

1. The aggregate demand curve slopes downward to the right for all of the following reasons except:
 - a. the real balances effect.
 - b. the interest rate effect.
 - c. the international trade effect.
 - d. the multiplier effect.

2. Ceteris paribus, short-run aggregate supply decreases in response to:
 - a. a decrease in the price level.
 - b. a decrease in personal income tax rates.
 - c. an increase in consumers expecting future declines in income.
 - d. an increase in the price of a major input, such as oil.

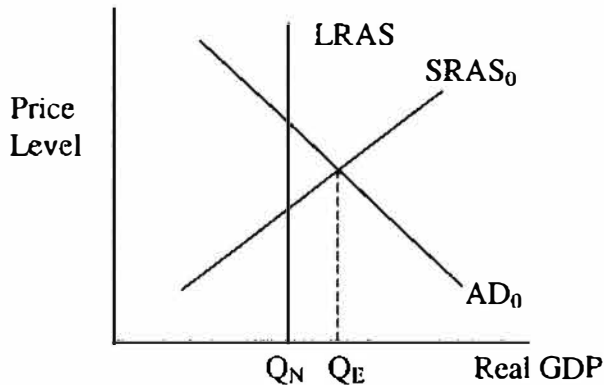
3. Adverse supply shocks lead to:
 - a. a higher price level at a lower level of output (real GDP).
 - b. a lower price level at a lower level of output (real GDP).
 - c. a higher price level at a higher level of output (real GDP).
 - d. a lower price level at a higher level of output (real GDP).

4. If aggregate demand increases and short-run aggregate supply is horizontal, the price level _____, real GDP _____, and the unemployment rate _____.
 - a. stays the same; increases; increases.
 - b. increases; decreases; stays the same.
 - c. stays the same; increases; decreases.
 - d. decreases; stays the same; decreases.

5. The real balances effect refers to the:
 - a. increase in the purchasing power of a given sum of money that occurs when the price level decreases.
 - b. increase in consumer and business borrowing that occurs when interest rates decrease.
 - c. multiple increase in income and spending that occurs when government increases its spending.
 - d. increase in domestic goods purchased when the domestic price level decreases.

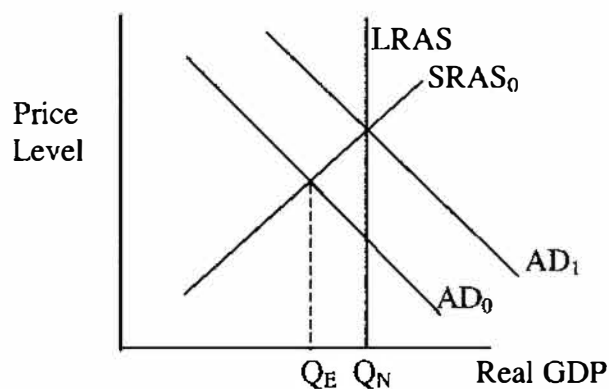
6. If SRAS is upward sloping, an increase in AD will:
- increase both real GDP and the price level.
 - increase real GDP and decrease the price level.
 - decrease both real GDP and the price level.
 - decrease real GDP and increase the price level.

Use the graph below to answer the next two questions.



7. The economy depicted in the graph above is experiencing:
- an inflationary gap.
 - a recessionary gap.
 - short-run equilibrium at full employment.
 - long-run equilibrium.
8. Which of the following best summarizes the process of correction if the economy depicted above is self-regulating?
- Overemployed resources push up input prices, costs of production increase, and the short-run aggregate supply curve shifts to the left.
 - Unemployed resources push down input prices, costs of production decrease, and the short-run aggregate supply curve shifts to the right.
 - Overemployed resources push up input prices, costs of production increase, and the aggregate demand curve shifts to the left.
 - Unemployed resources push down input prices, costs of production decrease, and the aggregate demand curve shifts to the right.
9. The long-run aggregate supply curve is:
- horizontal at the price level associated with the natural rate of unemployment (full employment).
 - a vertical line at equilibrium output for all recessionary gaps.
 - vertical at the output level associated with the natural rate of unemployment (full employment).
 - horizontal at the natural rate of unemployment (full employment).

Use the graph below to answer the next two questions.



