Chapter 33
Aggregate Demand and Aggregate Supply

TRUE/FALSE

1. According to classical macroeconomic theory, changes in the money supply change nominal but not real variables.
   ANS: T  DIF: 1  REF: 33-2
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Classical economics  MSC: Definitional

2. Because economists understand what things change GDP, they can predict recessions with a fair amount of accuracy.
   ANS: F  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Economic fluctuations  MSC: Analytical

3. Most macroeconomic variables that measure some type of income, spending, or production fluctuate closely together.
   ANS: T  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Economic fluctuations  MSC: Interpretive

4. Like real GDP, investment fluctuates, but it fluctuates much less than real GDP.
   ANS: F  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Economic fluctuations  MSC: Investment

5. When output rises, unemployment falls.
   ANS: T  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Economic fluctuations  MSC: Unemployment

6. An increase in the money supply causes output to rise in the long run.
   ANS: F  DIF: 1  REF: 33-2
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Monetary neutrality  MSC: Definitional

7. Most economists believe that classical theory describes the world in the short run but not in the long run.
   ANS: F  DIF: 1  REF: 33-2
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Classical dichotomy  MSC: Interpretive

8. A change in the money supply changes only nominal variables in the long run.
   ANS: T  DIF: 1  REF: 33-2
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Monetary neutrality  MSC: Definitional

9. The explanations for the slopes of the aggregate demand and short-run aggregate supply curves are the same as the explanations for the slopes of demand and supply curves for specific goods and services.
   ANS: F  DIF: 1  REF: 33-2
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand slope | Short-run aggregate supply slope  MSC: Definitional

10. The aggregate-demand curve shows the quantity of domestic goods and services that households, firms, the government, and customers abroad want to buy at each price level.
    ANS: T  DIF: 2  REF: 33-2
    NAT: Analytic  LOC: Aggregate demand and aggregate supply
    TOP: Aggregate-demand curve  MSC: Definitional
11. A decrease in the price level makes consumers feel wealthier, so they purchase more. This logic helps explain why the aggregate demand curve slopes downward.

**ANS:** T  **DIF:** 1  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Wealth effect  **MSC:** Analytical

12. Other things the same, a decrease in the price level makes the interest rate decrease, which leads to a depreciation of the dollar in the foreign-currency exchange.

**ANS:** T  **DIF:** 2  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Wealth effect | Exchange-rate effect  **MSC:** Analytical

13. The exchange-rate effect is the idea that a higher U.S. price level causes the value of the dollar to increase in foreign exchange markets, and this effect contributes to the downward slope of the aggregate-demand curve.

**ANS:** T  **DIF:** 2  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate demand slope  **MSC:** Interpretive

14. The downward slope of the aggregate demand curve is based on logic that as the price level rises, consumption, investment, and net exports all fall.

**ANS:** T  **DIF:** 2  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate demand slope  **MSC:** Interpretive

15. Aggregate demand shifts to the left if the money supply increases.

**ANS:** F  **DIF:** 1  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate demand shifts | Monetary policy  **MSC:** Applicative

16. A decrease in the money supply causes the interest rate to rise so that investment falls.

**ANS:** T  **DIF:** 2  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate demand shifts | Money supply  **MSC:** Analytical

17. If speculators bid up the value of the dollar in the market for foreign-currency exchange, U.S. aggregate demand would shift to the left.

**ANS:** T  **DIF:** 2  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate demand shifts | Net exports  **MSC:** Analytical

18. The effect of a change in the value of the dollar in the foreign exchange market due to a change in the price level helps explain the slope of aggregate demand, but does not shift it. The effects of a change in the value of the dollar in the foreign exchange market due to speculation is shown by shifting the aggregate demand curve.

**ANS:** T  **DIF:** 3  **REF:** 33-3  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate-demand curve  **MSC:** Analytical

19. An increase in the money supply shifts the long-run aggregate supply curve to the right.

**ANS:** F  **DIF:** 1  **REF:** 33-4  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Long-run aggregate supply | Monetary policy  **MSC:** Applicative

20. Technological progress shifts the long-run aggregate supply curve to the right.

**ANS:** T  **DIF:** 1  **REF:** 33-4  
**NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  
**TOP:** Economic growth and inflation  **MSC:** Applicative
21. Other things the same, technological progress raises the price level.

ANS: F  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Economic growth and inflation  MSC: Applicative

22. Because the price level does not affect the long-run determinants of real GDP, the long-run aggregate-supply is vertical.

ANS: T  DIF: 1  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply  MSC: Interpretive

23. We could explain continued increases in both output and the price level by supposing that only aggregate demand shifted right over time.

ANS: F  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Economic growth and inflation  MSC: Analytical

24. If not all prices adjust instantly to changing economic circumstances, an unexpected fall in the price level leaves some firms with higher-than-desired prices, and these higher-than-desired prices depress sales and induce firms to reduce the quantity of goods and services they produce.

ANS: T  DIF: 1  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Misperceptions theory  MSC: Interpretive

25. All explanations for the upward slope of the short-run aggregate supply curve suppose that the quantity of output supplied increases when the actual price level exceeds the expected price level.

ANS: T  DIF: 1  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply slope  MSC: Interpretive

26. The only way to rationalize an upward slope for the short-run aggregate-supply curve is to argue that wages are sticky in the short run.

ANS: F  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate-supply curve  MSC: Interpretive

27. An increase in the actual price level does not shift the short-run aggregate supply curve, but an expected increase in the price level shifts the short-run aggregate supply curve to the left.

ANS: T  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply  MSC: Analytical

28. Fluctuations in real GDP are caused only by changes in aggregate demand and not by changes in aggregate supply.

ANS: F  DIF: 1  REF: 33-5
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run equilibrium | Economic fluctuations  MSC: Definitional

29. Increased uncertainty and pessimism about the future of the economy leads firms to desire less investment spending which shifts the aggregate-demand curve to the left.

ANS: T  DIF: 1  REF: 33-5
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand shifts | Pessimism  MSC: Applicative

30. Increased optimism about the future leads to rising prices and falling unemployment in the short run.

ANS: T  DIF: 2  REF: 33-5
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run equilibrium | Pessimism  MSC: Analytical
31. In response to a decrease in output, the economy would revert to its original level of prices and output whether the decrease in output was caused by a decrease in aggregate demand or a decrease in aggregate supply.

ANS: F DIF: 2 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: Long-run equilibrium
MSC: Analytical

32. If aggregate demand shifts right, then eventually price level expectations rise. The increase in price level expectations causes the short-run aggregate-supply curve to shift to the left.

ANS: T DIF: 2 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: Long-run equilibrium
MSC: Analytical

33. If aggregate demand and aggregate supply both shift right, we can be sure that the price level is higher in the short run.

ANS: F DIF: 2 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: Short-run equilibrium
MSC: Analytical

34. Economists mostly agree that the Great Depression was principally caused by factors that shifted short-run aggregate supply left.

ANS: F DIF: 1 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: Great Depression
MSC: Definitional

35. The primary purpose of the aggregate demand and aggregate supply model is to demonstrate the classical dichotomy.

ANS: F DIF: 1 REF: 33-4
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand and aggregate supply model
MSC: Interpretive

36. Increased output and prices in the United States in the early 1940s were mostly the result of increased government expenditures.

ANS: T DIF: 1 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: World War II
MSC: Definitional

37. During World War II government expenditures increased almost five-fold and output almost doubled.

ANS: T DIF: 2 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: World War II
MSC: Definitional

38. Stagflation results from continued decreases in aggregate demand.

ANS: F DIF: 2 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: Stagflation
MSC: Applicative

39. If the central bank increased the money supply in response to a decrease in short-run aggregate supply, unemployment would return towards its natural rate, but prices would rise even more.

ANS: T DIF: 2 REF: 33-5
NAT: Analytic LOC: Fiscal and monetary policy
TOP: Monetary policy
MSC: Analytical

40. John Maynard Keynes advocated policies that would increase aggregate demand as a way to decrease unemployment caused by recessions.

ANS: T DIF: 1 REF: 33-5
NAT: Analytic LOC: Aggregate demand and aggregate supply
TOP: Keynes
MSC: Definitional
1. The long-run trend in real GDP is upward. How is this possible given business cycles? What explains the upward trend?

**ANS:**
There are occasional short-lived periods of negative real GDP growth. However, in most years real GDP increases. The years of increase are more frequent and the increases large enough that over long periods of time real GDP increases despite the occasional declines. The long-run upward trend in real GDP is due to increases in the labor force and capital stock and advances in technological knowledge.

**DIF:** 2  
**REF:** 33-1  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Economic growth and inflation  
**MSC:** Interpretive

2. What variables besides real GDP tend to decline during recessions? Given the definition of real GDP, argue that declines in these variables are to be expected.

**ANS:**
Variables that fall along with real GDP include employment, incomes, investment, sales, and home purchases. GDP may be measured as either the production of, expenditures on, or income generated from final goods and services. It follows that any other variable that could be used to measure production, expenditures, or income will generally move in the same direction as GDP.

**DIF:** 2  
**REF:** 33-1  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Economic fluctuations  
**MSC:** Interpretive

3. What do most economists believe concerning the relation between the price level and real output?

**ANS:**
Most economists believe that in the long run, real variables are not affected by nominal variables. So, for example, changes in the money supply do not change real variables in the long run. However, most economists believe that nominal variables do change real variables in the short run. In the short-run prices and wages may be fixed based on the expected price level. If the actual price level differs from the expected price level, real variables are affected.

**DIF:** 2  
**REF:** 33-2  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Long-run equilibrium | Short-run equilibrium  
**MSC:** Interpretive

4. Make a list of expenditures whose sum equals GDP.

**ANS:**
consumption, investment, government expenditures, and net exports.

**DIF:** 1  
**REF:** 33-3  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate-demand curve  
**MSC:** Definitional

5. Explain how an increase in the price level changes interest rates. How does this change in interest rates lead to changes in investment and net exports?

**ANS:**
When the price level increases, the purchasing power of money held on hand and in bank accounts declines. This decline makes people feel less wealthy so that they lend less. The reduction in lending causes the interest rate to rise. The rise in interest rates discourages spending on investment goods so that the aggregate quantity of goods and services demanded decreases. As the interest rate increases, the supply of dollars in the market for foreign-currency exchange falls as people wish to purchase fewer foreign assets. This makes the dollar appreciate which decreases net exports.

**DIF:** 3  
**REF:** 33-3  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate-demand curve  
**MSC:** Analytical
6. Make a list of things that would shift the aggregate demand curve to the right.

**ANS:**
Examples (and variations on examples) in the text include a stock market boom that increases consumption spending, a tax cut that increases consumption, improvements in capital goods such as computers that increase investment, increased optimism about the future of the economy induces increased investment, an investment tax credit, an increase in the money supply, an increase in government defense expenditures, and economic expansions overseas that create increases in net exports.

**DIF:** 2  
**REF:** 33-3  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Aggregate demand shifts  
**MSC:** Applicative

7. Make a list of things that would shift the long-run aggregate supply curve to the right.

**ANS:**
Examples in the text (or variations) include increased immigration, a decrease in the minimum wage, less generous unemployment insurance, an increase in the capital stock, an increase in the average level of education, a discovery of new mineral deposits, advances in technology, and removal of barriers to international trade.

**DIF:** 2  
**REF:** 33-4  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Short-run aggregate supply shifts  
**MSC:** Applicative

8. Illustrate the classical analysis of growth and inflation with aggregate demand and long-run aggregate supply curves.

**ANS:**
See graph.

![Graph of aggregate demand and supply curves](image)

Over time, technological advances cause the long-run aggregate supply curve to shift right. Increases in the money supply cause the aggregate demand curve to shift right. Output growth puts downward pressure on the price level, but money supply growth contributes to rising prices.

**DIF:** 2  
**REF:** 33-4  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Economic growth and inflation  
**MSC:** Analytical

9. Use sticky-wage theory to explain why an increase in the expected price level shifts the aggregate supply curve.

**ANS:**
When people expect the price level to increase, wage bargaining will lead to higher wages. The increase in wages raises the costs of production. So firms will supply less at any actual price level.

**DIF:** 2  
**REF:** 33-4  
**NAT:** Analytic  
**LOC:** Aggregate demand and aggregate supply  
**TOP:** Sticky-wage theory  
**MSC:** Analytical
10. Keynes thought that the behavior of the economy in the short run was influenced by what he called "animal spirits." By this he meant that business people sometimes felt good about the economy, and carried out lots of investment, and at other times felt bad about the economy, and so cut back on their investment spending. Explain how such fluctuations in investment would lead to fluctuations in real GDP and prices.

ANS: Fluctuations in investment cause the aggregate demand curve to shift. If the aggregate demand curve shifts to the right, real GDP and the price level rise. If the aggregate demand curve shifts to the left, real GDP and the price level fall. So erratic movements in investment can cause fluctuations in output.

11. Suppose that a decrease in the demand for goods and services pushes the economy into recession. What happens to the price level? If the government does nothing, what ensures that the economy still eventually gets back to the natural rate of output?

ANS: A decrease in aggregate demand causes the price level to fall. If the government takes no action to counter this, then the actual price level will be below the price level that people expected. Individuals will eventually correct their expectations about the price level. As they do so, prices and wages will adjust accordingly, shifting the aggregate supply curve to the right. For example if wages are sticky, in light of the lower price level, firms and workers will eventually make bargains for lower nominal wages. The reduction in wages lowers costs of production, so firms are willing to produce more at any given price level. Consequently, the short-run aggregate supply curve shifts right. The rightward shift in aggregate supply eventually causes output to rise back to the natural rate.

MULTIPLE CHOICE

1. Most economists use the aggregate demand and aggregate supply model primarily to analyze
   a. short-run fluctuations in the economy.
   b. the effects of macroeconomic policy on the prices of individual goods.
   c. the long-run effects of international trade policies.
   d. productivity and economic growth.

ANS: A  DIF:  1  REF:  33-0  NAT: Analytic

2. Most economists use the aggregate demand and aggregate supply model primarily to analyze
   a. short-run fluctuations in the economy.
   b. the effects of macroeconomic policy on the prices of individual goods.
   c. the long-run effects of international trade policies.
   d. productivity and economic growth.

ANS: A  DIF:  1  REF:  33-0  NAT: Analytic
Sec01- Aggregate Demand and Aggregate Supply-Three Key Facts About Economic Fluctuations

MULTIPLE CHOICE

1. Historical evidence for the U.S. economy indicates that
   a. recessions have occurred roughly once every six years since the 1960s.
   b. the unemployment rate usually decreases during a recession and increases shortly after the recession ends.
   c. real GDP usually remains roughly constant during a recession and decreases shortly after the recession ends.
   d. changes in real GDP over the business cycle are largely attributable to changes in investment over the business cycle.

   ANS: D  DIF: 2  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Economic fluctuations, investment  MSC: Interpretive

2. Which of the following is correct?
   a. Short run fluctuations in economic activity happen only in developing countries.
   b. During economic contractions most firms experience rising sales.
   c. Recessions come at regular intervals and are easy to predict.
   d. When real GDP falls, the rate of unemployment rises.

   ANS: D  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Facts about economic fluctuations  MSC: Definitional

3. Which of the following explains why production rises in most years?
   a. increases in the labor force
   b. increases in the capital stock
   c. advances in technological knowledge
   d. All of the above are correct.

   ANS: D  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Growth  MSC: Definitional

4. Which of the following is most commonly used to monitor short-run changes in economic activity?
   a. the inflation rate
   b. real GDP
   c. aggregate demand
   d. aggregate supply

   ANS: B  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Economic fluctuations, real GDP  MSC: Interpretive

5. A relatively mild period of falling incomes and rising unemployment is called a
   a. depression.
   b. recession.
   c. expansion.
   d. business cycle.

   ANS: B  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Business cycle  MSC: Definitional
6. During recessions
   a. workers are laid off.
   b. factories are idle.
   c. firms may find they are unable to sell all they produce.
   d. All of the above are correct.

ANS: D     DIF: 1     REF: 33-1
NAT: Analytic     LOC: Aggregate demand and aggregate supply
TOP: Business cycle     MSC: Definitional

7. 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.

ANS: D     DIF: 1     REF: 33-1
NAT: Analytic     LOC: Aggregate demand and aggregate supply
TOP: Business cycle     MSC: Definitional

8. When we say that economic fluctuations are “irregular and unpredictable,” we mean that
   a. the relationship between output and unemployment is erratic and difficult to characterize.
   b. when one macroeconomic variable that measures income or spending is falling, other
      macroeconomic variables that measure income or spending are likely to be rising.
   c. recessions do not occur at regular intervals.
   d. All of the above are correct.

ANS: C     DIF: 2     REF: 33-1
NAT: Analytic     LOC: Aggregate demand and aggregate supply
TOP: Economic fluctuations     MSC: Interpretive

9. Which of the following is correct?
   a. Economic fluctuations are easily predicted by competent economists.
   b. Recessions have never occurred very close together.
   c. Other measures of spending, income, and production do not fluctuate closely with real GDP.
   d. None of the above is correct.

ANS: D     DIF: 1     REF: 33-1
NAT: Analytic     LOC: Aggregate demand and aggregate supply
TOP: Business cycle     MSC: Definitional

10. Which of the following statements is correct?
    a. Most economists use the model of aggregate demand and aggregate supply to analyze short-run
       economic fluctuations.
    b. Economic fluctuations are essentially unrelated to changes in business conditions.
    c. Economic fluctuations follow a regular, predictable pattern.
    d. All of the above are correct.

