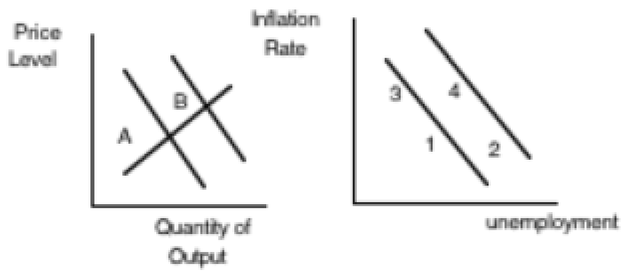
Chapter 33
The Short-Run Tradeoff Between Inflation and Unemployment
Test B



1. The short-run effects of an increase in government expenditures are shown in the graph as
    a. a movement from A to B and 1 to 2.
    b. a movement from A to B and 1 to 3.
    c. a movement from B to A and 1 to 4.
    d. None of the above is correct.

ANSWER: b. a movement from A to B and 1 to 3.
TYPE: M KEY1: G SECTION: 1 OBJECTIVE: 1 RANDOM: Y GRAPH: 1

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

2. In order to reduce inflation an economy will typically endure a period of
    a. high unemployment and low output.
    b. high unemployment and high output.
    c. low unemployment and low output.
    d. low unemployment and high output.

ANSWER: a. high unemployment and low output.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3. The Phillips curve shows the relationship between the
    a. price level and real GDP.
    b. price level and unemployment.
    c. inflation rate and the price level.
    d. inflation rate and unemployment.

ANSWER: d. inflation rate and unemployment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4. If the government decided that it wanted lower inflation it would
   a. increase aggregate demand which would increase unemployment.
   b. increase aggregate demand which would decrease unemployment.
   c. decrease aggregate demand which would increase unemployment.
   d. decrease aggregate demand which would decrease unemployment.

ANSWER: c. decrease aggregate demand which would increase unemployment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5. Which of the following lists contains only policies that would increase inflation and decrease unemployment?
   a. increase government expenditures, increase the money supply
   b. increase government expenditures, decrease the money supply
   c. decrease government expenditures, increase the money supply
   d. decrease government expenditures, decrease the money supply

ANSWER: a. increase government expenditures, increase the money supply.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6. Friedman and Phelps argued that an inverse relation between inflation and unemployment could exist
   a. in both the long run and the short run.
   b. in neither the short run nor the long run.
   c. only in the short run.
   d. only in the long run.

ANSWER: c. only in the short run.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

7. According to the long-run Phillips curve, if the Fed increases the growth rate of the money supply,
   a. inflation and unemployment both rise.
   b. inflation rises and unemployment falls.
   c. only employment rises.
   d. only inflation rises.

ANSWER: d. only inflation rises.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

8. Which of the following policies would shift the long-run Phillips curve to the right?
   a. Increased use of on-line vitas and job openings decrease the time people spend searching for jobs.
   b. The government increases the minimum wage.
   c. The government increases the money supply.
   d. None of the above is correct.

ANSWER: b. The government increases the minimum wage.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

9. Which of the following explanations for an upward sloping aggregate supply curve would imply an upward-sloping short-run Phillips curve?
   a. misperceptions of relative prices
   b. sticky wages and prices
   c. Both a and b are correct.
   d. None of the above is correct.

ANSWER: c. Both a and b are correct.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

10. As compared to their initial values, which of the following variables are higher in both the short and long run if the government pursues an expansionary policy?
    a. both unemployment and inflation
    b. only inflation
    c. only unemployment
    d. neither unemployment nor inflation

ANSWER: b. only inflation
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

11. Expansionary policy
    a. increases unemployment and inflation in the short run, but only increases inflation in the long run.
    b. increases unemployment and reduces inflation in the short run, but increases unemployment in the long run.
    c. reduces unemployment in the short run, but increases inflation in the short run and long run.
    d. reduces unemployment and inflation in the short run, but increases unemployment in the long run.

