

Chapter 31

Aggregate Demand and Aggregate Supply

Test B

1. Recession refers principally to
 - a. below average real GDP growth.
 - b. negative real GDP growth.
 - c. below average inflation.
 - d. negative inflation.

ANSWER: b. negative real GDP growth.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2. Which of the following is correct?
 - a. On average over the past 50 years real GDP has grown about 3% per year.
 - b. Recessions occur at regular intervals.
 - c. Both of the above are correct.
 - d. None of the above is correct.

ANSWER: a. On average over the past 50 years real GDP has grown about 3% per year.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3. During recessions investment
 - a. and unemployment rise.
 - b. and unemployment decline.
 - c. rises and unemployment declines.
 - d. declines and unemployment rises.

ANSWER: d. declines and unemployment rises.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4. Which of the following accounts for most of the decline in value of GDP during recessions?
 - a. consumption
 - b. investment
 - c. government expenditures
 - d. net exports

ANSWER: b. investment

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5. Long-run analysis of the macroeconomy is based on
 - a. both the classical dichotomy and monetary neutrality.
 - b. neither the classical dichotomy nor monetary neutrality.
 - c. the classical dichotomy, but not monetary neutrality.
 - d. monetary neutrality but not the classical dichotomy.

ANSWER: a. both the classical dichotomy and monetary neutrality.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

6. In the aggregate demand and aggregate supply model the price level is on the
- horizontal axis and quantity of output is on the vertical axis.
 - vertical axis and quantity of output is on the horizontal axis.
 - horizontal axis and unemployment is on the vertical axis.
 - vertical axis and unemployment is on horizontal axis.

ANSWER: b. vertical axis and quantity of output is on the horizontal axis.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY SEEN THIS QUESTION AND ITS ANSWER.

7. A fall in prices makes consumers feel more wealthy. As a result
- aggregate demand shifts to the left.
 - aggregate demand shifts to the right.
 - there is a movement up a given aggregate demand curve.
 - there is a movement down a given aggregate demand curve.

ANSWER: d. there is a movement down a given aggregate demand curve.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

8. When prices fall, dollars are worth
- less, so consumers demand a larger quantity of goods.
 - less, so consumers demand a smaller quantity of goods.
 - more, so consumers demand a larger quantity of goods.
 - more, so consumers demand a smaller quantity of goods.

ANSWER: c. more, so consumers demand a larger quantity of goods.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

9. When the price level rises, other things the same, people want to
- increase money holdings, so the interest rate increases.
 - increase money holdings, so the interest rate decreases.
 - reduce money holdings, so the interest rate increases.
 - reduce money holdings, so the interest rate decreases.

ANSWER: a. increase money holdings, so the interest rate increases.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

10. Other things the same, which of the following happens when the price level falls?
- Households try to increase money holdings.
 - The real exchange rate appreciates.
 - U.S. net exports increase.
 - All of the above are correct.

ANSWER: c. U.S. net exports increase.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

11. Which of the following tends to increase the quantity of output demanded when the price level decreases?
- the wealth effect
 - the interest rate effect
 - the exchange rate effect
 - All of the above are correct.

ANSWER: d. All of the above are correct.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

12. If people decide to save more for retirement
- or the government raises taxes, aggregate demand will shift right.
 - or the government raises taxes, aggregate demand will shift left.
 - aggregate demand will shift right. If the government raises taxes, aggregate demand will shift left.
 - aggregate demand will shift left. If the government raises taxes, aggregate demand will shift right.

ANSWER: b. or the government raises taxes, aggregate demand will shift left.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

13. Which of the following do we expect in the short run if the money supply increases?
- The interest rate rises.
 - Investment falls.
 - The price level rises.
 - All of the above are correct.

ANSWER: c. The price level rises.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY SEEN THIS QUESTION AND ITS ANSWER.

14. Suppose there is a broad increase in the price of stocks which causes an increase in the real wealth of individuals. Consumption spending rises in response to the increase in wealth. This will cause the
- aggregate demand curve to shift to the left.
 - rate of unemployment to decrease.
 - general price level to fall.
 - aggregate supply curve to shift to the right.

ANSWER: b. rate of unemployment to decrease.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

15. Which of the following shifts the long-run aggregate supply curve to the left?
- an increase in the economy's capital stock
 - an increase in the availability of natural resources from abroad
 - stricter environmental regulations
 - None of the above is correct.

ANSWER: c. stricter environmental regulations

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

16. By itself technological progress tends to
- raise real GDP and lower the price level.
 - raise both real GDP and the price level.
 - decrease both real GDP and the price level.
 - decrease real GDP and raise the price level.