ANS: A     DIF: 1     REF: 33-1
NAT: Analytic     LOC: Aggregate demand and aggregate supply
TOP: Economic fluctuations     MSC: Interpretive

11. 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

ANS: A     DIF: 1     REF: 33-1
NAT: Analytic     LOC: Aggregate demand and aggregate supply
TOP: Facts about economic fluctuations     MSC: Definitional
12. Which of the following is correct?
   a. Over the business cycle consumption fluctuates more than investment.
   b. Economic fluctuations are easy to predict.
   c. During recessions sales and profits tend to fall.
   d. Because of government policy the U.S. has suffered no recessions in the last 25 years.

   ANS: C  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Business cycle  MSC: Definitional

13. Recession come at
   a. regular intervals. During recessions consumption spending falls relatively more than investment spending.
   b. regular intervals. During recessions investment spending falls relatively more than consumption spending.
   c. irregular intervals. During recessions consumption spending falls relatively more than investment spending.
   d. irregular intervals. During recessions investment spending falls relatively more than consumption spending.

   ANS: D  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Business cycle  MSC: Definitional

14. During recessions
   a. sales and profits fall.
   b. sales and profits rise.
   c. sales rise, profits fall.
   d. profits fall, sales rise.

   ANS: A  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Business cycle  MSC: Definitional

15. Which of the following typically rises during a recession?
   a. garbage collection
   b. unemployment
   c. corporate profits
   d. automobile sales

   ANS: B  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Business cycle  MSC: Definitional

16. Real GDP
   a. is the current dollar value of all goods produced by the citizens of an economy within a given time.
   b. measures economic activity and income.
   c. is used primarily to measure long-run changes rather than short-run fluctuations.
   d. All of the above are correct.

   ANS: B  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Real GDP  MSC: Definitional

17. Real GDP
   a. moves in the same direction as unemployment.
   b. is not adjusted for inflation.
   c. measures economic activity and real income.
   d. All of the above are correct.

   ANS: C  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Real GDP  MSC: Definitional
18. As recessions begin, production
   a. and unemployment both rise.
   b. rises and unemployment falls.
   c. falls and unemployment rises.
   d. and unemployment both fall.
ANS: C  DIF: 1  REF: 33-1
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Unemployment and the business cycle  MSC: Definitional

19. During recessions investment
   a. falls by a larger percentage than GDP.
   b. falls by about the same percentage as GDP.
   c. falls by a smaller percentage than GDP.
   d. falls but the percentage change is sometimes much larger and sometimes much smaller.
ANS: A  DIF: 2  REF: 33-1
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Investment and the business cycle  MSC: Analytical

20. Which of the following is correct concerning recessions?
   a. They come at fairly regular and predictable intervals.
   b. They are associated with comparatively large declines in investment spending.
   c. They are any period when real GDP growth is less than average.
   d. They tend to be associated with falling unemployment rates.
ANS: B  DIF: 1  REF: 33-1
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Business cycle  MSC: Definitional

21. Historically, the change in real GDP during recessions has been
   a. mostly a change in investment spending.
   b. mostly a change in consumption spending.
   c. about equally divided between consumption and investment spending.
   d. sometimes mostly a change in consumption and sometimes mostly a change in investment.
ANS: A  DIF: 1  REF: 33-1
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Investment and the business cycle  MSC: Definitional

22. Which part of real GDP fluctuates most over the course of the business cycle?
   a. consumption expenditures
   b. government expenditures
   c. investment expenditures
   d. net exports
ANS: C  DIF: 1  REF: 33-1
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Investment and the business cycle  MSC: Definitional

23. During recessions declines in investment account for about
   a. 1/6 of the decline in real GDP.
   b. 1/3 of the decline in real GDP.
   c. 1/2 of the decline in real GDP.
   d. 2/3 of the decline in real GDP.
ANS: D  DIF: 1  REF: 33-1
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Investment and the business cycle  MSC: Definitional
24. Investment is a
   a. small part of real GDP, so it accounts for a small share of the fluctuation in real GDP.
   b. small part of real GDP, yet it accounts for a large share of the fluctuation in real GDP.
   c. large part of real GDP, so it accounts for a large share of the fluctuation in real GDP.
   d. large part of real GDP, yet it accounts for a small share of the fluctuation in real GDP.

   ANS: B  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply  
   TOP: Investment and the business cycle  MSC: Definitional

25. In 2001, the United States was in recession. Which of the following things would you expect not to have happened?
   a. increased layoffs and firings
   b. a higher rate of bankruptcy
   c. increased claims for unemployment insurance
   d. increased investment spending

   ANS: D  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply  
   TOP: Business cycle  MSC: Interpretive

26. Below are pairs of GDP growth rates and unemployment rates. Economists would be shocked to see most of these pairs in the U.S. Which pair of GDP growth rates and unemployment rates is realistic?
   a. 6 percent, 0 percent
   b. 3 percent, 10 percent
   c. -1 percent, 6 percent
   d. -3 percent, 2 percent

   ANS: C  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply  
   TOP: Unemployment and the business cycle  MSC: Interpretive

27. Below are pairs of GDP growth rates and unemployment rates. Economists would be shocked to see most of these pairs in the U.S. Which pair of GDP growth rates and unemployment rates is realistic?
   a. 5 percent, 1 percent
   b. 3 percent, 5 percent
   c. -1 percent, 3 percent
   d. -2 percent, 4 percent

   ANS: B  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply  
   TOP: Unemployment and the business cycle  MSC: Interpretive

28. In the last half of 1999, the U.S. unemployment rate was about 4 percent. Historical experience suggests that this is
   a. above the natural rate, so real GDP growth was likely low.
   b. above the natural rate, so real GDP growth was likely high.
   c. below the natural rate, so real GDP growth was likely low.
   d. below the natural rate, so real GDP growth was likely high.

   ANS: D  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply  
   TOP: Unemployment and the business cycle  MSC: Applicative

29. During the last half of 1980, the U.S. unemployment rate was about 7.5 percent. Historical experience suggests that this is
   a. above the natural rate, so real GDP growth was likely low.
   b. above the natural rate, so real GDP growth was likely high.
   c. below the natural rate, so real GDP growth was likely low.
   d. below the natural rate, so real GDP growth was likely high.

   ANS: A  DIF: 1  REF: 33-1
   NAT: Analytic  LOC: Aggregate demand and aggregate supply  
   TOP: Unemployment and the business cycle  MSC: Applicative
MULTIPLE CHOICE

1. The classical dichotomy refers to the separation of
   a. variables that move with the business cycle and variables that do not.
   b. changes in money and changes in government expenditures.
   c. decisions made by the public and decisions made by the government.
   d. real and nominal variables.

   **ANS:** D  **DIF:** 1  **REF:** 33-2  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** Classical theory
   **MSC:** Definitional

2. According to classical macroeconomic theory, changes in the money supply affect
   a. nominal variables and real variables.
   b. nominal variables, but not real variables.
   c. real variables, but not nominal variables.
   d. neither nominal nor real variables.

   **ANS:** B  **DIF:** 1  **REF:** 33-2  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** Classical theory
   **MSC:** Definitional

3. According to classical macroeconomic theory, changes in the money supply affect
   a. real GDP and the price level.
   b. real GDP but not the price level.
   c. the price level, but not real GDP.
   d. neither the price level nor real GDP.

   **ANS:** C  **DIF:** 2  **REF:** 33-2  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** Classical theory
   **MSC:** Definitional

4. According to the classical model, which of the following would double if the quantity of money doubled?
   a. prices but not nominal income
   b. nominal income but not prices
   c. both prices and nominal income
   d. neither prices nor nominal income

   **ANS:** C  **DIF:** 2  **REF:** 33-2  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** Classical theory
   **MSC:** Definitional

5. The saying “Money is a veil.” means that
   a. while nominal variables are the first thing we may observe about an economy, what’s important are the real variables and the forces that determine them.
   b. money is the principal medium of exchange in most economies.
   c. the primary determinant of short-run economic fluctuations is not real variables, but rather changes in the money supply.
   d. in the long run money is of no importance to the determination of either real or nominal variables.

   **ANS:** A  **DIF:** 2  **REF:** 33-2  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** Classical theory
   **MSC:** Interpretive
6. The classical model is appropriate for analysis of the economy in the
   a. long run, since evidence indicates that money is not neutral in the long run.
   b. long run, since real and nominal variables are essentially determined separately in the long run.
   c. short run, provided money is not neutral.
   d. short run, provided real and nominal variables are highly intertwined.

   ANS: B  DIF: 2  REF: 33-2  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Classical theory
   MSC: Interpretive

7. The quantity of money has no real impact on things people really care about like whether or not they have a job. Most economists would agree that this statement is appropriate concerning
   a. both the short run and the long run.
   b. the short run, but not the long run.
   c. the long run, but not the short run.
   d. neither the long run nor the short run.

   ANS: C  DIF: 2  REF: 33-2  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Classical theory
   MSC: Interpretive

8. Most economists believe that classical macroeconomic theory is a good description of the economy
   a. in neither the short nor long run.
   b. in the short run and in the long run.
   c. in the short run, but not in the long run.
   d. in the long run, but not in the short run.

   ANS: D  DIF: 1  REF: 33-2  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Classical theory
   MSC: Definitional

9. Most economists believe that money neutrality holds
   a. in the short run but not the long run.
   b. in the long run but not the short run.
   c. in both the short run and the long run.
   d. in neither the short run nor the long run.

   ANS: B  DIF: 1  REF: 33-2  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Classical theory
   MSC: Definitional

10. Classical economist David Hume observed that as the money supply expanded after gold discoveries it took some time for prices to rise and in the meantime the economy enjoyed higher employment and production. This is inconsistent with monetary neutrality because
    a. monetary neutrality would mean that neither prices nor production should have risen.
    b. monetary neutrality would mean that production should have risen, but prices should not have.
    c. monetary neutrality would mean the prices should have risen, but production should not have changed.
    d. monetary neutrality would mean that prices and production should both have fallen.

   ANS: C  DIF: 2  REF: 33-2  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Monetary neutrality | David Hume
   MSC: Interpretive

11. Classical economist David Hume observed that as the money supply expanded after gold discoveries
    a. prices and output both increased immediately.
    b. prices increased immediately while output remained unchanged.
    c. it took time for prices to rise; in the meantime output was lower.
    d. it took time for prices to rise; in the meantime output was higher.

   ANS: D  DIF: 2  REF: 33-2  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Monetary neutrality | David Hume
   MSC: Interpretive
12. Real and nominal variables are highly intertwined, and changes in the money supply change real GDP. Most economists would agree that this statement accurately describes
   a. both the short run and the long run.
   b. the short run, but not the long run.
   c. the long run, but not the short run.
   d. neither the long run nor the short run.
ANS: B
DIF: 2
REF: 33-2
NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Classical theory
MSC: Interpretive

13. In order to understand how the economy works in the short run, we need to
   a. study the classical model.
   b. study a model in which real and nominal variables interact.
   c. understand that “money is a veil.”
   d. understand that money is neutral in the short run.
ANS: B
DIF: 2
REF: 33-2
NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Economic fluctuations
MSC: Interpretive

14. We depart from the assumptions of classical economics when we focus on the relationship between
   a. the quantity of output and the price level.
   b. the quantity of output and the unemployment rate.
   c. the price level and the inflation rate.
   d. inflation and the nominal interest rate.
ANS: A
DIF: 2
REF: 33-2
NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Classical dichotomy
MSC: Interpretive

15. The model of short-run economic fluctuations focuses on the price level and
   a. real GDP.
   b. economic growth.
   c. the neutrality of money.
   d. None of the above is correct.
ANS: A
DIF: 1
REF: 33-2
NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand and aggregate supply model
MSC: Definitional

16. When looking at a graph of aggregate demand, which of the following is correct?
   a. There are nominal variables on both the vertical and the horizontal axes.
   b. There are real variables on both the vertical and horizontal axes.
   c. The variable on the vertical axis is nominal; the variable on the horizontal axis is real
   d. The variable on the vertical axis is real; the variable on the horizontal axis is nominal
ANS: C
DIF: 1
REF: 33-2
NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand and aggregate supply model
MSC: Definitional

17. The average price level is measured by
   a. any real variable.
   b. the rate of inflation.
   c. the level of the money supply.
   d. the CPI or the GDP deflator.
ANS: D
DIF: 1
REF: 33-2
NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Price level
MSC: Definitional
18. The aggregate demand and aggregate supply graph has
   a. the price level on the horizontal axis. The price level can be measured by the GDP deflator.
   b. the price level on the horizontal axis. The price level can be measured by real GDP.
   c. the price level on the vertical axis. The price level can be measured by the GDP deflator.
   d. the price level on the vertical axis. The price level can be measured by GDP.
   ANS: C    DIF:  1       REF:  33-2       NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand and aggregate supply model    MSC:  Definitional

19. The aggregate demand and aggregate supply graph has
   a. quantity of output on the horizontal axis. Output can be measured by the GDP deflator.
   b. quantity of output on the horizontal axis. Output can be measured by real GDP.
   c. quantity of output on the vertical axis. Output can be measured by the GDP deflator.
   d. quantity of output on the vertical axis. Output can be measured by real GDP.
   ANS: B    DIF:  2       REF:  33-2       NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand and aggregate supply model    MSC:  Definitional

20. The variables on the vertical and horizontal axes of the aggregate demand and supply graph are
   a. the price level and real output.
   b. real output and employment.
   c. employment and the inflation rate.
   d. the value of money and the price level.
   ANS: A    DIF:  1       REF:  33-2       NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand and aggregate supply model    MSC:  Definitional

21. The aggregate-demand curve shows the
   a. quantity of labor and other inputs that firms want to buy at each price level.
   b. quantity of labor and other inputs that firms want to buy at each inflation rate.
   c. quantity of domestically produced goods and services that households want to buy at each price level.
   d. quantity of domestically produced goods and services that households, firms, the government, and customers abroad want to buy at each price level.
   ANS: D    DIF:  2       REF:  33-2       NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand and aggregate supply model    MSC:  Interpretive

22. The model of aggregate demand and aggregate supply explains the relationship between
   a. the price and quantity of a particular good.
   b. unemployment and output.
   c. wages and employment.
   d. real GDP and the price level.
   ANS: D    DIF:  1       REF:  33-2       NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand and aggregate supply model    MSC:  Definitional

23. Aggregate demand includes
   a. the quantity of goods and services both the government and customers abroad want to buy.
   b. the quantity of goods and services neither the government nor customers abroad want to buy.
   c. the quantity of goods and services the government wants to buy, but not the quantity of goods and services customers abroad want to buy.
   d. the quantity of goods and services customers abroad want to buy, but not the quantity of goods and services the government wants to buy.
   ANS: A    DIF:  1       REF:  33-2       NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand and aggregate supply model    MSC:  Interpretive
24. Aggregate demand includes
   a. only the quantity of goods and services households want to buy.
   b. only the quantity of goods and services households and firms want to buy.
   c. only the quantity of goods and services households, firms, and the government want to buy.
   d. the quantity of goods and services households, firms, the government, and customer abroad want to buy.
ANS: D  DIF: 1  REF: 33-2  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate-demand curve
MSC: Interpretive

25. The curve that shows the quantity of goods and services that firms produce and sell
   a. as it relates to the quantity of goods and services that buyers want to buy is called the aggregate-demand curve.
   b. as it relates to the quantity of goods and services that buyers want to buy is called the aggregate-supply curve.
   c. as it relates to the overall price level is called the aggregate-demand curve.
   d. as it relates to the overall price level is called the aggregate-supply curve.
ANS: D  DIF: 1  REF: 33-2  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate-supply curve
MSC: Interpretive

26. Which of the following adjust to bring aggregate supply and demand into balance?
   a. the price level and real output
   b. the real rate of interest and the money supply
   c. government expenditures and taxes
   d. the saving rate and net exports
ANS: A  DIF: 1  REF: 33-2  NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand and aggregate supply model  MSC: Definitional

27. Which of the sentences concerning the aggregate demand and aggregate supply model is correct?
   a. The aggregate demand and aggregate supply model is nothing more than a large version of the model of market demand and supply.
   b. The price level and quantity of output adjust to bring aggregate demand and supply into balance.
   c. The aggregate supply curve shows the quantity of goods and services that households, firms, and the government want to buy at each price.
   d. All of the above are correct.
ANS: B  DIF: 1  REF: 33-2  NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand and aggregate supply model  MSC: Interpretive

28. The model of aggregate demand and aggregate supply
   a. 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.
   b. 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.
   c. is a straightforward extension of the model of supply and demand for a particular market, in which substitution of resources between markets is highlighted.
   d. 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.
ANS: A  DIF: 2  REF: 33-2  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Supply and demand
MSC: Interpretive
MULTIPLE CHOICE

1. The aggregate-demand curve
   a. has a slope that is explained in the same way as the slope of the demand curve for a particular product.
   b. is vertical in the long run.
   c. shows an inverse relation between the price level and the quantity of all goods and services demanded.
   d. All of the above are correct.
ANS: C DIF: 1 REF: 33-3 NAT: Analytic
LOC: Aggregate demand and aggregate supply TOP: Aggregate demand slope
MSC: Definitional

2. Which of the following is included in the aggregate demand for goods and services?
   a. consumption demand
   b. investment demand
   c. net exports
   d. All of the above are correct.
ANS: D DIF: 1 REF: 33-3 NAT: Analytic
LOC: Aggregate demand and aggregate supply TOP: Aggregate demand
MSC: Definitional

3. Which of the following is not included in aggregate demand?
   a. purchases of stock and bonds
   b. purchases of services such as visits to the doctor
   c. purchases of capital goods such as equipment in a factory
   d. purchases by foreigners of consumer goods produced in the United States
ANS: A DIF: 1 REF: 33-3 NAT: Analytic
LOC: Aggregate demand and aggregate supply TOP: Aggregate demand
MSC: Interpretive

4. When the price level falls the quantity of
   a. consumption goods demanded rises, while the quantity of net exports demanded falls.
   b. consumption goods demanded and the quantity of net exports demanded both rise.
   c. consumption goods demanded and the quantity of net exports demanded both fall.
   d. consumption goods demanded falls, while the quantity of net exports demand rises.
ANS: B DIF: 2 REF: 33-3 NAT: Analytic
LOC: Aggregate demand and aggregate supply TOP: Aggregate demand slope
MSC: Applicative

5. Other things the same, as the price level decreases it induces greater spending on
   a. both net exports and investment.
   b. net exports but not investment.
   c. investment but not net exports.
   d. neither net exports nor investment.
ANS: A DIF: 1 REF: 33-3 NAT: Analytic
LOC: Aggregate demand and aggregate supply TOP: Aggregate demand slope
MSC: Definitional

6. Other things the same, a fall in an economy's overall level of prices tends to
   a. raise both the quantity demanded and supplied of goods and services.
   b. raise the quantity demanded of goods and services, but lower the quantity supplied.
   c. lower the quantity demanded of goods and services, but raise the quantity supplied.
   d. lower both the quantity demanded and the quantity supplied of goods and services.
ANS: B DIF: 1 REF: 33-3 NAT: Analytic
LOC: Aggregate demand and aggregate supply TOP: Aggregate demand and supply slopes
MSC: Definitional
7. The effect of an increase in the price level on the aggregate-demand curve is represented by a
a. shift to the right of the aggregate-demand curve.
b. shift to the left of the aggregate-demand curve.
c. movement to the left along a given aggregate-demand curve.
d. movement to the right along a given aggregate-demand curve.