10. If the economy portrayed in the above graph is on AD_0 and $SRAS_0$, it is experiencing:
- full employment.
 - overemployment.
 - an inflationary gap.
 - a recessionary gap.
11. Which of the following events would cause AD_0 to shift right to AD_1 ?
- A decrease in the general price level.
 - A decrease in the wages paid to labor.
 - An increase in disposable personal income.
 - A breakthrough in production technology.
12. If the actual unemployment rate (U) is greater than the natural unemployment rate (U_N):
- a recessionary gap exists and there is a surplus of labor.
 - an inflationary gap exists and there is a shortage of labor.
 - a recessionary gap exists and there is a shortage of labor.
 - an inflationary gap exists and there is a surplus of labor.
13. Economists that believe the economy is self-regulating advocate:
- a policy of laissez-faire.
 - discretionary expansionary fiscal policy.
 - discretionary contractionary fiscal policy.
 - a policy of savoir faire.
14. Which of the following statements is *not* consistent with Classical reasoning?
- Flexible wages ensure that labor markets move toward full employment.
 - Supply creates its own demand.
 - Macroeconomic equilibrium is likely to remain at less than full employment.
 - Changes in the interest rate will equate saving and investment.

15. The notion that whatever is produced will be consumed so that a general overproduction of goods and services is not possible is:
- Say's Law and is associated with the Classical view.
 - Say's Law and is associated with the Keynesian view.
 - multiplier effect and is associated with the Classical view.
 - multiplier effect and is associated with the Keynesian view.

Use the table below to answer the next four questions.

<u>Disposable Income</u>	<u>Consumption Spending</u>
\$0	\$500
\$500	\$900
\$1,000	\$1,300
\$1,500	\$1,700
\$2,000	\$2,100
\$2,500	\$2,500

16. In the above example, autonomous consumption is:
- \$0.
 - \$500.
 - \$2,500.
 - impossible to determine.
17. In the above example, saving is zero at income equal to:
- \$0.
 - \$500.
 - \$2,000.
 - \$2,500.
18. In the above example, the marginal propensity to consume is _____.
- 0
 - 0.75
 - 0.5
 - 0.80
19. The algebraic form of the above consumption function is:
- $Y_D = C + S$.
 - $C = \$100 + .75(Y_D)$.
 - $C = \$500 + .8(Y_D)$.
 - $MPC = (\Delta C / \Delta Y_D)$.
20. In the Keynesian model, the primary determinant of consumption spending is _____ and the primary determinant of saving is _____.
- disposable income; the interest rate.
 - saving; investment.
 - supply; demand.
 - disposable income; disposable income.

Use the equations below to answer the next three questions.

$$C = \$200 \text{ million} + .75(Y_D)$$

$$I = \$20 \text{ million}$$

21. According to the above information, saving at income equal to \$800 million:
- cannot be determined from the consumption function.
 - is \$0; \$800 million is breakeven income.
 - is \$160 million.
 - is -\$40 million.
22. According to the above information, equilibrium in this private domestic economy:
- cannot be determined.
 - is at income equal to \$800 million.
 - is at income equal to \$880 million.
 - is at income equal to \$1,000 million.
23. According to the above information, a \$10 million decrease in investment spending will, *ceteris paribus*:
- cause a maximum decrease in equilibrium income of \$40 million.
 - cause a maximum decrease in equilibrium income of \$50 million.
 - cause a maximum increase in equilibrium income of \$40 million.
 - cause a maximum increase in equilibrium income of \$50 million.
24. All of the following statements are true *except*:
- the marginal propensity to consume gives the change in consumption spending that occurs in response to a change in disposable income.
 - $MPC + MPS = 1$.
 - the marginal propensity to save is negative when consumer spending is greater than disposable income.
 - if the $MPC = 0.9$, the $MPS = 0.1$.
25. If total production in the economy exceeds total expenditure, then:
- businesses experience unplanned inventory decreases, increase production, and income and employment rise.
 - consumption exceeds investment and an inflationary gap will emerge.
 - consumption must be less than investment and a recessionary gap will necessarily emerge.
 - businesses experience unplanned inventory increases, cut production, and income and employment fall.
26. If the marginal propensity to consume is 0.90, then the values of the simple spending, tax, and balanced-budget multipliers are _____, _____, and _____ respectively.
- 9; 10; -9
 - 5; -4; 1
 - 10; 9; 1
 - 10; -9; 1

