Multiple Choice Questions

1. Refer to the above diagrams. Assuming a constant price level, an increase in aggregate expenditures from AE₁ to AE₂ would:
   A. move the economy from A to C along AD₁.
   B. move the economy from C to A along AD₁.
   C. increase aggregate demand from AD₁ to AD₂.
   D. decrease aggregate demand from AD₂ to AD₁.
2. The foreign purchases effect:
A. shifts the aggregate demand curve rightward.
B. shifts the aggregate demand curve leftward.
C. shifts the aggregate supply curve rightward.
D. moves the economy along a fixed aggregate demand curve.

3. Refer to the above diagrams, in which AD₁ and AS₁ are the "before" curves and AD₂ and AS₂ are the "after" curves. Cost-push inflation is depicted by:
A. panel (A) only.
B. panel (B) only.
C. panel (C) only
D. panels (B) and (C).

4. When aggregate demand declines, wage rates may be inflexible downward, at least for a time, because of:
A. the foreign purchases effect.
B. inflexible product prices.
C. wage contracts.
D. the wealth effect.

Answer the next question(s) on the basis of the following information about the relationship between input quantities and real domestic output in a hypothetical economy:

<table>
<thead>
<tr>
<th>Input quantity</th>
<th>Real domestic output</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>150</td>
<td>300</td>
</tr>
<tr>
<td>200</td>
<td>400</td>
</tr>
</tbody>
</table>
5. The level of productivity in the above economy is:
   A. 2.
   B. .5.
   C. 4.
   D. 200.

6. Which of the following is a true statement?
   A. firms and resource suppliers generally find it easier to reduce prices than to raise them.
   B. as the price level increases, interest rates will rise and therefore consumption and investment spending will also rise.
   C. an initial increase in aggregate demand may cause a further increase in aggregate demand because higher prices mean higher incomes.
   D. a decline in aggregate demand will primarily affect real output and employment if prices are inflexible downward.

Suppose that real domestic output in an economy is 20 units, the quantity of inputs is 10, and the price of each input is $4. Answer the following question(s) on the basis of this information.

7. Refer to the above information. Given an increase in input price from $4 to $6, we would expect the aggregate:
   A. supply curve to shift to the left.
   B. supply curve to shift to the right.
   C. demand curve to shift to the left.
   D. demand curve to shift to the right.

8. The aggregate demand curve is:
   A. vertical if full employment exists.
   B. horizontal when there is considerable unemployment in the economy.
   C. downsloping because of the interest-rate, real-balances, and foreign purchases effects.
   D. downsloping because production costs decrease as real output rises.

9. Which of the following would not shift the aggregate supply curve?
   A. an increase in labor productivity
   B. a decline in the price of imported oil
   C. a decline in business taxes
   D. an increase in the price level

10. In deriving the aggregate demand curve from the aggregate expenditures model we note that:
    A. the real-balances effect is irrelevant to both models.
    B. a change in the price level will have no impact on the aggregate expenditures schedule.
    C. an increase (decrease) in the price levels shifts the aggregate expenditures schedule upward (downward).
    D. an increase (decrease) in the price level shifts the aggregate expenditures schedule downward (upward).
Answer the next question(s) on the basis of the following table for a particular country in which $C$ is consumption expenditures, $I_g$ is gross investment expenditures, $G$ is government expenditures, $X$ is exports, and $M$ is imports. All figures are in billions of dollars. Each question is independent of the other questions.

<table>
<thead>
<tr>
<th>Price level</th>
<th>(1) C</th>
<th>(2) $I_g$</th>
<th>(3) G</th>
<th>(4) X</th>
<th>(5) M</th>
<th>(6) GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>128</td>
<td>$18</td>
<td>$2</td>
<td>$3</td>
<td>$1</td>
<td>$5</td>
<td></td>
</tr>
<tr>
<td>125</td>
<td>20</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>122</td>
<td>22</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>3</td>
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<tr>
<td>119</td>
<td>24</td>
<td>8</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>116</td>
<td>26</td>
<td>10</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

11. Refer to the above table. A decrease in the interest rate would:
   A. increase the values in column (3) and increase aggregate demand.
   B. decrease the values in column (3) and increase aggregate demand.
   C. increase the values in column (2) and decrease aggregate demand.
   D. decrease the values in column (2) and decrease aggregate demand.

12. Refer to the above table. The real-balances effect of changes in the price level is:
   A. shown by columns (1) and (2) of the table.
   B. shown by columns (1) and (5) of the table.
   C. shown by columns (1) and (4) of the table.
   D. not shown by the data in the table.