ANS: C  DIF: 1  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand
MSC: Definitional

8. The wealth effect, interest-rate effect, and exchange-rate effect are all explanations for
a. the slope of short-run aggregate supply.
b. the slope of long-run aggregate supply.
c. the slope of the aggregate-demand curve.
d. everything that makes the aggregate-demand curve shift.

ANS: C  DIF: 1  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand slope
MSC: Definitional

9. Which of the following effects helps to explain the downward slope of the aggregate-demand curve?
a. the exchange-rate effect
b. the wealth effect
c. the interest-rate effect
d. All of the above are correct.

ANS: D  DIF: 2  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand
MSC: Interpretive

10. When the price level changes, which of the following variables will change and thereby cause a change in the aggregate quantity of goods and services demanded?
a. the real value of wealth
b. the interest rate
c. the value of currency in the market for foreign exchange
d. All of the above are correct.

ANS: D  DIF: 2  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand
MSC: Interpretive

11. Changes in the price level affect which components of aggregate demand?
a. only consumption and investment
b. only consumption and net exports
c. only investment
d. consumption, investment, and net exports

ANS: D  DIF: 1  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand
MSC: Definitional

12. The aggregate quantity of goods and service demanded changes as the price level falls because
a. real wealth rises, interest rates rise, and the dollar appreciates.
b. real wealth rises, interest rates fall, and the dollar depreciates.
c. real wealth falls, interest rates rise, and the dollar appreciates.
d. real wealth falls, interest rates fall, and the dollar depreciates.

ANS: B  DIF: 3  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand slope
MSC: Definitional
13. The aggregate quantity of goods and services demanded changes as the price level rises because
   a. real wealth falls, interest rates rise, and the dollar appreciates.
   b. real wealth falls, interest rates rise, and the dollar depreciates.
   c. real wealth rises, interest rates fall, and the dollar appreciates.
   d. real wealth rises, interest rates fall, and the dollar depreciates.

   ANS: A  DIF: 3  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand slope
   MSC: Definitional

14. Other things the same, as the price level falls,
   a. the money supply falls.
   b. interest rates rise.
   c. a dollar buys more domestic goods.
   d. the aggregate-demand curve shifts right.

   ANS: C  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Wealth effect
   MSC: Definitional

15. Other things the same, an increase in the price level makes the dollars people hold worth
   a. more, so they can buy more.
   b. more, so they can buy less.
   c. less, so they can buy more.
   d. less, so they can buy less.

   ANS: D  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Wealth effect
   MSC: Analytical

16. Other things the same, a decrease in the price level makes the dollars people hold worth
   a. more, so they can buy more.
   b. more, so they can buy less.
   c. less, so they can buy more.
   d. less, so they can buy less.

   ANS: A  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Wealth effect
   MSC: Analytical

17. Other things the same, an increase in the price level makes consumers feel
   a. less wealthy, so the quantity of goods and services demanded falls.
   b. less wealthy, so the quantity of goods and services demanded rises.
   c. more wealthy, so the quantity of goods and services demanded rises.
   d. more wealthy, so the quantity of goods and services demanded falls.

   ANS: A  DIF: 1  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Wealth effect
   MSC: Interpretive

18. Other things the same, a decrease in the price level makes consumers feel
   a. less wealthy, so the quantity of goods and services demanded falls.
   b. less wealthy, so the quantity of goods and services demanded rises.
   c. more wealthy, so the quantity of goods and services demanded rises.
   d. more wealthy, so the quantity of goods and services demanded falls.

   ANS: C  DIF: 1  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Wealth effect
   MSC: Interpretive
19. People will spend more if the price level
   a. rises because rising prices increase the real value of a dollar.
   b. rises because rising prices decrease the real value of a dollar.
   c. falls because falling prices increase the real value of a dollar.
   d. falls because falling prices decrease the real value of a dollar.
   
   ANS: C    DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Wealth effect
   MSC: Analytical

20. In the context of aggregate demand and aggregate supply, the wealth effect refers to the idea that, when the
   price level decreases, the real wealth of households
   a. increases and as a result consumption spending increases.  This effect contributes to the downward
   slope of the aggregate-demand curve.
   b. decreases and as a result consumption spending increases.  This effect contributes to the upward
   slope of the aggregate-supply curve.
   c. increases and as a result households increase their money holdings; in turn, interest rates increase
   and investment spending decreases.  This effect contributes to the downward slope of the
   aggregate-demand curve.
   d. decreases and as a result households increase their money holdings; in turn, interest rates increase
   and investment spending decreases.  This effect contributes to the upward slope of the
   aggregate-supply curve.
   
   ANS: A    DIF: 3   REF: 33-3   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Wealth effect
   MSC: Analytical

21. As the price level rises
   a. people will want to buy more bonds, so the interest rate rises.
   b. people will want to buy fewer bonds, so the interest rate falls.
   c. people will want to buy more bonds, so the interest rate falls.
   d. people will want to buy fewer bonds, so the interest rate rises.
   
   ANS: D    DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Interest-rate effect
   MSC: Analytical

22. As the price level falls
   a. people will want to buy more bonds, so the interest rate rises.
   b. people will want to buy fewer bonds, so the interest rate falls.
   c. people will want to buy more bonds, so the interest rate falls.
   d. people will want to buy fewer bonds, so the interest rate rises.
   
   ANS: C    DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Interest-rate effect
   MSC: Analytical

23. As the price level rises
   a. people are more willing to lend, so interest rates rise.
   b. people are more willing to lend, so interest rates fall.
   c. people are less willing to lend, so interest rates fall.
   d. people are less willing to lend, so interest rates rise.
   
   ANS: D    DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Interest-rate effect
   MSC: Analytical
24. As the price level falls
   a. people are more willing to lend, so interest rates rise.
   b. people are more willing to lend, so interest rates fall.
   c. people are less willing to lend, so interest rates fall.
   d. people are less willing to lend, so interest rates rise.

   ANS: B  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Interest-rate effect
   MSC: Analytical

25. Other things the same, a decrease in the price level motivates people to hold
   a. less money, so they lend less, and the interest rate rises.
   b. less money, so they lend more, and the interest rate falls.
   c. more money, so they lend more, and the interest rate rises.
   d. more money, so they lend less, and the interest rate falls.

   ANS: B  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Interest-rate effect
   MSC: Analytical

26. Other things the same, an increase in the price level induces people to hold
   a. less money, so they lend less, and the interest rate rises.
   b. less money, so they lend more, and the interest rate falls.
   c. more money, so they lend more, and the interest rate rises.
   d. more money, so they lend less, and the interest rate falls.

   ANS: D  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Interest-rate effect
   MSC: Analytical

27. When the price level falls
   a. the interest rate rises, so the quantity of goods and services demand rises.
   b. the interest rate rises, so the quantity of goods and services demand falls.
   c. the interest rate falls, so the quantity of goods and services demand rises.
   d. the interest rate falls, so the quantity of goods and services demand falls.

   ANS: C  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Interest-rate effect
   MSC: Analytical

28. Other things the same, when the price level rises, interest rates
   a. rise, so firms increase investment.
   b. rise, so firms decrease investment.
   c. fall, so firms increase investment.
   d. fall, so firms decrease investment.

   ANS: B  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Interest-rate effect
   MSC: Definitional

29. Other things the same, when the price level falls, interest rates
   a. rise, so firms increase investment.
   b. rise, so firms decrease investment.
   c. fall, so firms increase investment.
   d. fall, so firms decrease investment.

   ANS: C  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply  TOP: Interest-rate effect
   MSC: Analytical
30. Other things the same, when the price level rises, interest rates
   a. rise, which means consumers will want to spend more on homebuilding.
   b. rise, which means consumers will want to spend less on homebuilding.
   c. fall, which means consumers will want to spend more on homebuilding.
   d. fall, which means consumers will want to spend less on homebuilding.

   ANS: B  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Interest-rate effect
   MSC: Analytical

31. Other things the same, when the price level falls, interest rates
   a. rise, which means consumers will want to spend more on homebuilding.
   b. rise, which means consumers will want to spend less on homebuilding.
   c. fall, which means consumers will want to spend more on homebuilding.
   d. fall, which means consumers will want to spend less on homebuilding.

   ANS: C  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Interest-rate effect
   MSC: Analytical

32. When interest rates fall
   a. firms want to borrow more for new plants and equipment and households want to borrow more for homebuilding.
   b. firms want to borrow more for new plants and equipment and households want to borrow less for homebuilding.
   c. firms want to borrow less for new plants and equipment and households want to borrow more for homebuilding.
   d. firms want to borrow less for new plants and equipment and households want to borrow less for homebuilding.

   ANS: A  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Interest-rate effect
   MSC: Analytical

33. When the price level falls
   a. households want to lend more, so the interest rate rises making the quantity of goods and services demanded rise.
   b. households want to lend more, so the interest rate falls, making the quantity of goods and services demanded rise.
   c. households want to lend more, so the interest rate rises, making the quantity of goods and services demanded fall.
   d. None of the above are correct.

   ANS: B  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Interest-rate effect
   MSC: Analytical

34. When the price level falls
   a. households want to lend less.
   b. the interest rate rises.
   c. firms want to spend less on investment goods.
   d. None of the above are correct.

   ANS: D  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Interest-rate effect
   MSC: Analytical
35. Other things the same, as the price level falls, which of the following increases?
   a. lending and investment spending
   b. lending, but not investment spending
   c. investment spending, but not lending
   d. neither investment spending nor lending

   ANS: A    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Interest-rate effect
   MSC: Interpretive

36. People will want to buy more when the
   a. price level rises, because the interest rate rises.
   b. price level rises, because the interest rate falls.
   c. price level falls, because the interest rate rises.
   d. price level falls, because the interest rate falls.

   ANS: D    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Interest-rate effect
   MSC: Analytical

37. In the context of the aggregate-demand curve, the interest-rate effect refers to the idea that, when the price level increases,
   a. the real value of money decreases; in turn, the real value of the dollar increases in foreign exchange markets, which decreases net exports.
   b. the real value of money decreases; in turn, interest rates increase, which decreases net exports.
   c. households increase their holdings of money; in turn, interest rates decrease, which reduces spending on investment goods.
   d. households increase their holdings of money; in turn, interest rates increase, which reduces spending on investment goods.

   ANS: D    DIF: 3    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Interest-rate effect
   MSC: Analytical

38. Other things the same, if the price level rises, then domestic interest rates
   a. rise, so domestic residents will want to hold more foreign bonds.
   b. rise, so domestic residents will want to hold fewer foreign bonds.
   c. fall, so domestic residents will want to hold more foreign bonds.
   d. fall, so domestic residents will want to hold fewer foreign bonds.

   ANS: B    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Exchange-rate effect
   MSC: Analytical

39. Other things the same, if the price level falls, domestic interest rates
   a. rise, so domestic residents will want to hold more foreign bonds.
   b. rise, so domestic residents will want to hold fewer foreign bonds.
   c. fall, so domestic residents will want to hold more foreign bonds.
   d. fall, so domestic residents will want to hold fewer foreign bonds.

   ANS: C    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Exchange-rate effect
   MSC: Analytical
40. Other things the same, if the price level falls, people
   a. increase foreign bond purchases, so the supply of dollars in the market for foreign-currency exchange increases.
   b. increase foreign bond purchases, so the supply of dollars in the market for foreign-currency exchange decreases.
   c. decrease foreign bond purchases, so the supply of dollars in market for foreign-currency exchange increases.
   d. decrease foreign bond purchases, so the supply of dollars in the market for foreign-currency exchange decreases.

ANS: A  DIF: 3  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Exchange-rate effect
MSC: Analytical

41. Other things the same, if the price level rises, people
   a. increase foreign bond purchases, so the supply of dollars in the market for foreign-currency exchange increases.
   b. increase foreign bond purchases, so the supply of dollars in the market for foreign-currency exchange decreases.
   c. decrease foreign bond purchases, so the supply of dollars in the market for foreign-currency exchange increases.
   d. decrease foreign bond purchases, so the supply of dollars in the market for foreign-currency exchange decreases.

ANS: D  DIF: 3  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Exchange-rate effect
MSC: Analytical

42. Other things the same, if the U.S. price level rises, then
   a. the supply of dollars in the market for foreign-currency exchange increases, so the exchange rate rises.
   b. the supply of dollars in the market for foreign-currency exchange increases, so the exchange rate falls.
   c. the supply of dollars in the market for foreign-currency exchange decreases, so the exchange rate rises.
   d. the supply of dollars in the market for foreign-currency exchange decreases, so the exchange rate falls.

ANS: C  DIF: 3  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Exchange-rate effect
MSC: Analytical

43. Other things the same, if the U.S. price level falls, then
   a. the supply of dollars in the market for foreign-currency exchange increases, so the exchange rate rises.
   b. the supply of dollars in the market for foreign-currency exchange increases, so the exchange rate falls.
   c. the supply of dollars in the market for foreign-currency exchange decreases, so the exchange rate rises.
   d. the supply of dollars in the market for foreign-currency exchange decreases, so the exchange rate falls.

ANS: B  DIF: 3  REF: 33-3  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Exchange-rate effect
MSC: Analytical
44. When the dollar depreciates, each dollar buys
   a. more foreign currency, and so buys more foreign goods.
   b. more foreign currency, and so buys fewer foreign goods.
   c. less foreign currency, and so buys more foreign goods.
   d. less foreign currency, and so buys fewer foreign goods.

   ANS: D        DIF: 2        REF: 33-3        NAT: Analytic
   LOC: Aggregate demand and aggregate supply        TOP: Exchange-rate effect
   MSC: Definitional

45. When the dollar depreciates, U.S.
   a. exports and imports increase.
   b. exports increase, while imports decrease.
   c. exports decrease, while imports increase.
   d. exports and imports decrease.

   ANS: B        DIF: 2        REF: 33-3        NAT: Analytic
   LOC: Aggregate demand and aggregate supply        TOP: Exchange-rate effect
   MSC: Definitional

46. When the dollar appreciates, U.S.
   a. exports decrease, while imports increase.
   b. exports and imports decrease.
   c. exports and imports increase.
   d. exports increase, while imports decrease.

   ANS: A        DIF: 2        REF: 33-3        NAT: Analytic
   LOC: Aggregate demand and aggregate supply        TOP: Exchange-rate effect
   MSC: Definitional

47. As the price level rises,
   a. the exchange rate falls, so net exports fall.
   b. the exchange rate falls, so net exports rise.
   c. the exchange rate rises, so net exports fall.
   d. the exchange rate rises, so net exports rise.

   ANS: C        DIF: 2        REF: 33-3        NAT: Analytic
   LOC: Aggregate demand and aggregate supply        TOP: Exchange-rate effect
   MSC: Analytical

48. As the price level falls,
   a. the exchange rate falls, so net exports fall.
   b. the exchange rate falls, so net exports rise.
   c. the exchange rate rises, so net exports fall.
   d. the exchange rate rises, so net exports rise.

   ANS: B        DIF: 2        REF: 33-3        NAT: Analytic
   LOC: Aggregate demand and aggregate supply        TOP: Exchange-rate effect
   MSC: Analytical

49. A decrease in U.S. interest rates leads to
   a. a depreciation of the dollar that leads to greater net exports.
   b. a depreciation of the dollar that leads to smaller net exports.
   c. an appreciation of the dollar that leads to greater net exports.
   d. an appreciation of the dollar that leads to smaller net exports.