ANSWER: a. raise real GDP and lower the price level.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

17. According to the aggregate demand and aggregate supply model, in the long run an increase in the money supply
- increases the price level and real GDP.
 - increases the price level, but does not change real GDP.
 - increases real GDP, but does not change the price level.
 - decreases real GDP, but does not change the price level.

ANSWER: b. increases the price level, but does not change real GDP.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

18. If the price level is less than expected, producers believe their relative price has
- increased and so increase production.
 - increased and so decrease production.
 - decreased and so increase production.
 - decreased and so decrease production.

ANSWER: d. decreased and so decrease production.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

19. If wages do not adjust immediately to the price level, a higher price level
- reduces real wages and employment.
 - increases real wages and employment.
 - reduces real wages and increases employment.
 - increases real wages and reduces employment.

ANSWER: c. reduces real wages and increases employment.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

20. An increase in the expected price level shifts aggregate
- demand to the right.
 - demand to the left.
 - supply to the right.
 - supply to the left.

ANSWER: d. supply to the left.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY SEEN THIS QUESTION AND ITS ANSWER.

21. A change in price expectations will shift
- short-run aggregate supply, but not long-run aggregate supply.
 - long-run aggregate supply, but not short-run aggregate supply.
 - both long-run aggregate supply and short-run aggregate supply.
 - long-run aggregate supply and aggregate demand.

ANSWER: a. short-run aggregate supply, but not long-run aggregate supply.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

22. Suppose consumers become more pessimistic concerning the future of an economy. In the short run
- both the price level and real GDP rise.
 - both the price level and real GDP fall.
 - the price level rises and real GDP falls.
 - the price level falls and real GDP rises.

ANSWER: b. both the price level and real GDP fall.

TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

23. During the 1930s
- and the 1940s U.S. aggregate demand appears to have shifted far to the left.
 - and the 1940s U.S. aggregate demand appears to have shifted far to the right.
 - U.S. aggregate demand appears to have shifted far to the right. During the 1940s aggregate demand appears to have shifted far to the left.
 - U.S. aggregate demand appears to have shifted far to the left. During the 1940s aggregate demand appears to have shifted far to the right.

ANSWER: d. U.S. aggregate demand appears to have shifted far to the left. During the 1940s aggregate demand appears to have shifted far to the right.

TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

24. Which of the following is associated primarily with aggregate supply shifting far to the left?
- the Great Depression
 - the economic boom of the 1940s
 - stagflation of the 1970s
 - None of the above is correct.

ANSWER: c. stagflation of the 1970s

TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

25. If the economy is experiencing stagflation and the Fed increases the money supply in the short run output
- increases, in the long run the price level increases.
 - increases, in the long run the price level decreases.
 - decreases, in the long run the price level increases.
 - decreases, in the long run the price level decreases.

ANSWER: a. increases, in the long run the price level increases.

TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

1 ANSWER: b. negative real GDP growth.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2 ANSWER: a. On average over the past 50 years real GDP has grown about 3% per year.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3 ANSWER: d. declines and unemployment rises.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4 ANSWER: b. investment
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5 ANSWER: a. both the classical dichotomy and monetary neutrality.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

6 ANSWER: b. vertical axis and quantity of output is on the horizontal axis.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

7 ANSWER: d. there is a movement down a given aggregate demand curve.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

8 ANSWER: c. more, so consumers demand a larger quantity of goods.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

9 ANSWER: a. increase money holdings, so the interest rate increases.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

10 ANSWER: c. U.S. net exports increase.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

11 ANSWER: d. All of the above are correct.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

12 ANSWER: b. or the government raises taxes, aggregate demand will shift left.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

13 ANSWER: c. The price level rises.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

14 ANSWER: b. rate of unemployment to decrease.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

15 ANSWER: c. stricter environmental regulations
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

16 ANSWER: a. raise real GDP and lower the price level.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

17 ANSWER: b. increases the price level, but does not change real GDP.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

18 ANSWER: d. decreased and so decrease production.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

19 ANSWER: c. reduces real wages and increases employment.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

20 ANSWER: d. supply to the left.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

21 ANSWER: a. short-run aggregate supply, but not long-run aggregate supply.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 3 RANDOM: Y

22 ANSWER: b. both the price level and real GDP fall.
TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

23 ANSWER: d. U.S. aggregate demand appears to have shifted far to the left. During the 1940s
aggregate demand appears to have shifted far to the right.
TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

24 ANSWER: c. stagflation of the 1970s
TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

25 ANSWER: a. increases, in the long run the price level increases.
TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 4 RANDOM: Y