13. Per-unit production cost is:
   A. real output divided by inputs.
   B. total input cost divided by units of output.
   C. units of output divided by total input cost.
   D. a determinant of aggregate demand.
14. Refer to the above diagram. Other things equal, a shift of the aggregate supply curve from AS₀ to AS₁ might be caused by a(n):
A. increase in government regulation.
B. increase in aggregate demand.
C. increase in productivity.
D. decline in nominal wages.

15. Other things equal, an improvement in productivity will:
A. increase the equilibrium price level.
B. shift the aggregate supply curve to the left.
C. shift the aggregate supply curve to the right.
D. shift the aggregate demand curve to the left.

16. When aggregate demand declines, some firms may reduce employment rather than wages because wage reductions may:
A. not be possible due to the minimum wage law.
B. increase the cost of raising money capital.
C. reduce the demands for their products.
D. may set off a price war.

17. The economy's long-run AS curve assumes that wages and other resource prices:
A. eventually rise and fall to match upward or downward changes in the price level.
B. are flexible upward but inflexible downward.
C. rise and fall more rapidly than the price level.
D. are relatively inflexible both upward and downward.
18. (Last Word) Which of the following is a reason why changes in the price of imported oil have less of an effect on the U. S. economy than in the 1970s and early 1980s?
A. The United States is now more reliant on domestic oil and less reliant on imported oil.
B. The amount of energy consumed in producing each dollar of GDP has greatly declined.
C. The United States has vastly expanded its hydroelectric capacity (dams and reservoirs).
D. The United States has greatly expanded its passenger train services.

19. If aggregate demand increases and aggregate supply decreases, the price level:
A. will decrease, but real output may either increase or decrease.
B. will increase, but real output may either increase or decrease.
C. and real output will both increase.
D. and real output will both decrease.

20. The economy's long-run aggregate supply curve:
A. slopes upward and to the right.
B. is vertical.
C. is horizontal.
D. slopes downward and to the right.

21. An increase in net exports will shift the:
A. aggregate expenditures curve upward and the aggregate demand curve rightward.
B. aggregate expenditures curve upward and the aggregate demand curve leftward.
C. aggregate expenditures curve downward and the aggregate demand curve rightward.
D. aggregate expenditures curve downward and the aggregate demand curve leftward.

22. An increase in input productivity will:
A. shift the aggregate supply curve leftward.
B. reduce the equilibrium price level, assuming downward flexible prices.
C. reduce the equilibrium real output.
D. reduce aggregate demand.

23. We would expect a decline in personal and corporate income taxes to:
A. shift the aggregate demand curve rightward.
B. decrease consumption and investment spending.
C. decrease real output.
D. shift the aggregate supply curve leftward.
24. In the above diagram, a shift from AS₁ to AS₂ might be caused by a(n):
A. increase in market power of resource sellers.
B. increase in the prices of imported resources.
C. decrease in the prices of domestic resources.
D. increase in business taxes.

25. Other things equal, a decrease in the real interest rate will:
A. expand investment and shift the AD curve to the left.
B. expand investment and shift the AD curve to the right.
C. reduce investment and shift the AD curve to the left.
D. reduce investment and shift the AD curve to the right.

26. Refer to the above information. All else being equal, if the price of each input increased from $4 to $6, productivity would:
A. fall from 2 to 3.
B. fall from .50 to .33.
C. rise from 1 to 2.
D. remain unchanged.

27. Refer to the above table. If the equilibrium level of real GDP is $43 billion, its level of consumption will be:
A. $20 billion.
B. $22 billion.
C. $24 billion.
D. $26 billion.

28. (Consider This) The ratchet effect is the tendency of:
A. the price level to increase but not to decrease.
B. nominal GDP to increase more rapidly than real GDP.
C. real interest rates to fall more rapidly than nominal interest rates.
D. consumption to rise year after year regardless of what happens to disposable income.
29. The aggregate supply curve (short-run) is upsloping because:
A. wages and other resource prices match changes in the price level.
B. the price level is flexible upward but inflexible downward.
C. per-unit production costs rise as the economy moves toward and beyond its full-employment real output.
D. wages and other resource prices are flexible upward but inflexible downward.

30. (Consider This) The idea that the price level readily moves upward but not downward is called the:
A. elevator effect.
B. escalator effect.
C. ratchet effect.
D. stair-step effect.

Pre-Test Chapter 10 ed17 Key

7. A          17. A          27. D