   ANS: A        DIF: 2        REF: 33-3        NAT: Analytic
   LOC: Aggregate demand and aggregate supply        TOP: Exchange-rate effect
   MSC: Analytical
50. Other things the same, a decrease in the price level causes the interest rate to
a. increase, the dollar to appreciate, and net exports to increase.
b. increase, the dollar to depreciate, and net exports to decrease.
c. decrease, the dollar to depreciate, and net exports to increase.
d. decrease, the dollar to appreciate, and net exports to decrease.

ANS: C   DIF: 3   REF: 33-3   NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Exchange-rate effect | Interest-rate effect   MSC: Analytical

51. Other things the same, an increase in the price level causes the interest rate to
a. increase, the dollar to depreciate, and net exports to increase.
b. increase, the dollar to appreciate, and net exports to decrease.
c. decrease, the dollar to depreciate, and net exports to increase.
d. decrease, the dollar to appreciate, and net exports to decrease.

ANS: B   DIF: 3   REF: 33-3   NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Exchange-rate effect | Interest-rate effect   MSC: Analytical

52. Other things the same, as the price level falls, the real value of a dollar
a. rises, and interest rates rise.
b. rises, and interest rates fall.
c. falls, and interest rates rise.
d. falls, and interest rates fall.

ANS: B   DIF: 2   REF: 33-3   NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Wealth effect | Interest-rate effect   MSC: Analytical

53. Other things the same, as the price level rises, the real value of a dollar
a. rises, and interest rates rise.
b. rises, and interest rates fall.
c. falls, and interest rates rise.
d. falls, and interest rates fall.

ANS: C   DIF: 2   REF: 33-3   NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Wealth effect | Interest-rate effect   MSC: Analytical

54. Other things the same, as the price level falls, a country's exchange rate
a. and interest rates rise.
b. and interest rates fall.
c. falls and interest rates rise.
d. rises and interest rates fall.

ANS: B   DIF: 2   REF: 33-3   NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Interest-rate effect | Exchange-rate effect   MSC: Analytical

55. Other things the same, as the price level rises, exchange rates
a. and interest rates rise.
b. and interest rates fall.
c. fall and interest rates rise.
d. rise and interest rates fall.

ANS: A   DIF: 2   REF: 33-3   NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Interest-rate effect | Exchange-rate effect   MSC: Analytical
56. Other things the same, as the price level rises, the real value of money
   a. and the exchange rate rise.
   b. and the exchange rate fall.
   c. rises and the exchange rate falls.
   d. falls and the exchange rate rises.

   ANS: D  DIF: 2  REF: 33-3  NAT: Analytic
   TOP: Aggregate demand and aggregate supply
   MSC: Analytical

57. Other things the same as the price level rises,
   a. the dollar depreciates.
   b. the interest rate falls.
   c. people feel less wealthy.
   d. All of the above are correct.

   ANS: C  DIF: 1  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand slope
   MSC: Definitional

58. Other things the same, the aggregate quantity of goods demanded in the U.S. increases if
   a. real wealth falls.
   b. the interest rate rises.
   c. the dollar depreciates.
   d. None of the above is correct.

   ANS: C  DIF: 2  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Exchange-rate effect | Interest-rate effect | Exchange-rate effect
   MSC: Analytical

59. Other things the same, the aggregate quantity of goods demanded in the U.S. increases if
   a. real wealth rises.
   b. the interest rate rises.
   c. the dollar appreciates.
   d. All of the above are correct.

   ANS: A  DIF: 1  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Exchange-rate effect | Interest-rate effect | Exchange-rate effect
   MSC: Definitional

60. Other things the same, the aggregate quantity of goods demanded decreases if
   a. real wealth falls.
   b. the interest rate rises.
   c. the dollar appreciates.
   d. All of the above are correct.

   ANS: D  DIF: 1  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand slope
   MSC: Definitional

61. Which of the following will both make people spend more?
   a. wealth and interest rates rise.
   b. wealth rises and interest rates fall.
   c. wealth falls and interest rates rise.
   d. wealth falls and interest rates fall.

   ANS: B  DIF: 1  REF: 33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Exchange-rate effect | Interest-rate effect
   MSC: Definitional
62. Part of the explanation for why the aggregate-demand curve slopes downward is that a decrease in the price level
   a. decreases the real value of money.
   b. increases the real value of the dollar in foreign exchange markets.
   c. decreases the interest rate.
   d. All of the above are correct.

ANS: C       DIF: 2       REF: 33-3      NAT: Analytic
LOC: Aggregate demand and aggregate supply       TOP: Aggregate demand
MSC: Interpretive

63. Which of the following does not help explain the direction the quantity of aggregate goods demanded changes when the price level decreases?
   a. consumer wealth rises
   b. borrowing rises
   c. each dollar is worth more domestic goods
   d. the dollar appreciates relative to other currencies

ANS: D       DIF: 2       REF: 33-3      NAT: Analytic
LOC: Aggregate demand and aggregate supply       TOP: Aggregate demand slope
MSC: Interpretive

64. Other things the same, a decrease in the price level causes real wealth to
   a. fall, interest rates to fall, and the dollar to appreciate.
   b. fall, interest rates to rise, and the dollar to depreciate.
   c. rise, interest rates to rise, and the dollar to appreciate.
   d. rise, interest rates to fall, and the dollar to depreciate.

ANS: D       DIF: 3       REF: 33-3      NAT: Analytic
LOC: Exchange-rate effect | Interest-rate effect       MSC: Analytical

65. An increase in the interest rate causes investment to
   a. rise and the exchange rate to appreciate.
   b. fall and the exchange rate to depreciate.
   c. rise and the exchange rate to depreciate.
   d. fall and the exchange rate to appreciate.

ANS: D       DIF: 2       REF: 33-3      NAT: Analytic
LOC: Aggregate demand and aggregate supply       TOP: Interest-rate effect | Exchange-rate effect
MSC: Definitional

66. Suppose a stock market boom makes people feel wealthier. The increase in wealth would cause people to desire
   a. increased consumption, which shifts the aggregate-demand curve right.
   b. increased consumption, which shifts the aggregate-demand curve left.
   c. decreased consumption, which shifts the aggregate-demand curve right.
   d. decreased consumption, which shifts the aggregate-demand curve left.

ANS: A       DIF: 1       REF: 33-3      NAT: Analytic
LOC: Aggregate demand and aggregate supply       TOP: Aggregate demand shifts | Stock prices
MSC: Applicative

67. Suppose a fall in stock prices makes people feel poorer. The decrease in wealth would induce people to desire
   a. decreased consumption, shown as a movement to the left along a given aggregate-demand curve.
   b. increased consumption, shown as a movement to the right along a given aggregate-demand curve.
   c. decreased consumption, shifting the aggregate-demand curve to the left.
   d. increased consumption, shifting the aggregate-demand curve to the right.

ANS: C       DIF: 2       REF: 33-3      NAT: Analytic
LOC: Aggregate demand and aggregate supply       TOP: Aggregate demand shifts | Stock prices
MSC: Applicative
68. Suppose a stock market crash makes people feel poorer. This decrease in wealth would induce people to desire
   a. decreased consumption, which shifts aggregate supply left.
   b. decreased consumption, which shifts aggregate demand left.
   c. increased consumption, which shifts aggregate supply right.
   d. increased consumption, which shifts aggregate demand right.

   ANS: B          DIF:  1          REF:  33-3          NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand shifts | Stock prices
   MSC: Applicative

69. From 2001 to 2005 there was a dramatic rise in the price of houses. If this made people feel wealthier, then it
   would shift
   a. aggregate demand right.
   b. aggregate demand left.
   c. aggregate supply right.
   d. aggregate supply left.

   ANS: A          DIF:  1          REF:  33-3          NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand shifts | Housing prices
   MSC: Applicative

70. When taxes decrease, consumption
   a. decreases as shown by a movement to the left along a given aggregate-demand curve.
   b. decreases as shown by a shift of the aggregate demand curve to the left.
   c. increases as shown by a movement to the right along a given aggregate-demand curve.
   d. increases as shown by a shift of the aggregate demand curve to the right.

   ANS: D          DIF:  2          REF:  33-3          NAT:  Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Fiscal policy
   MSC: Applicative

71. When taxes increase, consumption
   a. decreases as shown by a movement to the left along a given aggregate-demand curve.
   b. decreases as shown by a shift of the aggregate demand curve to the left.
   c. increases as shown by a movement to the right along a given aggregate-demand curve.
   d. increases as shown by a shift of the aggregate demand curve to the right.

   ANS: B          DIF:  2          REF:  33-3          NAT:  Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Fiscal policy
   MSC: Applicative

72. When taxes decrease, consumption
   a. increases, so aggregate demand shifts right.
   b. increases, so aggregate supply shifts right.
   c. decreases, so aggregate demand shifts left.
   d. decreases, so aggregate supply shifts left.

   ANS: A          DIF:  2          REF:  33-3          NAT:  Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Fiscal policy
   MSC: Applicative

73. When taxes increase, consumption
   a. increases, so aggregate demand shifts right.
   b. increases, so aggregate supply shifts right.
   c. decreases, so aggregate demand shifts left.
   d. decreases, so aggregate supply shifts left.

   ANS: C          DIF:  2          REF:  33-3          NAT:  Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Fiscal policy
   MSC: Applicative
74. Which of the following both shift aggregate demand left?
   a. a decrease in taxes and at a given price level consumers feel more wealthy
   b. a decrease in taxes and at a given price level consumers feel less wealthy
   c. an increase in taxes and at a given price level consumers feel more wealthy
   d. an increase in taxes and at a given price level consumers feel less wealthy

   ANS: D  DIF:  2  REF:  33-3  NAT:  Analytic
   LOC:  Monetary and fiscal policy
   TOP:  Aggregate demand shifts | Consumption | Fiscal policy

75. Other things the same, an increase in the amount of capital firms wish to purchase would initially shift
   a. aggregate demand right.
   b. aggregate demand left.
   c. aggregate supply right.
   d. aggregate supply left.

   ANS: A  DIF:  2  REF:  33-3  NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand shifts | Investment tax credit  MSC:  Applicative

76. If businesses in general decide that they have overbuilt and so now have too much capital, their response to
this would initially shift
   a. aggregate demand right.
   b. aggregate demand left.
   c. aggregate supply right.
   d. aggregate supply left.

   ANS: B  DIF:  2  REF:  33-3  NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand shifts | Investment  MSC:  Applicative

77. Imagine that businesses in general believe that the economy is likely to head into recession and so they reduce
capital purchases. Their reaction would initially shift
   a. aggregate demand right.
   b. aggregate demand left.
   c. aggregate supply right.
   d. aggregate supply left.

   ANS: B  DIF:  2  REF:  33-3  NAT:  Analytic
   LOC:  Aggregate demand and aggregate supply
   TOP:  Aggregate demand shifts | Investment  MSC:  Applicative

78. The initial impact of an increase in an investment tax credit is to shift
   a. aggregate demand right.
   b. aggregate demand left.
   c. aggregate supply right.
   d. aggregate supply left.

   ANS: A  DIF:  2  REF:  33-3  NAT:  Analytic
   LOC:  Monetary and fiscal policy
   TOP:  Aggregate demand shifts | Fiscal policy  MSC:  Applicative

79. The initial impact of the repeal of an investment tax credit is to shift
   a. aggregate demand right.
   b. aggregate demand left.
   c. aggregate supply right.
   d. aggregate supply left.

   ANS: B  DIF:  2  REF:  33-3  NAT:  Analytic
   LOC:  Monetary and fiscal policy
   TOP:  Aggregate demand shifts | Fiscal policy  MSC:  Applicative
80. Other things the same, when the government spends more, the initial effect is that
   a. aggregate demand shifts right.
   b. aggregate demand shifts left.
   c. aggregate supply shifts right.
   d. aggregate supply shifts left.

   ANS: A   DIF: 1   REF: 33-3   NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts | Fiscal policy
   MSC: Applicative

81. Tax cuts shift aggregate demand
   a. right as do increases in government spending.
   b. right while increases in government spending shift aggregate demand left.
   c. left as do increases in government spending.
   d. left while increases in government spending shift aggregate demand right.

   ANS: A   DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts | Fiscal policy
   MSC: Applicative

82. When the money supply increases
   a. interest rates fall and so aggregate demand shifts right.
   b. interest rates fall and so aggregate demand shifts left.
   c. interest rates rise and so aggregate demand shifts right.
   d. interest rates rise and so aggregate demand shifts left.

   ANS: A   DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts | Monetary policy
   MSC: Analytical

83. When the money supply decreases
   a. interest rates fall and so aggregate demand shifts right.
   b. interest rates fall and so aggregate demand shifts left.
   c. interest rates rise and so aggregate demand shifts right.
   d. interest rates rise and so aggregate demand shifts left.

   ANS: D   DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts | Monetary policy
   MSC: Applicative

84. An increase in the money supply
   a. and an investment tax credit both cause aggregate demand to shift right.
   b. and an investment tax credit both cause aggregate demand to shift left.
   c. causes aggregate demand to shift right, while an investment tax credit causes aggregate demand to shift left.
   d. causes aggregate demand to shift left, while an investment tax credit causes aggregate demand to shift right.

   ANS: A   DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts | Monetary policy | Fiscal policy
   MSC: Applicative

85. The Central Bank of Wiknam increases the money supply at the same time the Parliament of Wiknam passes a new investment tax credit. Which of these policies shift aggregate demand to the right?
   a. both the money supply increase and the investment tax credit
   b. the money supply increase but not the investment tax credit
   c. the investment tax credit but not the money supply increase
   d. neither the investment tax credit nor the money supply increase

   ANS: A   DIF: 2   REF: 33-3   NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts | Monetary policy | Fiscal policy
   MSC: Applicative
86. Which of the following shifts aggregate demand to the right?
   a. an increase in the money supply
   b. an increase in net exports due to something other than a change in domestic prices
   c. an investment tax credit
   d. All of the above are correct.
   ANS: D    DIF: 1    REF: 33-3    NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts
   MSC: Applicative

87. Which of the following shifts aggregate demand to the right?
   a. a decrease in the money supply
   b. increases in the profitability of capital due perhaps to technological progress.
   c. the repeal of an investment tax credit
   d. a decrease in the price level
   ANS: B    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Aggregate demand shifts
   MSC: Applicative

88. Which of the following shifts aggregate demand to the left?
   a. an increase in the price level
   b. a decrease in the money supply
   c. an increase in net exports
   d. Congress passes a new investment tax credit
   ANS: B    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts
   MSC: Applicative

89. Which of the following shifts aggregate demand to the right?
   a. Congress reduces purchases of new weapons systems.
   b. The Fed buys bonds in the open market.
   c. The price level falls.
   d. Net exports fall.
   ANS: B    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Aggregate demand shifts
   MSC: Applicative

90. Which of the following shifts aggregate demand to the left?
   a. The price level rises.
   b. The price level falls.
   c. The dollar depreciates for some reason other than a change in the price level.
   d. Stock prices fall for some reason other than a change in the price level.
   ANS: D    DIF: 2    REF: 33-3    NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Aggregate demand shifts
   MSC: Applicative

91. Aggregate demand shifts left when the government
   a. decreases taxes.
   b. cuts military expenditures.
   c. creates a new investment tax credit
   d. None of the above is correct.
   ANS: B    DIF: 1    REF: 33-3    NAT: Analytic
   LOC: Monetary and fiscal policy   TOP: Aggregate demand shifts
   MSC: Applicative
92. Aggregate demand shifts right when the government
   a. raises personal income taxes.
   b. increases the money supply.
   c. repeals an investment tax credit.
   d. All of the above are correct.

   ANS: B  DIF:  2  REF:  33-3  NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Monetary policy | Fiscal policy
   MSC: Applicative

93. Which of the following would both shift aggregate demand right?
   a. the price level decreases and government expenditures increase
   b. the price level decreases and the government repeals an investment tax credit
   c. government expenditures increase and the money supply increases
   d. None of the above are correct.

   ANS: C  DIF:  2  REF:  33-3  NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Fiscal policy | Monetary policy
   MSC: Applicative

94. Which of the following both shift aggregate demand right?
   a. net exports rise for some reason other than a price change and the money supply rises.
   b. net exports rise for some reason other than a price change and the price level rises.
   c. net exports fall for some reason other than a price change and the money supply rises.
   d. net exports fall for some reason other than a price change and the price level rises.

   ANS: A  DIF:  2  REF:  33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand shifts | Monetary policy
   MSC: Applicative

95. Aggregate demand shifts right if
   a. taxes rise and shifts left if stock prices rise.
   b. taxes rise and shifts left if stock prices fall.
   c. taxes fall and shifts left if stock prices rise.
   d. taxes fall and shifts left is stock prices fall.

   ANS: D  DIF:  2  REF:  33-3  NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Fiscal policy | Stock prices
   MSC: Applicative

96. Which of the following lists includes only changes that shift aggregate demand to the right?
   a. repeal of an investment tax credit, an increase in the money supply
   b. repeal of an investment tax credit, a decrease in the money supply
   c. passing of an investment tax credit, an increase in the money supply
   d. passing of an investment tax credit, a decrease in the money supply

   ANS: C  DIF:  2  REF:  33-3  NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Aggregate demand shifts | Fiscal policy | Monetary policy
   MSC: Applicative

97. If countries that imported goods and services from the United States went into recession, we would expect that
   U.S. net exports would
   a. rise, making aggregate demand shift right.
   b. rise, making aggregate demand shift left.
   c. fall, making aggregate demand shift right.
   d. fall, making aggregate demand shift left.