ANSWER: c. reduces unemployment in the short run, but increases inflation in the short run and long run.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

12. If expected inflation decreases the short-run Phillips curve shifts
    a. right, so at any actual inflation rate, unemployment will be higher than before.
    b. right, so at any actual inflation rate, unemployment will be lower than before.
    c. left, so at any actual inflation rate, unemployment will be higher than before.
    d. left, so at any actual inflation rate, unemployment will be lower than before.

ANSWER: d. left, so at any actual inflation rate, unemployment will be lower than before.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

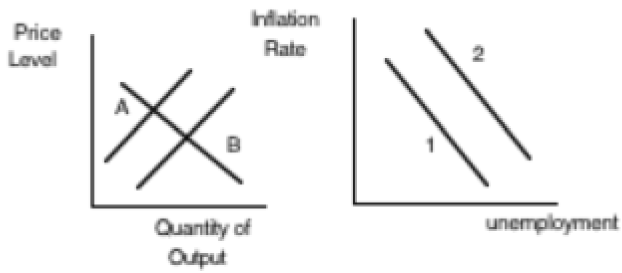
13. In 1973, both unemployment and inflation were higher than they had been in 1969. This can be explained by monetary policy that increased
    a. inflation expectations and so shifted the short-run Phillips curve to the right.
    b. inflation expectations and so shifted the short-run Phillips curve to the left.
    c. actual inflation and so shifted the long-run Phillips curve to the right.
    d. actual inflation and so shifted the long-run Phillips curve to the left.

ANSWER: b. inflation expectations and so shifted the short-run Phillips curve to the left.
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.

14. The Phillips curve would be shifted rightward by:
    a. a decline in inflationary expectations.
    b. a decrease in oil prices.
    c. an increase in inflationary expectations.
    d. a leftward shift of aggregate demand.

ANSWER: c. an increase in inflationary expectations.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y



15. In late 2000 and early 2001 crude oil prices rose. On the graph this would be shown as
    a. a movement from A to B and a movement from 1 to 2.
    b. a movement from A to B and a movement from 2 to 1.
    c. a movement from B to A and a movement from 1 to 2.
    d. None of the above is correct.

ANSWER: c. a movement from B to A and a movement from 1 to 2.
TYPE: M KEY1: G SECTION: 3 OBJECTIVE: 3 RANDOM: Y GRAPH: 2

16. The oil price shock of the 1970s shifted the short-run Phillips curve
    a. right briefly because the Fed did not accommodate the oil price shock.
    b. right for an extended period because the Fed accommodated the oil price shock.
    c. left briefly because the Fed did not accommodate the oil price shock.
    d. left for an extended period because the Fed accommodated the oil price shock.

ANSWER: b. right for an extended period because the Fed accommodated the oil price shock.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

17. Which of the following is a consequence of using monetary policy to fight unemployment created by a supply shock?
    a. current inflation rises
    b. the Phillips curve will not soon revert to its former position
    c. Both a and b are correct.
    d. Neither a nor b are correct.

ANSWER: c. Both a and b are correct.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

18. Suppose that a small economy that depends mostly on agriculture experiences a year with exceptionally good conditions for growing crops. The effects of the good weather would shift
    a. both short-run aggregate supply and the short-run Phillips curve right.
    b. both short-run aggregate supply and the short-run Phillips curve left.
    c. the short-run aggregate supply curve to the left, and the short-run Phillips curve to the right.
    d. the short-run aggregate supply curve to the right, and the short-run Phillips curve to the left.

ANSWER: d. the short-run aggregate supply curve to the right, and the short-run Phillips curve to the left.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

19. Suppose an economy with high inflation decides to decrease the money supply growth rate
    a. both the current unemployment rate and the natural rate of unemployment fall.
    b. both the current unemployment rate and the natural rate of unemployment rise.
    c. the current rate of unemployment rises, but there is no change in the natural rate of unemployment.
    d. the current rate of unemployment falls, but there is no change in the natural rate of unemployment.