27. When businesses become more optimistic about future sales and profits:
- investment spending increases and aggregate demand decreases.
 - investment spending increases and aggregate demand increases.
 - investment spending decreases and aggregate demand decreases.
 - investment spending decreases and aggregate demand increases.
28. Assume an economy is at equilibrium at real GDP equal to \$1,800 billion and natural real GDP is equal to \$2,000 billion. Given an MPC of 0.80, what is the government spending or tax change necessary to move this economy to a full-employment equilibrium, assuming a horizontal SRAS curve?
- \$200 billion increase in government spending or a \$200 billion decrease in taxes
 - \$40 billion decrease in government spending or a \$50 billion increase in taxes
 - \$200 billion decrease in government spending or a \$200 billion increase in taxes
 - \$40 billion increase in government spending or a \$50 billion decrease in taxes
29. According to Keynes, the depression economy of the 1930's was not likely to rapidly correct itself because:
- Say's Law was true.
 - inflation was too severe.
 - households only saved if paid interest.
 - prices and wages were not flexible downward.
30. According to the Keynesian model of the macroeconomy, the most effective means for closing a recessionary gap is:
- decreases in marginal tax rates which shift SRAS.
 - increases in government spending which shift AD.
 - patience; the economy will correct itself.
 - lowering the growth rate of the money supply to shift LRAS.
31. A \$100 billion increase in government spending when the MPC is 0.75 may potentially lead to:
- an increase in equilibrium real GDP by a maximum of \$100 billion.
 - an increase in equilibrium real GDP by a maximum of \$400 billion.
 - a decrease in equilibrium real GDP by a maximum of \$100 billion.
 - a decrease in equilibrium real GDP by a maximum of \$400 billion.
32. The Laffer Curve suggests that:
- there is some tax rate that maximizes tax revenues.
 - tax revenues continue to increase as the marginal tax rate increases.
 - higher tax rates always create an incentive to increase work effort.
 - tax rates and tax revenues are unrelated.
33. Decreasing marginal tax rates as a means to increase incentives to work, save, and invest is most closely associated with the:
- | | |
|----------------|-------------------|
| a. Classicals. | c. Supply-siders. |
| b. Keynesians. | d. Marginalists. |

34. Increases in government spending that lead to decreases in private sector activity refer to:
- crowding out which tends to increase the effectiveness of fiscal policy.
 - crowding out which tends to decrease the effectiveness of fiscal policy.
 - policy lags which tend to increase the effectiveness of fiscal policy.
 - policy lags which tend to decrease the effectiveness of fiscal policy.
35. A proportional, or flat, tax system is one in which:
- all taxpayers pay the same dollar amount in taxes, regardless of income.
 - all taxpayers pay the same percentage of income in taxes, regardless of income.
 - the percentage of income paid in taxes starts out flat and then rises proportionately as income rises.
 - all government services can be purchased for a flat fee, regardless of income.
36. If the federal government passes a budget for which government spending exceeds tax revenues at full employment, then:
- a cyclical deficit necessarily exists.
 - a structural deficit exists.
 - the balanced-budget amendment becomes invalid.
 - the president is required by law to veto the budget.
37. An increase in government unemployment compensation payments that occurs in response to a downturn in overall economic activity is an example of:
- an automatic stabilizer.
 - contractionary fiscal policy.
 - expansionary monetary policy.
 - the autonomous spending multiplier.
38. If the tax liability is \$2,200 when income is \$20,000 and \$4,800 when income is \$40,000, the income tax structure is:
- | | |
|------------------|-----------------|
| a. regressive. | c. progressive. |
| b. proportional. | d. categorical. |
39. The national debt is:
- the amount by which government spending exceeds tax revenues for one year.
 - the percentage of taxes that go to pay interest on the deficit.
 - the sum total of what the federal government owes its creditors.
 - the sum total of government spending during one presidential administration.
40. When tax receipts exceed government expenditures during a single year, the result is:
- | | |
|--------------------------|-----------------------|
| a. a structural deficit. | c. the national debt. |
| b. a budget deficit. | d. a budget surplus. |

Answer Key:

1. D
2. D
3. A
4. C
5. A
6. A
7. A
8. A
9. C
10. D
11. C
12. A
13. A
14. C
15. A
16. B
17. D
18. D
19. C
20. D
21. B
22. C
23. A
24. C
25. D
26. D
27. B
28. D
29. D
30. B
31. B
32. A
33. C
34. B
35. B
36. B
37. A
38. C
39. C
40. D