   ANS: D  DIF:  2  REF:  33-3  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand shifts | Net exports
   MSC: Applicative
98. In which case can we be sure aggregate demand shifts left overall?
   a. people want to save more for retirement and the government raises taxes
   b. people want to save more for retirement and the government cuts taxes
   c. people want to save less for retirement and the government raises taxes
   d. people want to save less for retirement and the government cuts taxes

   ANS: A  
   DIF: 3  
   REF: 33-3  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Aggregate demand shifts  
   MSC: Applicative

99. At the end of World War II many European countries were rebuilding and so were eager to buy capital goods and had rising incomes. We would expect that the rebuilding increased aggregate demand in
   a. both the United States and Europe.
   b. the United States but not Europe.
   c. Europe, but not the United States.
   d. neither the United States, nor Europe.

   ANS: A  
   DIF: 2  
   REF: 33-3  
   NAT: Analytic  
   LOC: Aggregate demand and aggregate supply  
   TOP: Aggregate demand shifts  
   MSC: Applicative

100. If the dollar appreciates, perhaps because of speculation or government policy, then U.S. net exports
   a. increase which shifts aggregate demand right.
   b. increase which shifts aggregate demand left.
   c. decrease which shifts aggregate demand right.
   d. decrease which shifts aggregate demand left.

   ANS: D  
   DIF: 2  
   REF: 33-3  
   NAT: Analytic  
   LOC: Aggregate demand and aggregate supply  
   TOP: Aggregate demand shifts  
   MSC: Applicative

101. If the dollar appreciates because of speculation or government policy
   a. aggregate demand shifts left. If other countries experience recessions, aggregate demand in the
      U.S. also shifts left.
   b. aggregate demand shifts left. If other countries experience recessions, aggregate demand in the
      U.S. shifts right.
   c. aggregate demand shifts right. If other countries experience recessions, aggregate demand in the
      U.S. shifts left.
   d. aggregate demand shifts right. If other countries experience recessions, aggregate demand in the
      U.S. also shifts right.

   ANS: A  
   DIF: 2  
   REF: 33-3  
   NAT: Analytic  
   LOC: Aggregate demand and aggregate supply  
   TOP: Aggregate demand shifts  
   MSC: Applicative

102. At a given price level, an increase in which of the following shifts aggregate demand to the right?
   a. consumption
   b. investment
   c. government expenditures
   d. All of the above are correct.

   ANS: D  
   DIF: 1  
   REF: 33-3  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Aggregate demand shifts  
   MSC: Applicative
103. Which of the following is correct?
   a. An increase in the money supply causes the interest rate to decrease so that aggregate demand shifts left.
   b. An increase in stock prices reduces consumption spending so that aggregate demand shifts left.
   c. An increase in the price level causes the exchange rate to rise so that aggregate demand shifts left.
   d. A recession in other countries reduces U.S. net exports so that U.S. aggregate demand shifts left.

ANS: D    DIF: 3    REF: 33-3    NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand | Monetary policy | Net exports | Stock prices
MSC: Analytic

104. If speculators lost confidence in foreign economies and so wanted to buy more U.S. bonds
   a. the dollar would appreciate which would cause aggregate demand to shift right.
   b. the dollar would appreciate which would cause aggregate demand to shift left.
   c. the dollar would depreciate which would cause aggregate demand to shift right.
   d. the dollar would depreciate which would cause aggregate demand to shift left.

ANS: B    DIF: 3    REF: 33-3    NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand shifts | Exchange rate | Net exports
MSC: Applicative

105. If speculators gained greater confidence in foreign economies so that they wanted to buy more assets of
     foreign countries and fewer U.S. bonds,
     a. the dollar would appreciate which would cause aggregate demand to shift right.
     b. the dollar would appreciate which would cause aggregate demand to shift left.
     c. the dollar would depreciate which would cause aggregate demand to shift right.
     d. the dollar would depreciate which would cause aggregate demand to shift left.

ANS: C    DIF: 3    REF: 33-3    NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand shifts | Exchange rate | Net exports
MSC: Analytical

106. If speculators bid up the value of the U.S. dollar in the market for foreign exchange, then
     a. U.S. goods become more expensive relative to foreign goods so aggregate demand shifts right.
     b. U.S. goods become less expensive relative to foreign goods so aggregate demand shifts right.
     c. U.S. goods become more expensive relative to foreign goods so aggregate demand shifts left.
     d. U.S. goods become less expensive relative to foreign goods so aggregate demand shifts left.

ANS: C    DIF: 3    REF: 33-3    NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand shifts | Exchange rate | Net exports
MSC: Applicative

**Political Instability Abroad**

Suppose that political instability in other countries makes people fear for the value of their assets in these countries so that they desire to purchase more U.S. assets.

107. **Refer to Political Instability Abroad.** What would happen to the dollar?
     a. It would appreciate in foreign exchange markets making U.S. goods more expensive compared to
        foreign goods.
     b. It would appreciate in foreign exchange markets making U.S. goods less expensive compared to
        foreign goods.
     c. It would depreciate in foreign exchange markets making U.S. goods more expensive compared to
        foreign goods.
     d. It would depreciate in foreign exchange markets making U.S. goods less expensive compared to
        foreign goods.

ANS: A    DIF: 2    REF: 33-3    NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand shifts | Exchange rate
MSC: Applicative
108. **Refer to Political Instability Abroad.** What would the change in the exchange rate make happen to U.S. net exports and U.S. aggregate demand?
   a. Net exports would rise and so U.S. aggregate demand would fall.
   b. Net exports would rise and so U.S. aggregate demand would rise.
   c. Net exports would fall and so U.S. aggregate demand would fall.
   d. Net exports would fall and so U.S. aggregate demand would rise.

   **ANS:** C  **DIF:** 3  **REF:** 33-3  **TOP:** Aggregate demand shifts | Exchange rate | Net exports  **MSC:** Applicative

**U.S. Financial Crisis**
Suppose that foreigners had reduced confidence in U.S. financial institutions and believed that privately issued U.S. bonds were more likely to be defaulted on.

109. **Refer to U.S. Financial Crisis.** What would happen in the market for foreign-currency exchange.
   a. the supply of dollars would shift right and the exchange rate would rise.
   b. the supply of dollars would shift right and the exchange rate would fall.
   c. the supply of dollars would shift left and the exchange rate would rise.
   d. None of the above is correct.

   **ANS:** B  **DIF:** 2  **REF:** 33-3  **NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  **MSC:** Analytical

110. **Refer to U.S. Financial Crisis.** What would happen to U.S. aggregate demand?
   a. it would shift right because U.S. net exports would rise.
   b. it would shift right because U.S. net exports would fall.
   c. it would shift left because U.S. net exports would rise.
   d. it would shift left because U.S. net exports would fall.

   **ANS:** A  **DIF:** 3  **REF:** 33-3  **NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  **MSC:** Analytical

### Sec04-Aggregate Demand and Aggregate Supply-The Aggregate-Supply Curve

**MULTIPLE CHOICE**

1. Which of the following is *not* a determinant of the long-run level of real GDP?
   a. the price level
   b. the supply of labor
   c. available natural resources
   d. available technology

   **ANS:** A  **DIF:** 1  **REF:** 33-4  **NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  **TOP:** Long-run aggregate supply  **MSC:** Definitional

2. The long-run aggregate supply curve
   a. is vertical.
   b. is a graphical representation of the classical dichotomy.
   c. indicates monetary neutrality in the long run.
   d. All of the above are correct.

   **ANS:** D  **DIF:** 1  **REF:** 33-4  **NAT:** Analytic  **LOC:** Aggregate demand and aggregate supply  **TOP:** Long-run aggregate supply  **MSC:** Definitional
3. The classical dichotomy and monetary neutrality are represented graphically by
   a. an upward-sloping long-run aggregate-supply curve.
   b. a vertical long-run aggregate-supply curve.
   c. an upward-sloping short-run aggregate-curve.
   d. a downward-sloping aggregate-demand curve.

ANS: B  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply | Classical dichotomy | Monetary neutrality
MSC: Interpretive

4. Which of the following is correct?
   a. The short-run, but not the long-run, aggregate supply curve is consistent with the idea that nominal
      variables do not affect real variables.
   b. The long-run, but not the short-run, aggregate supply curve is consistent with the idea that nominal
      variables do not affect real variables.
   c. The long-run and short-run supply curves are both consistent with the idea that nominal variables
      affect real variables.
   d. Neither the long-run nor the short-run aggregate supply curve is consistent with the idea that
      nominal variables affect real variables.

ANS: B  DIF: 1  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply | Classical dichotomy
MSC: Definitional

5. The position of the long-run aggregate supply curve
   a. is determined by the things that determine output in the classical model.
   b. is at the point where the unemployment rate is zero.
   c. shifts to the right when the price level increases.
   d. is at the point where the economy would cease to grow.

ANS: A  DIF: 1  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply
MSC: Interpretive

6. The long-run aggregate supply curve shows that by itself a permanent change in aggregate demand would lead
   to a long-run change
   a. in the price level and output.
   b. in the price level, but not output.
   c. in output, but not the price level.
   d. in neither the price level nor output.

ANS: B  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply
MSC: Analytical

7. The long-run aggregate supply curve would shift right if immigration from abroad
   a. increased or Congress made a substantial increase in the minimum wage.
   b. decreased or Congress abolished the minimum wage.
   c. increased or Congress abolished the minimum wage.
   d. decreased or Congress made a substantial increase in the minimum wage.

ANS: C  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply shifts
MSC: Applicative

8. The long-run aggregate supply curve shifts right if
   a. immigration from abroad increases.
   b. the capital stock increases.
   c. technology advances.
   d. All of the above are correct.

ANS: D  DIF: 1  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply shifts
MSC: Applicative
9. The long-run aggregate supply curve shifts left if
   a. the capital stock increases.
   b. there is a natural disaster.
   c. the government removes some environmental regulations that limit production methods.
   d. None of the above is correct.

ANS: B
DIF: 1
REF: 33-4

NAT: Analytic LOC: Aggregate demand and aggregate supply

TOP: Long-run aggregate supply shifts MSC: Applicative

10. Which of the following shifts long-run aggregate supply right?
    a. an increase in either the physical or human capital stock
    b. an increase in the human but not the physical capital stock
    c. an increase in the physical capital stock, but not the human capital stock
    d. neither an increase in the physical capital stock or the human capital stock

ANS: A
DIF: 2
REF: 33-4

NAT: Analytic LOC: Aggregate demand and aggregate supply

TOP: Long-run aggregate supply shifts MSC: Applicative

11. The discovery of a large amount of previously undiscovered oil in the U.S. would shift
    a. the long-run aggregate-supply curve to the right.
    b. the long-run aggregate-supply curve to the left.
    c. the aggregate-demand curve to the left.
    d. None of the above is correct.

ANS: A
DIF: 2
REF: 33-4

NAT: Analytic LOC: Aggregate demand and aggregate supply

TOP: Long-run aggregate supply shifts MSC: Interpretive

12. The long-run aggregate supply curve would shift right if the government were to
    a. increase the minimum-wage.
    b. make unemployment benefits more generous.
    c. raise taxes on investment spending.
    d. None of the above is correct.

ANS: D
DIF: 2
REF: 33-4

NAT: Analytic LOC: Aggregate demand and aggregate supply

TOP: Long-run aggregate supply shifts MSC: Applicative

13. Which of the following shifts the long-run aggregate supply curve to the left?
    a. either an increase in the price of imported natural resources or opening up international trade
    b. neither an increase in the price of imported natural resources or opening up international trade
    c. an increase in the price of imported natural resources, but not opening up international trade
    d. opening up international trade, but not an increase in the price of imported natural resources

ANS: C
DIF: 2
REF: 33-4

NAT: Analytic LOC: Aggregate demand and aggregate supply

TOP: Long-run aggregate supply shifts MSC: Applicative

14. Some countries have high minimum wages and require a lengthy and costly process to get permission to open a business
    a. Reducing either the minimum wage or the time and cost to open a business would have no effect on the long-run aggregate supply curve.
    b. Reducing the minimum wage and the time and cost to open a business would both shift the long-run aggregate supply curve to the right.
    c. Reducing the minimum wage would shift long-run aggregate supply to the right. Reducing the time and cost to open a business would have no affect on the long-run aggregate supply curve.
    d. Reducing the minimum wage would have no affect on the long-run aggregate supply curve. Reducing the time and cost to open a business would shift the long-run aggregate supply curve to the right.

ANS: B
DIF: 2
REF: 33-4

TOP: Long-run aggregate supply shifts MSC: Applicative
15. The long-run aggregate supply curve shifts right if
   a. technology improves.
   b. the price level decreases.
   c. the money supply increases.
   d. All of the above are correct.

ANS: A    DIF: 2    REF: 33-4
NAT: Analytic    LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply curve shifts    MSC: Applicative

16. The long-run aggregate supply curve shifts right if
   a. the price level rises.
   b. the price level falls.
   c. the capital stock increases.
   d. the capital stock decreases.

ANS: C    DIF: 2    REF: 33-4
NAT: Analytic    LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply curve shifts    MSC: Applicative

17. Which of the following shifts the long-run aggregate supply curve to the right?
   a. both an increase in the capital stock and technological improvements
   b. an increase in the capital stock but not technological improvements
   c. an increase in the capital stock but not technological improvements
   d. neither an increase in the capital stock nor an technological improvements

ANS: A    DIF: 1    REF: 33-4
NAT: Analytic    LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply curve shifts    MSC: Applicative

18. Which of the following would shift long-run aggregate supply to the right?
   a. increased immigration from abroad
   b. a decrease in the price of an imported natural resource
   c. opening the economy to international trade
   d. All of the above are correct.

ANS: D    DIF: 1    REF: 33-4
NAT: Analytic    LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply curve shifts    MSC: Applicative

19. A candidate for political office announces the following policies which, he says, economics clearly demonstrates will lead to higher output in the long run. 1. reduce immigration from abroad 2. make trade more open between the US and other countries:
   a. 1 and 2 both shift long-run aggregate supply right.
   b. 1 and 2 both shift long-run aggregate supply left.
   c. 1 shifts long-run aggregate supply right, 2 shifts long-run aggregate supply left.
   d. 1 shifts long-run aggregate supply left, 2 shifts long-run aggregate supply right.

ANS: D    DIF: 2    REF: 33-4
NAT: Analytic    LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply curve shifts    MSC: Applicative

20. Other things the same, if the long-run aggregate supply curve shifts right, prices
   a. and output both increase.
   b. and output both decrease.
   c. increase and output decreases.
   d. decrease and output increases.

ANS: D    DIF: 2    REF: 33-4
NAT: Analytic    LOC: Aggregate demand and aggregate supply
TOP: Long-run aggregate supply curve shifts    MSC: Analytical
21. Other things the same, if the long-run aggregate supply curve shifts left, prices
   a. and output both increase.
   b. and output both decrease.
   c. increase and output decreases.
   d. decrease and output increases.

   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Long-run aggregate supply shifts | Long-run equilibrium  MSC: Analytical

22. Other things the same, if the capital stock increases, then in the long run
   a. both output and prices are higher.
   b. output is higher and prices are lower.
   c. output is lower and prices are higher.
   d. both output and prices are lower.

   ANS: B  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Long-run aggregate supply shifts | Long-run equilibrium  MSC: Analytical

23. Which of the following, other things the same, would make the price level decrease and real GDP increase?
   a. long-run aggregate supply shifts right
   b. long-run aggregate supply shifts left
   c. aggregate demand shifts right
   d. aggregate demand shifts left

   ANS: A  DIF: 1  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Long-run equilibrium  MSC: Analytical

24. According to the aggregate demand and aggregate supply model, in the long run an increase in the money
    supply leads to
   a. increases in both the price level and real GDP.
   b. an increase in real GDP but does not change the price level.
   c. an increase in the price level but does not change real GDP.
   d. no change in either the price level or real GDP.

   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Monetary neutrality
   MSC: Analytical

25. In the long run, technological progress
   a. and increases in the money supply both make the price level rise.
   b. and increases in the money supply both make the price level fall.
   c. makes the price level rise, while increases in the money supply make prices fall.
   d. makes the price level fall, while increases in the money supply make prices rise.

   ANS: D  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Growth and inflation  MSC: Applicative

26. Other things the same, continued increases in technology lead to
   a. continued increases in the price level and real GDP.
   b. continued increases in the price level but not continued increases in real GDP.
   c. continued increases in real GDP but not continued increases in the price level.
   d. None of the above are correct.

   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Growth and inflation  MSC: Applicative
27. Other things the same, continued increases in the money supply lead to
   a. continued increases in the price level and real GDP.
   b. continued increases in the price level but not continued increases in real GDP.
   c. continued increases in real GDP but not continued increases in the price level.
   d. a one-time permanent increase in both prices and real GDP.

   ANS: B  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Growth and inflation  MSC: Applicative

28. Over the last fifty years both real GDP and prices have trended upward in most countries. Continuing real
GDP growth and inflation can be explained by
   a. continuing technological progress alone.
   b. continuing increases in the money supply alone.
   c. continued technological progress and continuing increases in the money supply.
   d. None of the above can explain continuing real GDP growth and inflation.

   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Growth and inflation  MSC: Analytical

29. Since the end of World War II, the U.S. has almost always had rising prices and an upward trend in real GDP.
   To explain this
   a. it is only necessary that long-run aggregate supply shifts right over time.
   b. it is only necessary that aggregate demand shifts right over time.
   c. both aggregate demand and long-run aggregate supply must be shifting right and aggregate demand
       must be shifting farther.
   d. None of the above cases would produce rising prices and growing real GDP over time.