ANSWER: c. the current rate of unemployment rises, but there is no change in the natural rate of unemployment.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

20. Suppose the Fed decreased the growth rate of the money supply. Which of the following would permanently decrease?
    a. both the unemployment rate and the inflation rate
    b. the unemployment rate, but not the inflation rate
    c. the inflation rate, but not the unemployment rate
    d. neither the unemployment rate nor the inflation rate

ANSWER: c. the inflation rate, but not the unemployment rate
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

21. The annual output of the United States is currently about $10 trillion. If the sacrifice ratio is 3 and the Fed pursues a monetary policy designed to decrease inflation 2 percentage points, what is the cost of reducing inflation?
    a. $500 billion
    b. $600 billion
    c. $5 trillion
    d. $6 trillion

ANSWER: b. $600 billion
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

22. If the government’s commitment to low inflation is credible, the sacrifice ratio is
    a. high, so the cost of inflation reduction is high.
    b. high, so the cost of inflation reduction is low.
    c. low, so the cost of inflation reduction is high.
    d. low, so the cost of inflation reduction is low.

ANSWER: d. low, so the cost of inflation reduction is low.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y

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

23. The disinflation of the early 1980s was due to:
    a. restrictive monetary policies of the Federal Reserve.
    b. expansionary monetary policies of the Federal Reserve.
    c. restrictive fiscal policy.
    d. expansionary fiscal policy.

ANSWER: a. restrictive monetary policies of the Federal Reserve.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y

24. Consider the following two sentences. Although the Volcker disinflation came at the cost of high unemployment, the cost was less than most economists predicted. The cost of the disinflation might have been even greater if people had believed that Volcker would really reduce inflation as much as he did.
    a. Both sentences are true.
    b. Neither sentence is true.
    c. Only the first sentence is true.
    d. Only the second sentence is true.

ANSWER: c. Only the first sentence is true.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y

25. Which of the following is helpful in explaining levels of unemployment and inflation in the late 1990s?
    a. Decreased inflation expectations shifted the short-run Phillips curve to the right.
    b. The U.S. economy experienced some favorable supply shocks during this period.
    c. Both of the above are correct.
    d. None of the above is correct.

ANSWER: b. the U.S. economy experienced some favorable supply shocks during this period.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y

1 ANSWER: b. a movement from A to B and 1 to 3.
TYPE: M KEY1: G SECTION: 1 OBJECTIVE: 1 RANDOM: Y GRAPH: 1

2 ANSWER: a. high unemployment and low output.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

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

4 ANSWER: c. decrease aggregate demand which would increase unemployment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5 ANSWER: a. increase government expenditures, increase the money supply.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6 ANSWER: c. only in the short run.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

7 ANSWER: d. only inflation rises.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

8 ANSWER: b. The government increases the minimum wage.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

9 ANSWER: c. Both a and b are correct.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

10 ANSWER: b. only inflation
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

11 ANSWER: c. reduces unemployment in the short run, but increases inflation in the short run and long run.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

12 ANSWER: d. left, so at any actual inflation rate, unemployment will be lower than before.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

13 ANSWER: b. inflation expectations and so shifted the short-run Phillips curve to the left.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

14 ANSWER: c. an increase in inflationary expectations.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

15 ANSWER: c. a movement from B to A and a movement from 1 to 2.
TYPE: M KEY1: G SECTION: 3 OBJECTIVE: 3 RANDOM: Y GRAPH: 2

16 ANSWER: b. right for an extended period because the Fed accommodated the oil price shock.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

17 ANSWER: c. Both a and b are correct.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

18 ANSWER: d. shift the short-run aggregate supply curve to the right, and the short-run Phillips curve to the left.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

19 ANSWER: c. the current rate of unemployment rises, but there is no change in the natural rate of unemployment.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

20 ANSWER: c. the inflation rate, but not the unemployment rate
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

21 ANSWER: b. $600 billion
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

22 ANSWER: d. low, so the cost of inflation reduction is low.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y

23 ANSWER: a. restrictive monetary policies of the Federal Reserve.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y

24 ANSWER: c. Only the first sentence is true.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y

25 ANSWER: b. the U.S. economy experienced some favorable supply shocks during this period.
TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 5 RANDOM: Y