shifts
- only the long-run aggregate supply curve right.
  - only the short-run aggregate supply curve right.
  - both the short-run and the long-run aggregate supply curve right.
  - Neither the short-run nor the long-run aggregate supply curve right.
- \_\_\_\_\_ 39. Recessions in China and India would cause
- the U.S. price level and real GDP to rise.
  - the U.S. price level and real GDP to fall.
  - the U.S. price level to rise and real GDP to fall.
  - the U.S. price level to fall and real GDP to rise.
- \_\_\_\_\_ 40. Economic expansions in Germany and Japan would cause
- the U.S. price level and real GDP to rise.
  - the U.S. price level and real GDP to fall.
  - the U.S. price level to rise and real GDP to fall.
  - the U.S. price level to fall and real GDP to rise.
- \_\_\_\_\_ 41. If the government provides an investment tax credit and increases income taxes,
- real GDP rises, and the price level could rise, fall, or stay the same.
  - real GDP falls, and the price level could rise, fall, or stay the same.
  - the price level rises and real GDP could rise, fall or stay the same
  - None of the above are necessarily correct.

**Figure 33-2.**



- \_\_\_ 42. **Refer to Figure 33-2.** The appearance of the long-run aggregate-supply (LRAS) curve
- is inconsistent with the concept of monetary neutrality.
  - is consistent with the idea that point A represents a long-run equilibrium but not a short-run equilibrium when the relevant short-run aggregate-supply curve is  $AS_1$ .
  - indicates that  $Y_1$  is the natural rate of output.
  - All of the above are correct.
- \_\_\_ 43. **Refer to Figure 33-2.** The shift of the short-run aggregate-supply curve from  $AS_1$  to  $AS_2$
- could be caused by an outbreak of war in the Middle East.
  - could be caused by a decrease in the expected price level.
  - causes the economy to experience an increase in the unemployment rate.
  - causes the economy to experience stagflation.
- \_\_\_ 44. **Refer to Figure 33-2.** Point B represents
- a short-run equilibrium and a long-run equilibrium.
  - a short-run equilibrium but not a long-run equilibrium.
  - a long-run equilibrium but not a short-run equilibrium.
  - neither a short-run equilibrium nor a long-run equilibrium.
- \_\_\_ 45. **Refer to Figure 33-2.** Starting from point B and assuming that aggregate demand is held constant, in the long run the economy is likely to experience
- a falling price level and a falling level of output.
  - a falling price level and a rising level of output.
  - a rising price level and a falling level of output.
  - a rising price level and a rising level of output.

### **The Stock Market Boom of 2015**

Imagine that in 2015 the economy is in long-run equilibrium. Then stock prices rise more than expected and stay high for some time.

- \_\_\_\_\_ 46. **Refer to Stock Market Boom 2015.** Which curve shifts and in which direction?
- aggregate demand shifts right
  - aggregate demand shifts left
  - aggregate supply shifts right
  - aggregate supply shifts left.
- \_\_\_\_\_ 47. **Refer to Stock Market Boom 2015.** In the short run what happens to the price level and real GDP?
- both the price level and real GDP rise.
  - both the price level and real GDP fall.
  - the price level rises and real GDP falls.
  - the price level falls and real GDP rises.
- \_\_\_\_\_ 48. **Refer to Stock Market Boom 2015.** What happens to the expected price level and what impact does this have on wage bargaining?
- The expected price level falls. Bargains are struck for higher wages.
  - The expected price level falls. Bargains are struck for lower wages.
  - The expected price level rises. Bargains are struck for higher wages.
  - The expected price level rises. Bargains are struck for lower wages.
- \_\_\_\_\_ 49. **Refer to Stock Market Boom 2015.** In the long run, the change in price expectations created by the stock market boom shifts
- long-run aggregate supply right.
  - long-run aggregate supply left.
  - short-run aggregate supply right.
  - short-run aggregate supply left.
- \_\_\_\_\_ 50. **Refer to Stock Market Boom 2015.** How is the new long-run equilibrium different from the original one?
- the price level and real GDP are higher
  - the price level and real GDP are lower.
  - the price level is higher and real GDP is the same.
  - the price level is the same and real GDP is higher.