   ANS: C  DIF: 3  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Growth and inflation  MSC: Applicative

30. The aggregate supply curve is upward sloping in
   a. the short and long run.
   b. neither the short nor long run.
   c. the long run, but not the short run.
   d. the short run, but not the long run.

   ANS: D  DIF: 1  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply slope  MSC: Definitional

31. Wages tend to be sticky
   a. because of contracts, social norms, and notions of fairness.
   b. because of contracts, but not social norms or notions of fairness.
   c. because of social norms and notions of fairness, but not contracts.
   d. None of the above are correct.

   ANS: A  DIF: 1  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky wages  MSC: Definitional

32. The sticky-wage theory of the short-run aggregate supply curve says that when the price level rises more than
expected,
   a. production is more profitable and employment rises.
   b. production is more profitable and employment falls.
   c. production is less profitable and employment rises.
   d. production is less profitable and employment falls.

   ANS: A  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Definitional
33. The sticky-wage theory of the short-run aggregate supply curve says that when the price level is lower than expected,
   a. production is more profitable and employment rises.
   b. production is more profitable and employment falls.
   c. production is less profitable and employment rises.
   d. production is less profitable and employment falls.
   ANS: D  DIF:  2  REF:  33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Definitional

34. Sticky nominal wages can result in
   a. lower profits for firms when the price level is lower than expected.
   b. a decrease in real wages when the price level is lower than expected.
   c. a short-run aggregate-supply curve that is vertical.
   d. a long-run aggregate-supply curve that is upward-sloping.
   ANS: A  DIF:  2  REF:  33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Interpretive

35. The sticky-wage theory of the short-run aggregate supply curve says that the quantity of output firms supply
   will increase if
   a. the price level is higher than expected making production more profitable.
   b. the price level is higher than expected making production less profitable.
   c. the price level is lower than expected making production more profitable.
   d. the price level is higher than expected making production less profitable.
   ANS: A  DIF:  1  REF:  33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Definitional

36. If the price level rises above what was expected and nominal wages are fixed, then
   a. production becomes less profitable so firms will hire fewer workers.
   b. production becomes more profitable so firms will hire more workers.
   c. production becomes more profitable so firms will hire fewer workers.
   d. production become more profitable so firms will hire more workers.
   ANS: D  DIF:  2  REF:  33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Analytic

37. Which of the following can explain the upward slope of the short-run aggregate supply curve?
   a. nominal wages are slow to adjust to changing economic conditions
   b. as the price level falls, the exchange rate falls
   c. an increase in the money supply lowers the interest rate
   d. an increase in the interest rate increases investment spending
   ANS: A  DIF:  2  REF:  33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Interpretive

38. Other things the same, if workers and firms expected prices to rise by 2 percent but instead they rise by 3 percent, then
   a. employment and production rise.
   b. employment rises and production falls.
   c. employment falls and production rises.
   d. employment and production fall.
   ANS: A  DIF:  2  REF:  33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Applicative
39. The sticky-price theory implies that
   a. the short-run aggregate-supply curve is upward-sloping.
   b. an unexpected fall in the price level induces firms to reduce the quantity of goods and services they produce.
   c. menu costs influence the speed of adjustment of prices.
   d. All of the above are correct.
   ANS: D  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-price theory  MSC: Interpretive

40. According to the sticky-wage theory of the short-run aggregate supply curve, if workers and firms expected prices to rise by 4 percent, but instead they rise by 2 percent, then
   a. employment and production rise.
   b. employment rises and production falls.
   c. employment falls and production rises.
   d. employment and production fall.
   ANS: D  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Definitional

41. Other things the same, if prices fell when firms and workers were expecting them to rise, then
   a. employment and production would rise.
   b. employment would rise and production would fall.
   c. employment would fall and production would rise.
   d. employment and production would fall.
   ANS: D  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Definitional

42. If there are sticky wages, and the price level is greater than what was expected, then
   a. the quantity of aggregate goods and services supplied falls, which is shown by a shift of the short-run aggregate supply curve to the left.
   b. the quantity of aggregate goods and services supplied falls, as shown by a movement to the left along the short-run aggregate supply curve.
   c. the quantity of aggregate goods and services supplied rises, as shown by a shift of the short-run aggregate supply curve to the right.
   d. the quantity of aggregate goods and services supplied rises, as shown by a movement to the right along the short-run aggregate supply curve.
   ANS: D  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-wage theory  MSC: Analytical

43. Other things the same, an unexpected fall in the price level results in some firms having
   a. lower than desired prices which increases their sales.
   b. lower than desired prices which depresses their sales.
   c. higher than desired prices which increases their sales.
   d. higher than desired prices which depresses their sales.
   ANS: D  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-price theory  MSC: Analytical

44. Other things the same, when the price level rises more than expected, some firms will have
   a. higher than desired prices which increases their sales.
   b. higher than desired prices which depresses their sales.
   c. lower than desired prices which increases their sales.
   d. lower than desired prices which depresses their sales.
   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-price theory  MSC: Analytical
45. The sticky-price theory of the short run aggregate supply curve says that when the price level is higher than expected, some firms will have
   a. higher than desired prices which leads to an increase in the aggregate quantity of goods and services supplied.
   b. higher than desired prices which leads to a decrease in the aggregate quantity of goods and services supplied.
   c. lower than desired prices which leads to an increase in the aggregate quantity of goods and services supplied.
   d. lower than desired prices which leads to a decrease in the aggregate quantity of goods and services supplied.

   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-price theory  MSC: Analytical

46. Other things the same, if the price level rises by 2% and people were expecting it to rise by 5%, then some firms have
   a. higher than desired prices which increases their sales.
   b. higher than desired prices which depresses their sales.
   c. lower than desired prices which increases their sales.
   d. lower than desired prices which depresses their sales.

   ANS: B  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-price theory  MSC: Analytical

47. Other things the same, if the money supply rises by 2% and people were expecting it to rise by 5%, then some firms have
   a. higher than desired prices which increases their sales.
   b. higher than desired prices which depresses their sales.
   c. lower than desired prices which increases their sales.
   d. lower than desired prices which depresses their sales.

   ANS: B  DIF: 3  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-price theory  MSC: Analytical

48. The sticky-price theory of the short-run aggregate supply curve says that if the price level rises by 5% and people were expecting it to rise by 2%, then firms have
   a. higher than desired prices which leads to an increase in the aggregate quantity of goods and services supplied.
   b. higher than desired prices which leads to a decrease in the aggregate quantity of goods and services supplied.
   c. lower than desired prices which leads to an increase in the aggregate quantity of goods and services supplied.
   d. lower than desired prices which leads to a decrease in the aggregate quantity of goods and services supplied.

   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Sticky-price theory  MSC: Analytical

49. The misperceptions theory of the short-run aggregate supply curve says that if the price level is higher than people expected, then some firms believe that the relative price of what they produce has
   a. decreased, so they increase production.
   b. decreased, so they decrease production.
   c. increased, so they increase production.
   d. increased, so they decrease production.

   ANS: C  DIF: 1  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory  MSC: Definitional
50. Other things the same, if the price level is lower than expected, then some firms believe that the relative price of what they produce has
   a. decreased, so they increase production.
   b. decreased, so they decrease production.
   c. increased, so they increase production.
   d. increased, so they decrease production.

   ANS: B  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory  MSC: Analytical

51. According to the misperceptions theory of aggregate supply, if a firm thought that inflation was going to be 5 percent and actual inflation was 6 percent, then the firm would believe that the relative price of what they produce had
   a. increased, so they would increase production.
   b. increased, so they would decrease production.
   c. decreased, so they would increase production.
   d. decreased, so they would decrease production.

   ANS: A  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory  MSC: Applicative

52. According to the misperceptions theory of the short-run aggregate supply curve, if a firm thought that inflation was going to be 4 percent and actual inflation was 2 percent, then the firm would believe that the relative price of what it produces had
   a. increased, so it would increase production.
   b. increased, so it would decrease production.
   c. decreased, so it would increase production.
   d. decreased, so it would decrease production.

   ANS: D  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory  MSC: Applicative

53. The misperceptions theory of the short-run aggregate supply curve says that the quantity of output supplied will increase if the price level
   a. increases by less than expected so that firms believe the relative price of their output has increased.
   b. increases by less than expected so that firms believe the relative price of their output has decreased.
   c. increases by more than expected so that firms believe the relative price of their output has increased.
   d. increases by more than expected so that firms believe the relative price of their output has decreased.

   ANS: C  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory  MSC: Analytical

54. Suppose workers notice a fall in their nominal wage but are slow to notice that the price of things they consume have fallen by the same percentage. They may infer that the reward to working is
   a. temporarily low and so supply a smaller quantity of labor.
   b. temporarily low and so supply a larger quantity of labor.
   c. temporarily high and so supply a smaller quantity of labor.
   d. temporarily high and so supply a larger quantity of labor.

   ANS: A  DIF: 2  REF: 33-4
   NAT: Analytic  LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory  MSC: Analytical
55. Other things the same, the aggregate quantity of output supplied will decrease if the price level
   a. is lower than expected so that firms believe the relative price of their output has increased.
   b. is lower than expected so that firms believe the relative price of their output has decreased.
   c. is higher than expected so that firms believe the relative price of their output has increased.
   d. is higher than expected so that firms believe the relative price of their output has decreased.

   ANS: B    DIF: 2    REF: 33-4
   NAT: Analytic    LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory    MSC: Analytical

56. Other things the same, the aggregate quantity of output supplied will increase if the price level
   a. is lower than expected so that firms believe the relative price of their output has increased.
   b. is lower than expected so that firms believe the relative price of their output has decreased.
   c. is higher than expected so that firms believe the relative price of their output has increased.
   d. is higher than expected so that firms believe the relative price of their output has decreased.

   ANS: C    DIF: 2    REF: 33-4
   NAT: Analytic    LOC: Aggregate demand and aggregate supply
   TOP: Misperceptions theory    MSC: Analytical

57. When the actual change in the price level differs from its expected change, which of the following can explain
   why firms might change their production?
   a. both menu costs and mistaking a price level change for a change in relative prices
   b. menu costs but not mistaking a price level change for a change in relative prices
   c. mistaking a price level change for a change in relative price but not menu costs
   d. neither menu costs nor mistaking a price level change for a change in relative prices

   ANS: A    DIF: 2    REF: 33-4
   NAT: Analytic    LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply slope | Sticky-price theory | Misperceptions theory
   MSC: Applicative

58. Of the following theories, which is consistent with a vertical long-run aggregate supply curve?
   a. the sticky-wage theory
   b. misperceptions theory
   c. both the sticky-wage and misperceptions theories.
   d. neither the sticky-wage nor the misperceptions theory.

   ANS: C    DIF: 1    REF: 33-4
   NAT: Analytic    LOC: Aggregate demand and aggregate supply
   TOP: Long-run aggregate supply slope | Sticky-wage theory | Misperceptions theory
   MSC: Interpretive

59. If the price level is higher than expected, firms might raise their production in the short run if
   a. the nominal wage they pay their employees was set based on the expected price level.
   b. prices are costly to adjust and they have set their price at some time in the past but are not ready to
      change it.
   c. they believe that the price of their product has risen relative to the price of other products, when in
      fact the rise in the price of their product reflects an increase in the general price level.
   d. All of the above are correct.

   ANS: D    DIF: 1    REF: 33-4
   NAT: Analytic    LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply slope    MSC: Definitional

60. If the actual price level is 165, but people had been expecting it to be 160, then
   a. the quantity of output supplied rises, but only in the short run.
   b. the quantity of output supplied rises in the short run and the long run.
   c. the quantity of output supplied falls, but only in the short run.
   d. the quantity of output supplied falls in the short run and the long run.

   ANS: A    DIF: 2    REF: 33-4
   NAT: Analytic    LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply slope    MSC: Applicative
61. Assuming that \( a \) is positive, theories of short-run aggregate supply are expressed mathematically as
   a. quantity of output supplied = natural rate of output + \( a \) (actual price level - expected price level).
   b. quantity of output supplied = natural rate of output + \( a \) (expected price level - actual price level).
   c. quantity of output supplied = \( a \) (actual price level - expected price level) - natural rate of output.
   d. quantity of output supplied = \( a \) (expected price level - actual price level) - natural rate of output.

ANS: A  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply slope  MSC: Analytical

62. The equation: quantity of output supplied = natural rate of output + \( a \) (actual price level - expected price level),
    where \( a \) is a positive number, represents
   a. an upward-sloping short-run aggregate supply curve
   b. a vertical short-run aggregate supply curve
   c. a downward-sloping aggregate demand curve
   d. None of the above is correct.

ANS: A  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply slope  MSC: Interpretive

63. The effects of a higher than expected price level are shown by
   a. shifting the short-run aggregate supply curve right.
   b. shifting the short-run aggregate supply curve left.
   c. moving to the right along a given aggregate supply curve.
   d. moving to the left along a given aggregate supply curve.

ANS: C  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply shifts  MSC: Interpretive

64. An increase in the expected price level shifts the
   a. short-run and long-run aggregate supply curves left.
   b. the short-run but not the long-run aggregate supply curve left.
   c. the long-run but not the short-run aggregate supply curve left.
   d. neither the long-run nor the short-run aggregate supply curve left.

ANS: B  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply shifts | Price expectations  MSC: Applicative

65. A decrease in the expected price level shifts
   a. only the long-run aggregate supply curve right.
   b. only the short-run aggregate supply curve right.
   c. both the short-run and the long-run aggregate supply curve right.
   d. Neither the short-run nor the long-run aggregate supply curve right.

ANS: B  DIF: 2  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply shifts | Price expectations  MSC: Applicative

66. An increase in the expected price level shifts short-run aggregate supply to the
   a. right, and an increase in the actual price level shifts short-run aggregate supply to the right.
   b. right, and an increase in the actual price level does not shift short-run aggregate supply.
   c. left, and an increase in the actual price level shifts short-run aggregate supply to the left.
   d. left, and an increase in the actual price level does not shift short-run aggregate supply.

ANS: D  DIF: 3  REF: 33-4
NAT: Analytic  LOC: Aggregate demand and aggregate supply
TOP: Short-run aggregate supply shifts | Price expectations  MSC: Analytical
67. A decrease in the expected price level shifts short-run aggregate supply to the 
   a. right, and an increase in the actual price level shifts short-run aggregate supply to the right.
   b. right, and an increase in the actual price level does not shift short-run aggregate supply.
   c. left, and an increase in the actual price level shifts short-run aggregate supply to the left.
   d. left, and an increase in the actual price level does not shift short-run aggregate supply.

   ANS: B DIF: 3 REF: 33-4
   NAT: Analytic LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts | Price expectations
   MSC: Analytical

68. Which of the following shifts both the short-run and long-run aggregate supply right?
   a. an increase in the actual price level
   b. an increase in the expected price level
   c. an increase in the capital stock
   d. None of the above is correct.

   ANS: C DIF: 2 REF: 33-4
   NAT: Analytic LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts
   MSC: Applicative

69. Which of the following shifts both short-run and long-run aggregate supply left?
   a. a decrease in the actual price level
   b. a decrease in the expected price level
   c. a decrease in the capital stock
   d. a decrease in the money supply

   ANS: C DIF: 2 REF: 33-4
   NAT: Analytic LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts
   MSC: Applicative

70. Which of the following shifts short-run, but not long-run aggregate supply right?
   a. a decrease in the actual price level
   b. a decrease in the expected price level
   c. a decrease in the capital stock
   d. an increase in the money supply

   ANS: B DIF: 2 REF: 33-4
   NAT: Analytic LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts
   MSC: Applicative

71. Which of the following shifts short-run aggregate supply right?
   a. an increase in the minimum wage
   b. an increase in immigration from abroad
   c. an increase in the price of oil
   d. an increase in the actual price level

   ANS: B DIF: 2 REF: 33-4
   NAT: Analytic LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts
   MSC: Applicative

72. Which of the following shifts short-run aggregate supply left?
   a. an increase in the actual price level
   b. an increase in the expected price level
   c. an increase in the capital stock
   d. None of the above is correct.

   ANS: B DIF: 2 REF: 33-4
   NAT: Analytic LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts
   MSC: Applicative
73. Which of the following shifts short-run aggregate supply right?
   a. an increase in the price level
   b. an increase in the minimum wage
   c. a decrease in the price of oil
   d. more people migrate abroad than immigrate from abroad

   ANS: C   DIF: 2   REF: 33-4
   NAT: Analytic   LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts   MSC: Applicative

74. Which of the following shifts the short-run aggregate supply curve to the right?
   a. a decrease in the actual price level
   b. an increase in the actual price level
   c. a decrease in the expected price level
   d. an increase in the expected price level

   ANS: C   DIF: 2   REF: 33-4
   NAT: Analytic   LOC: Aggregate demand and aggregate supply
   TOP: Short-run aggregate supply shifts   MSC: Interpretive

75. The aggregate demand and aggregate supply model implies monetary neutrality
   a. only in the short run.
   b. only in the long run.
   c. in both the short run and the long run.
   d. in neither the short run nor long run.

   ANS: B   DIF: 1   REF: 33-4
   NAT: Analytic   LOC: Aggregate demand and aggregate supply
   TOP: Monetary neutrality   MSC: Interpretive

76. Imagine two economies that are identical except that for a long time, economy A has had a money supply of $1,000 billion while economy B has had a money supply of $500 billion. It follows that
   a. real GDP and the price level are lower in country B.
   b. real GDP, but not the price level, is lower in country B.
   c. the price level, but not real GDP is lower in country B.
   d. neither the price level or real GDP is lower in country B.

   ANS: C   DIF: 2   REF: 33-4
   NAT: Analytic   LOC: Aggregate demand and aggregate supply
   TOP: Monetary neutrality   MSC: Interpretive

**Sec05-Aggregate Demand and Aggregate Supply-Two Causes of Economic Fluctuations**

**MULTIPLE CHOICE**

1. The price level rises in the short run if
   a. aggregate demand or aggregate supply shifts right.
   b. aggregate demand shifts right or aggregate supply shifts left.
   c. aggregate demand shifts left or aggregate supply shifts right.
   d. aggregate demand or aggregate supply shifts right.

   ANS: B   DIF: 2   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Short-run equilibrium
   MSC: Analytical

2. Which of the following would cause prices and real GDP to rise in the short run?
   a. Short-run aggregate supply shifts right.
   b. Short-run aggregate supply shifts left.
   c. Aggregate demand shifts right.
   d. Aggregate demand shifts left.

   ANS: C   DIF: 2   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Short-run equilibrium
   MSC: Analytical
3. Which of the following would cause prices to fall and output to rise in the short run?
   a. Short-run aggregate supply shifts right.
   b. Short-run aggregate supply shifts left.
   c. Aggregate demand shifts right.
   d. Aggregate demand shifts left.

   ANS: A   DIF: 2   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Short-run equilibrium
   MSC: Analytical

4. Which of the following would cause prices and real GDP to rise in the short run?
   a. an increase in the expected price level
   b. an increase in the money supply
   c. a decrease in the capital stock
   d. None of the above is correct.

   ANS: B   DIF: 2   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Short-run equilibrium
   MSC: Analytical

5. If the economy is initially at long-run equilibrium and aggregate demand declines, then in the long run the price level
   a. and output are higher than in the original long-run equilibrium.
   b. and output are lower than in the original long-run equilibrium.
   c. is lower and output is the same as the original long-run equilibrium.
   d. is the same and output is lower than in the original long-run equilibrium.

   ANS: C   DIF: 3   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Long-run equilibrium
   MSC: Analytical

6. Recessions in China and India would cause
   a. the U.S. price level and real GDP to rise.
   b. the U.S. price level and real GDP to fall.
   c. the U.S. price level to rise and real GDP to fall.
   d. the U.S. price level to fall and real GDP to rise.

   ANS: B   DIF: 1   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   MSC: Applicative

7. Economic expansions in Germany and Japan would cause
   a. the U.S. price level and real GDP to rise.
   b. the U.S. price level and real GDP to fall.
   c. the U.S. price level to rise and real GDP to fall.
   d. the U.S. price level to fall and real GDP to rise.

   ANS: A   DIF: 1   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   MSC: Applicative

8. An economic contraction caused by a shift in aggregate demand remedies itself over time as the expected price level
   a. rises, shifting aggregate demand right.
   b. rises, shifting aggregate demand left.
   c. falls, shifting aggregate supply right.
   d. falls, shifting aggregate supply left.

   ANS: C   DIF: 2   REF: 33-5   NAT: Analytic
   LOC: Aggregate demand and aggregate supply   TOP: Long-run equilibrium
   MSC: Analytical
9. An economic contraction caused by a shift in aggregate demand causes prices to
   a. rise in the short run, and rise even more in the long run.
   b. rise in the short run, and fall back to their original level in the long run.
   c. fall in the short run, and fall even more in the long run.
   d. fall in the short run, and rise back to their original level in the long run.

ANS: C  DIF: 3  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Long-run equilibrium
MSC: Analytical

Consider the exhibit below for the following questions.

**Figure 33-1**

10. Refer to Figure 33-1. An increase in the money supply would move the economy from C to
    a. B in the short run and the long run.
    b. D in the short run and the long run.
    c. B in the short run and A in the long run.
    d. D in the short run and C in the long run.

ANS: C  DIF: 1  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand and supply equilibrium
MSC: Analytical

11. Refer to Figure 33-1. If the economy starts at C, an increase in the money supply moves the economy
    a. to A in the long run.
    b. to B in the long run.
    c. back to C in the long run.
    d. to D in the long run.

ANS: A  DIF: 2  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Long-run equilibrium
MSC: Analytical

12. Refer to Figure 33-1. If the economy is at A and there is a fall in aggregate demand, in the short run the
    economy
    a. stays at A.
    b. moves to B.
    c. moves to C.
    d. moves to D.

ANS: D  DIF: 1  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Short-run equilibrium
MSC: Analytical
Chapter 33/Aggregate Demand and Aggregate Supply

13. Refer to Figure 33-1. If the economy starts at A and there is a fall in aggregate demand, the economy moves
   a. back to A in the long run.
   b. to B in the long run.
   c. to C in the long run.
   d. to D in the long run.

   ANS: C    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Long-run equilibrium
   MSC: Analytical

14. Refer to Figure 33-1. If the economy starts at A and moves to D in the short run, the economy
   a. moves to A in the long run.
   b. moves to B in the long run.
   c. moves to C in the long run.
   d. stays at D in the long run.

   ANS: C    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Long-run equilibrium
   MSC: Analytical

15. Refer to Figure 33-1. The economy would be moving to long-run equilibrium if it started at
   a. A and moved to B.
   b. C and moved to B.
   c. D and moved to C.
   d. None of the above is correct.

   ANS: C    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Long-run equilibrium
   MSC: Analytical

16. Refer to Figure 33-1. If the economy is in long-run equilibrium, then an adverse shift in aggregate supply
   would move the economy from
   a. A to B.
   b. C to D.
   c. B to A.
   d. D to C.

   ANS: B    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Aggregate supply shifts
   MSC: Analytical

17. Refer to Figure 33-1. In the short run, a favorable shift in aggregate supply would move the economy from
   a. A to B.
   b. B to C.
   c. C to D.
   d. D to A.

   ANS: A    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Aggregate supply shifts
   MSC: Analytical
18. **Refer to Figure 33-2.** The appearance of the long-run aggregate-supply (LRAS) curve
   a. is inconsistent with the concept of monetary neutrality.
   b. 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 AS₁.
   c. indicates that Y₁ is the natural rate of output.
   d. All of the above are correct.

   **ANS:** C  **DIF:** 2  **REF:** 33-5  **NAT:** Analytic  
   **LOC:** Aggregate demand and aggregate supply  
   **TOP:** Aggregate demand and aggregate supply model  
   **MSC:** Applicative

19. **Refer to Figure 33-2.** The shift of the short-run aggregate-supply curve from AS₁ to AS₂
   a. could be caused by an outbreak of war in the Middle East.
   b. could be caused by a decrease in the expected price level.
   c. causes the economy to experience an increase in the unemployment rate.
   d. causes the economy to experience stagflation.

   **ANS:** B  **DIF:** 2  **REF:** 33-5  **NAT:** Analytic  
   **LOC:** Aggregate demand and aggregate supply  
   **TOP:** Aggregate demand and aggregate supply model  
   **MSC:** Applicative

20. **Refer to Figure 33-2.** Point B represents
   a. a short-run equilibrium and a long-run equilibrium.
   b. a short-run equilibrium but not a long-run equilibrium.
   c. a long-run equilibrium but not a short-run equilibrium.
   d. neither a short-run equilibrium nor a long-run equilibrium.

   **ANS:** B  **DIF:** 2  **REF:** 33-5  **NAT:** Analytic  
   **LOC:** Aggregate demand and aggregate supply  
   **TOP:** Aggregate demand and aggregate supply model  
   **MSC:** Applicative

21. **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. a falling price level and a falling level of output.
   b. a falling price level and a rising level of output.
   c. a rising price level and a falling level of output.
   d. a rising price level and a rising level of output.

   **ANS:** C  **DIF:** 2  **REF:** 33-5  **NAT:** Analytic  
   **LOC:** Aggregate demand and aggregate supply  
   **TOP:** Aggregate demand and aggregate supply model  
   **MSC:** Analytical
Chapter 33/Aggregate Demand and Aggregate Supply

The Stock Market Boom of 2014

Imagine that in 2014 the economy is in long-run equilibrium. Then stock prices rise more than expected and stay high for some time.

22. **Refer to Stock Market Boom 2014.** Which curve shifts and in which direction?
   a. aggregate demand shifts right
   b. aggregate demand shifts left
   c. aggregate supply shifts right
   d. aggregate supply shifts left.

ANS: A  DIF: 2  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Aggregate demand shifts | Stock prices  MSC: Applicative

23. **Refer to Stock Market Boom 2014.** In the short run what happens to the price level and real GDP?
   a. both the price level and real GDP rise.
   b. both the price level and real GDP fall.
   c. the price level rises and real GDP falls.
   d. the price level falls and real GDP rises.

ANS: A  DIF: 2  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Short-run equilibrium
MSC: Analytical

24. **Refer to Stock Market Boom 2014.** What happens to the expected price level and what impact does this have on wage bargaining?
   a. The expected price level falls. Bargains are struck for higher wages.
   b. The expected price level falls. Bargains are struck for lower wages.
   c. The expected price level rises. Bargains are struck for higher wages.
   d. The expected price level rises. Bargains are struck for lower wages.

ANS: C  DIF: 2  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Long-run equilibrium
MSC: Analytical

25. **Refer to Stock Market Boom 2014.** In the long run, the change in price expectations created by the stock market boom shifts
   a. long-run aggregate supply right.
   b. long-run aggregate supply left.
   c. short-run aggregate supply right.
   d. short-run aggregate supply left.

ANS: D  DIF: 2  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Long-run equilibrium
MSC: Analytical

26. **Refer to Stock Market Boom 2014.** How is the new long-run equilibrium different from the original one?
   a. the price level and real GDP are higher
   b. the price level and real GDP are lower.
   c. the price level is higher and real GDP is the same.
   d. the price level is the same and real GDP is higher.

ANS: C  DIF: 2  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Long-run equilibrium
MSC: Analytical
Optimism
Imagine that the economy is in long-run equilibrium. Then, perhaps because of improved international relations and increased confidence in policy makers, people become more optimistic about the future and stay this way for some time.

27. Refer to Optimism. Which curve shifts and in which direction?
   a. aggregate demand shifts right
   b. aggregate demand shifts left
   c. aggregate supply shifts right.
   d. aggregate supply shifts left.
   
   ANS: A  DIF: 3  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand shifts | Optimism  MSC: Analytical

28. Refer to Optimism. In the short run what happens to the price level and real GDP?
   a. both the price level and real GDP rise.
   b. both the price level and real GDP fall.
   c. the price level rises and real GDP falls.
   d. the price level falls and real GDP rises.
   
   ANS: A  DIF: 1  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Short-run equilibrium | Optimism  MSC: Analytical

29. Refer to Optimism. What happens to the expected price level and what’s the result for wage bargaining?
   a. The expected price level falls. Bargains are struck for higher wages.
   b. The expected price level falls. Bargains are struck for lower wages.
   c. The expected price level rises. Bargains are struck for higher wages.
   d. The expected price level rises. Bargains are struck for lower wages.
   
   ANS: C  DIF: 2  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Long-run equilibrium
   MSC: Analytical

30. Refer to Optimism. In the long run, the change in price expectations created by optimism shifts
   a. long-run aggregate supply right.
   b. long-run aggregate supply left.
   c. short-run aggregate supply right.
   d. short-run aggregate supply left.
   
   ANS: D  DIF: 2  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Long-run equilibrium
   MSC: Analytical

31. Refer to Optimism. How is the new long-run equilibrium different from the original one?
   a. both price and real GDP are higher
   b. both price and real GDP are lower.
   c. the price level is the same and GDP is higher.
   d. the price level is higher and real GDP is the same.
   
   ANS: D  DIF: 2  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Long-run equilibrium
   MSC: Analytical
**Pessimism**

Suppose the economy is in long-run equilibrium. Then because of corporate scandal, international tensions, and loss of confidence in policymakers, people become pessimistic regarding the future and retain that level of pessimism for some time.

32. **Refer to Pessimism.** Which curve shifts and in which direction?
   a. aggregate demand shifts right
   b. aggregate demand shifts left
   c. aggregate supply shifts right.
   d. aggregate supply shifts left.

   ANS: B DIF: 3 REF: 33-5 NAT: Analytic

33. **Refer to Pessimism.** In the short run what happens to the price level and real GDP?
   a. Both the price level and real GDP rise.
   b. Both the price level and real GDP fall.
   c. The price level rises and real GDP falls.
   d. The price level falls and real GDP rises.

   ANS: B DIF: 1 REF: 33-5 NAT: Analytic

34. **Refer to Pessimism.** What happens to the expected price level and what’s the result for wage bargaining?
   a. The expected price level rises. Bargains are struck for higher wages.
   b. The expected price level rises. Bargains are struck for lower wages.
   c. The expected price level falls. Bargains are struck for higher wages.
   d. The expected price level falls. Bargains are struck for lower wages.

   ANS: D DIF: 2 REF: 33-5 NAT: Analytic

35. **Refer to Pessimism.** In the long run, the change in price expectations created by pessimism shifts
   a. long-run aggregate supply right.
   b. long-run aggregate supply left.
   c. short-run aggregate supply right.
   d. short-run aggregate supply left.

   ANS: C DIF: 2 REF: 33-5 NAT: Analytic

36. **Refer to Pessimism.** How is the new long-run equilibrium different from the original one?
   a. both price and real GDP are higher.
   b. both price and real GDP are lower.
   c. the price level is the same and GDP is lower.
   d. the price level is lower and real GDP is the same.

   ANS: D DIF: 2 REF: 33-5 NAT: Analytic

37. Which of the following would increase the price level?
   a. an increase in the money supply.
   b. an increase in taxes.
   c. a decrease in the expected price level.
   d. a decrease in the natural rate of unemployment.

   ANS: A DIF: 2 REF: 33-5 NAT: Analytic
38. The long-run effect of an increase in government spending is to raise
   a. both real output and the price level.
   b. real output and lower the price level.
   c. real output and leave the price level unchanged.
   d. the price level and leave real output unchanged.

   ANS: D   DIF:  2   REF:  33-5   NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Long-run equilibrium | Fiscal policy
   MSC: Applicative

39. Which of the following would increase output in the short run?
   a. an increase in stock prices makes people feel wealthier
   b. government spending increases
   c. firms chose to purchase more investment goods
   d. All of the above are correct.

   ANS: D   DIF:  2   REF:  33-5   NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Short-run equilibrium | Aggregate demand shifts
   MSC: Analytical

40. If international speculators lose confidence in foreign economies and want to move some of their wealth into
   the U.S. economy, then in the short run there is
   a. an increase in the value of the U.S. dollar in foreign exchange markets, a lower level of U.S. output
      and a lower U.S. price level.
   b. an increase in the value of the U.S. dollar in foreign exchange markets, a higher level of U.S. output
      and a higher U.S. price level.
   c. a decrease in the value of the U.S. dollar in foreign exchange markets, a lower level of U.S. output
      and a lower U.S. price level.
   d. a decrease in the value of the U.S. dollar in foreign exchange markets, a lower level of U.S. output
      and a higher U.S. price level.

   ANS: A   DIF:  3   REF:  33-5   NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand shifts | Exchange rate
   MSC: Analytical

41. Which of the following is a lesson concerning shifts in aggregate demand?
   a. they contribute to fluctuations in output.
   b. in the long-run they change real output, but not the price level.
   c. policymakers are unable to mitigate the severity of economic fluctuations.
   d. All of the above are correct.

   ANS: A   DIF:  1   REF:  33-5   NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand shifts
   MSC: Interpretive

42. In the early 1930s in the United States, there was a
   a. large increase in output. In the early 1940s there was also a large increase in output.
   b. large increase in output. In the early 1940s there was a large decrease in output.
   c. large decrease in output. In the early 1940s there was a large increase in output.
   d. large decrease in output. In the early 1940s there was also a large decrease in output.

   ANS: C   DIF:  1   REF:  33-5   NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Great Depression | World War II
   MSC: Definitional

43. Which of the following has been suggested as a cause of the Great Depression?
   a. a decline in the money supply
   b. a decrease in stock prices
   c. the collapse of the banking system
   d. All of the above are correct.

   ANS: D   DIF:  1   REF:  33-5   NAT:  Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Great Depression
   MSC: Definitional
44. Which of the following did not happen during the onset of the Great Depression?
   a. The money supply fell as households took money out of bank deposits.
   b. The Fed conducted expansionary monetary policy.
   c. Stock prices fell about 90 percent.
   d. Disruption of the banking system made it difficult for some firms to obtain funds for investment.

   ANS: B     DIF: 1     REF: 33-5     NAT: Analytic
   LOC: Aggregate demand and aggregate supply     TOP: Great Depression
   MSC: Definitional

45. In the first few years of the Great Depression, unemployment rose to about
   a. 10 percent, and prices rose about 14 percent.
   b. 15 percent, and prices rose about 22 percent.
   c. 20 percent, and prices fell about 14 percent.
   d. 25 percent, and prices fell about 22 percent.

   ANS: D     DIF: 1     REF: 33-5     NAT: Analytic
   LOC: Aggregate demand and aggregate supply     TOP: Great Depression
   MSC: Definitional

46. Which of the following by itself is consistent with the directions that the price level and real GDP changed at
   the onset of the Great Depression?
   a. aggregate demand shifted right
   b. aggregate demand shifted left
   c. aggregate supply shifted right
   d. aggregate supply shifted left

   ANS: B     DIF: 2     REF: 33-5     NAT: Analytic
   LOC: Aggregate demand and aggregate supply     TOP: Great Depression
   MSC: Applicative

47. Suppose that during the Great Depression long-run aggregate supply shifted left. To be consistent with what
   happened to the price level and output, what would have had to happen to aggregate demand?
   a. It would have to shifted left by less than aggregate supply.
   b. It would have to shifted left by more than aggregate supply.
   c. It would have to shifted right by less than aggregate supply.
   d. It would have to shifted right by more than aggregate supply.

   ANS: B     DIF: 3     REF: 33-5     NAT: Analytic
   LOC: Aggregate demand and aggregate supply     TOP: Great Depression
   MSC: Applicative

48. During World War II,
   a. government purchases of goods and services increased fivefold.
   b. the economy’s production increased about 25 percent.
   c. unemployment fell to about 5%.
   d. All of the above are correct.

   ANS: A     DIF: 2     REF: 33-5     NAT: Analytic
   LOC: Aggregate demand and aggregate supply     TOP: World War II
   MSC: Definitional

49. During World War II, the economy’s production increased about
   a. 25 percent and prices rose about 5 percent.
   b. 50 percent and prices rose about 10 percent.
   c. 75 percent and prices rose about 15 percent.
   d. 100 percent and prices rose about 20 percent.

   ANS: D     DIF: 2     REF: 33-5     NAT: Analytic
   LOC: Aggregate demand and aggregate supply     TOP: World War II
   MSC: Definitional
50. Which of the following alone can explain the change in the price level and output during World War II?
   a. aggregate demand shifted right
   b. aggregate demand shifted left
   c. aggregate supply shifted right
   d. aggregate supply shifted left

   **ANS:** A  **DIF:** 2  **REF:** 33-5  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** World War II
   **MSC:** Definitional

51. The economic boom of the early 1940s resulted mostly from
   a. increased government expenditures.
   b. falling prices of oil and other natural resources.
   c. an increase in the growth rate of the money supply.
   d. rapid developments in transportation, electronics, and communication.

   **ANS:** A  **DIF:** 1  **REF:** 33-5  **NAT:** Analytic  
   **LOC:** Aggregate demand and aggregate supply  **TOP:** World War II
   **MSC:** Definitional

52. Policymakers who control monetary and fiscal policy and want to offset the effects on output of an economic contraction caused by a shift in aggregate supply could use policy to shift
   a. aggregate supply to the right.
   b. aggregate supply to the left.
   c. aggregate demand to the right.
   d. aggregate demand to the left.

   **ANS:** C  **DIF:** 2  **REF:** 33-5  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** Stabilization policy
   **MSC:** Applicative

53. Suppose a shift in aggregate demand creates an economic contraction. If policymakers can respond with sufficient speed and precision, they can offset the initial shift by shifting
   a. aggregate supply right.
   b. aggregate supply left.
   c. aggregate demand right.
   d. aggregate demand left.

   **ANS:** C  **DIF:** 1  **REF:** 33-5  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply
   **TOP:** Aggregate demand shifts  | Stabilization policy
   **MSC:** Applicative

54. The recession of 2001 appears to have been mostly the result of decreased
   a. aggregate demand due to decreases in the money supply.
   b. aggregate demand due to falling stock prices and increased uncertainty.
   c. aggregate supply due to early retirements.
   d. aggregate supply due to changes in labor laws and decreased availability of natural resources.

   **ANS:** B  **DIF:** 1  **REF:** 33-5  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** 2001 recession
   **MSC:** Definitional

55. What, if anything, did policymakers do in response to the recession of 2001?
   a. tax cuts and expansionary monetary policy
   b. only tax cuts
   c. only expansionary monetary policy
   d. neither tax cuts nor expansionary monetary policy

   **ANS:** A  **DIF:** 1  **REF:** 33-5  **NAT:** Analytic
   **LOC:** Aggregate demand and aggregate supply  **TOP:** 2001 recession
   **MSC:** Definitional
56. In 2008 due to an economic slowdown and fear of a recession, the government
   a. gave a tax rebate. Tax cuts shift aggregate demand right.
   b. reduced tax deductions. Tax cuts shift aggregate demand right.
   c. gave a tax rebate. Tax cuts shift aggregate demand left.
   d. reduced tax deductions. Tax cuts shift aggregate demand left.

   ANS: A      DIF: 1      REF: 33-5      NAT: Analytic
   LOC: Aggregate demand and aggregate supply     TOP: 2008 tax rebate
   MSC: Definitional

57. When production costs rise,
   a. the short-run aggregate supply curve shifts to the right.
   b. the short-run aggregate supply curve shifts to the left.
   c. the aggregate demand curve shifts to the right.
   d. the aggregate demand curve shifts to the left.

   ANS: B      DIF: 1      REF: 33-5      NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts | Costs of production
   MSC: Applicative

58. In the short-run an increase in the costs of production makes
   a. output and prices rise.
   b. output rise and prices fall.
   c. output fall and prices rise.
   d. output and prices fall.

   ANS: C      DIF: 1      REF: 33-5      NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Short-run equilibrium | Costs of production
   MSC: Analytical

59. Which of the following shifts short-run aggregate supply left?
   a. an increase in price expectations
   b. an increase in the actual price level
   c. a decrease in the money supply
   d. a decrease in the price of oil

   ANS: A      DIF: 2      REF: 33-5      NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts
   MSC: Applicative

60. A decrease in the availability of an important major resource such as oil shifts
   a. aggregate supply right.
   b. aggregate supply left.
   c. aggregate demand right.
   d. aggregate demand left.

   ANS: B      DIF: 1      REF: 33-5      NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts | Oil prices
   MSC: Applicative

61. If there are floods or droughts or a decrease in the availability of raw materials
   a. aggregate supply shifts right.
   b. output falls in the short run.
   c. prices fall in the short run.
   d. None of the above is correct.

   ANS: B      DIF: 1      REF: 33-5      NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts | Costs of production
   MSC: Applicative
62. An increase in the price level and a reduction in output would result from
   a. a fall in stock prices.
   b. natural disasters such as hurricanes, floods, and droughts.
   c. declining government expenditures.
   d. tax rebates.

   ANS: B    DIF: 2    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts | Costs of production    MSC: Analytical

63. An increase in the price level and a reduction in output would result from
   a. an increase in the money supply.
   b. an increase in government expenditures.
   c. a fall in stock prices.
   d. bad weather in farm states.

   ANS: D    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts | Costs of production    MSC: Analytical

64. Stagflation exists when prices
   a. and output rise.
   b. rise and output falls.
   c. fall and output rises.
   d. and output fall.

   ANS: B    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Stagflation
   MSC: Definitional

65. Which of the following would cause stagflation?
   a. aggregate demand shifts right
   b. aggregate demand shifts left
   c. aggregate supply shifts right
   d. aggregate supply shifts left

   ANS: D    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Stagflation
   MSC: Applicative

66. Which of the following would cause stagflation?
   a. rising government expenditures
   b. rising oil prices
   c. a falling money supply
   d. technical progress

   ANS: B    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Stagflation
   MSC: Applicative

67. Other things the same, an increase in the expected price level shifts
   a. short-run aggregate supply right.
   b. short-run aggregate supply left.
   c. aggregate-demand right.
   d. aggregated-demand left.

   ANS: B    DIF: 2    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts | Price expectations    MSC: Applicative
68. The short-run effects of an increase in the expected price level include
   a. a lower level of output and a lower price level.
   b. a lower level of output and a higher price level.
   c. a higher level of output and a lower price level.
   d. a higher level of output and a higher price level.
   ANS: B  DIF: 2  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate supply shifts | Price expectations
   MSC: Applicative

69. Which of the following would raise the price level in both the short and long run?
   a. an increase in taxes
   b. an increase in government expenditures
   c. a decrease in the minimum wage
   d. an increase in the capital stock
   ANS: B  DIF: 2  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Long-run equilibrium
   MSC: Analytical

70. Which of the following would cause prices to rise and real GDP to fall in the short run?
   a. an increase in the expected price level
   b. an increase in the capital stock
   c. an increase in the quantity of labor available
   d. All of the above are correct.
   ANS: A  DIF: 2  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Short-run equilibrium
   MSC: Analytical

71. Which of the following will reduce the price level and real output in the short run?
   a. an increase in the money supply
   b. an increase in oil prices
   c. a decrease in the money supply
   d. technical progress
   ANS: C  DIF: 2  REF: 33-5  NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Short-run equilibrium
   MSC: Applicative

72. Imagine the U.S. economy is in long-run equilibrium. Then suppose the value of the U.S. dollar increases. At the same time, people in the U.S. revise their expectations so that the expected price level falls. We would expect that in the short-run
   a. real GDP will rise and the price level might rise, fall, or stay the same.
   b. real GDP will fall and the price level might rise, fall, or stay the same.
   c. the price level will rise, and real GDP might rise, fall, or stay the same.
   d. the price level will fall, and real GDP might rise, fall, or stay the same.
   ANS: D  DIF: 3  REF: 33-5
   TOP: Aggregate demand shifts | Net exports | Aggregate supply shifts | Price expectations
   MSC: Analytical

73. Suppose the economy is in long-run equilibrium. If there is a sharp increase in the minimum wage as well as an increase in pessimism about future business conditions, then we would expect that in the short-run,
   a. real GDP will rise and the price level might rise, fall, or stay the same.
   b. real GDP will fall and the price level might rise, fall, or stay the same.
   c. the price level will rise, and real GDP might rise, fall, or stay the same.
   d. the price level will fall, and real GDP might rise, fall, or stay the same.
   ANS: B  DIF: 3  REF: 33-5
   TOP: Aggregate demand shifts | Pessimism | Aggregate supply shifts | Minimum wage
   MSC: Analytical
74. Suppose that the economy is at long-run equilibrium. If there is a sharp decline in the stock market combined with a significant increase in immigration of skilled workers, then in the short run
   a. real GDP will rise and the price level might rise, fall, or stay the same.
   b. real GDP will fall and the price level might rise, fall, or stay the same.
   c. the price level will rise, and real GDP might rise, fall, or stay the same.
   d. the price level will fall, and real GDP might rise, fall, or stay the same.

   ANS: D    DIF: 3    REF: 33-5
   TOP: Aggregate demand shifts | Stock prices | Aggregate supply shifts | Immigration
   MSC: Analytical

75. Suppose the economy is in long-run equilibrium. If there is a tax cut at the same time that major new sources of oil are discovered in the country, then in the short-run
   a. real GDP will rise and the price level might rise, fall, or stay the same.
   b. real GDP will fall and the price level might rise, fall, or stay the same.
   c. the price level will rise, and real GDP might rise, fall, or stay the same.
   d. the price level will fall, and real GDP might rise, fall, or stay the same.

   ANS: A    DIF: 3    REF: 33-5
   TOP: Short-run equilibrium | Tax cuts | Oil prices
   LOC: Aggregate demand and aggregate supply
   MSC: Analytical

76. Suppose the economy is in long-run equilibrium. Concerns about pollution cause the government to significantly restrict the production of electricity. At the same time, the value of the dollar falls. In the short-run
   a. real GDP will rise and the price level might rise, fall, or stay the same.
   b. real GDP will fall and the price level might rise, fall, or stay the same.
   c. the price level will rise, and real GDP might rise, fall, or stay the same.
   d. the price level will fall, and real GDP might rise, fall, or stay the same.

   ANS: C    DIF: 3    REF: 33-5
   TOP: Short-run equilibrium | Government regulations | Exchange rate
   LOC: Aggregate demand and aggregate supply
   MSC: Analytical

77. Suppose the economy is in long-run equilibrium. Senator A succeeds in getting taxes raised. At the same time, Senator B succeeds in getting major new restrictions on logging enacted. In the short run
   a. real GDP will rise and the price level might rise, fall, or stay the same.
   b. real GDP will fall and the price level might rise, fall, or stay the same.
   c. the price level will rise, and real GDP might rise, fall, or stay the same.
   d. the price level will fall, and real GDP might rise, fall, or stay the same.

   ANS: B    DIF: 3    REF: 33-5
   TOP: Short-run equilibrium | Government spending | Government regulations
   MSC: Analytical

78. Suppose the economy is in long-run equilibrium. In a short span of time, there is a sharp decline in the stock market, a tax cut, an increase in the money supply and a decline in the value of the dollar. In the short run
   a. the price level and real GDP will both rise.
   b. the price level and real GDP will both fall.
   c. neither the price level nor real GDP will change.
   d. All of the above are possible.

   ANS: D    DIF: 3    REF: 33-5
   LOC: Aggregate demand and aggregate supply
   MSC: Analytical
79. Suppose the economy is in long-run equilibrium. In a short span of time, there is a decline in the money supply, a tax increase, a pessimistic revision of expectations about future business conditions, and a rise in the value of the dollar. In the short run, we would expect
   a. the price level and real GDP both to rise.
   b. the price level and real GDP both to fall.
   c. the price level and real GDP both to stay the same.
   d. All of the above are possible.

ANS: B  DIF: 3  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand shifts
MSC: Analytical

80. Suppose the economy is in long-run equilibrium. In a short span of time, there is a sharp increase in the minimum wage, a major new discovery of oil, a large influx of immigrants, and new environmental regulations that raise the cost of electricity production. In the short run
   a. the price level will rise and real GDP will fall.
   b. the price level will fall and real GDP will rise.
   c. the price level and real GDP will both stay the same.
   d. All of the above are possible.

ANS: D  DIF: 3  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate supply shifts
MSC: Analytical

81. Suppose the economy is in long-run equilibrium. In a short span of time, there is a large influx of skilled immigrants, a major new discovery of oil, and a major new technological advance in electricity production. In the short run, we would expect
   a. the price level to rise and real GDP to fall.
   b. the price level to fall and real GDP to rise.
   c. the price level and real GDP both to stay the same.
   d. All of the above are possible.

ANS: B  DIF: 3  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate supply shifts
MSC: Analytical

82. Suppose the economy is in long-run equilibrium. If there is a sharp increase in the minimum wage as well as an increase in pessimism about future business conditions, then in the short run, real GDP will
   a. rise and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be unaffected.
   b. fall and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be unaffected.
   c. rise and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be lower.
   d. fall and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be lower.

ANS: D  DIF: 3  REF: 33-5  NAT: Analytic
LOC: Aggregate demand and aggregate supply  TOP: Aggregate demand shifts
MSC: Analytical
83. Suppose the economy is in long-run equilibrium. If there is a sharp decline in the stock market combined with a significant increase in immigration of skilled workers, then in the short run,

a. real GDP will rise and the price level might rise, fall, or stay the same. In the long-run, real GDP will rise and the price level might rise, fall, or stay the same.

b. the price level will fall, and real GDP might rise, fall, or stay the same. In the long-run, real GDP and the price level will be unaffected.

c. the price level will rise, and real GDP might rise, fall, or stay the same. In the long run, real GDP will rise and the price level will fall.

d. the price level will fall, and real GDP might rise, fall, or stay the same. In the long run, real GDP will rise and the price level will fall.

ANS: D  DIF: 3  REF: 33-5  NAT: Analytic

LOC: Aggregate demand and aggregate supply
TOP: Short-run equilibrium | Long-run equilibrium | Immigration | Stock prices
MSC: Analytical

84. In 1986, OPEC countries increased their production of oil. This caused

a. the price level to rise.

b. aggregate supply to shift right.

c. unemployment to rise.

d. None of the above is correct.

ANS: B  DIF: 2  REF: 33-5  NAT: Analytic

LOC: Aggregate demand and aggregate supply
TOP: Aggregate supply shifts | Oil prices
MSC: Applicative

85. In the mid-1970s the price of oil rose dramatically. This

a. shifted aggregate supply left.

b. caused U.S. prices to fall.

c. was the consequence of OPEC increasing oil production.

d. All of the above are correct.

ANS: A  DIF: 1  REF: 33-5  NAT: Analytic

LOC: Aggregate demand and aggregate supply
TOP: Aggregate supply shifts | Oil prices
MSC: Applicative

86. The recessions of the 1970s are often attributed to

a. declining inflation expectations.

b. an increase in oil prices.

c. declines in the price of stock.

d. decreases in the money supply.

ANS: B  DIF: 1  REF: 33-5  NAT: Analytic

LOC: Aggregate demand and aggregate supply
TOP: 1970s recessions
MSC: Definitional

87. Changes in the price of oil

a. can only lead to recessions.

b. have not contributed much to output fluctuations in the United States.

c. change the economy principally by changing aggregate demand.

d. created both inflation and recession in the United States in the 1970s.

ANS: D  DIF: 1  REF: 33-5  NAT: Analytic

LOC: Aggregate demand and aggregate supply
TOP: Aggregate supply shifts | Oil prices
MSC: Definitional

88. In 1936, John Maynard Keynes published a book, The General Theory, which attempted to explain

a. stagflation.

b. the classical dichotomy.

c. short-run economic fluctuations.

d. how changes in the money supply had created the Great Depression.

ANS: C  DIF: 1  REF: 33-5  NAT: Analytic

LOC: Aggregate demand and aggregate supply
TOP: Keynes
MSC: Definitional
89. Keynes explained that recessions and depressions occur because of
   a. excess aggregate demand.
   b. inadequate aggregate demand.
   c. excess aggregate supply.
   d. inadequate aggregate supply.

   ANS: B    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Keynes
   MSC: Definitional

90. Keynes believed that economies experiencing high unemployment should adopt policies to
   a. reduce the money supply.
   b. reduce government expenditures.
   c. increase aggregate demand.
   d. increase aggregate supply.

   ANS: C    DIF: 1    REF: 33-5    NAT: Analytic
   LOC: Aggregate demand and aggregate supply    TOP: Keynes
   MSC: Definitional