

Name: _____ Date: _____

1. Stagflation is a combination of:
 - A) increasing unemployment and increasing inflation.
 - B) decreasing unemployment and decreasing inflation.
 - C) increasing unemployment and decreasing inflation.
 - D) decreasing unemployment and increasing inflation.

2. Which of the following represent the three consequences of the decline in demand during the Great Depression?
 - A) falling prices, declining output, and a surge in unemployment
 - B) falling prices, increasing output, and a surge in unemployment
 - C) rising prices, increasing output, and a surge in unemployment
 - D) rising prices, declining output, and a surge in unemployment

Use the following to answer question 3:

Figure: Aggregate Demand



3. (Figure: Aggregate Demand) Using the accompanying figure, the quantity of output demanded if the price level is 120 is:
 - A) \$9 trillion.
 - B) \$10 trillion.
 - C) \$11 trillion.
 - D) \$12 trillion.

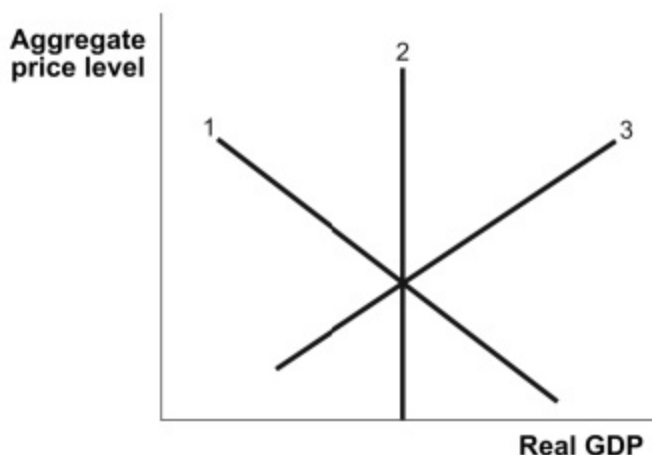
4. The aggregate demand curve shows the relationship between the aggregate price level and:
- A) aggregate productivity.
 - B) the aggregate unemployment rate.
 - C) the aggregate quantity of output demanded by households, businesses, the government, and the rest of the world.
 - D) the aggregate quantity of output demanded by businesses only.
5. The components of aggregate demand are:
- A) C (consumption) and I (investment) expenditures.
 - B) C (consumption), I (investment), and G (government) expenditures.
 - C) C (consumption), I (investment) expenditures, and $X - IM$ (net exports).
 - D) C (consumption), I (investment), G (government) expenditures, and $X - IM$ (net exports).
6. The wealth effect suggests:
- A) a positive relationship between the price level and consumption spending.
 - B) that price level changes do not affect real wealth.
 - C) a negative relationship between the price level and consumption spending.
 - D) that when the price level increases, the real value of money increases also.
7. An increase in aggregate demand is seen as a(n):
- A) shift to the right in the aggregate demand curve.
 - B) downward movement along the aggregate demand curve.
 - C) upward movement along the aggregate demand curve.
 - D) shift to the left in the aggregate demand curve.
8. A decrease in aggregate demand is seen as a(n):
- A) downward movement along the aggregate demand curve.
 - B) upward movement along the aggregate demand curve.
 - C) shift to the left in the aggregate demand curve.
 - D) shift to the right in the aggregate demand curve.
9. If government increases income tax rates, the aggregate demand curve is likely to:
- A) shift to the right.
 - B) shift to the left.
 - C) remain constant.
 - D) become positively sloped.

10. An increase in government spending, all other things unchanged, will cause the aggregate demand curve to:
- A) become positively sloped.
 - B) remain constant.
 - C) shift to the right.
 - D) shift to the left.
11. Aggregate demand will increase in all of the following cases except if:
- A) household wealth rises, but prices are constant.
 - B) government purchases of goods rise.
 - C) the quantity of money increases.
 - D) interest rates increase.
12. Aggregate demand will decrease if:
- A) the aggregate price level falls.
 - B) the government raises the tax rate.
 - C) productivity declines.
 - D) the money supply increases.
13. Aggregate demand will increase if:
- A) the public becomes more optimistic about future income.
 - B) the aggregate price level falls.
 - C) government spending is reduced.
 - D) household wealth decreases.
14. The long-run supply curve illustrates how the aggregate output supplied is:
- A) positively related to the aggregate price level.
 - B) negatively related to the aggregate price level.
 - C) unrelated to the aggregate price level.
 - D) a one-to-one correspondence with the aggregate price level.
15. Changes in short-run aggregate supply can be caused by changes in:
- A) wealth.
 - B) commodity prices.
 - C) government spending.
 - D) the price level.
16. Changes in short-run aggregate supply can be caused by changes in:
- A) wages.
 - B) wealth.
 - C) government spending.
 - D) consumption spending.

17. A positive demand shock will:
- increase the aggregate price level and aggregate output.
 - decrease the aggregate price level and increase aggregate output.
 - increase the aggregate price level and decrease aggregate output.
 - decrease both the aggregate price level and aggregate output.
18. A positive demand shock leads to:
- higher prices and higher employment.
 - higher prices and higher unemployment.
 - higher prices and lower output.
 - lower prices and lower output.
19. Suppose that political instability in the Middle East temporarily interrupts the supply of oil to the United States. Which of the following is most likely to occur?
- The short-run aggregate supply curve shifts right, output increases, and prices decrease.
 - The short-run aggregate supply curve shifts left, output decreases, and prices increase.
 - The aggregate demand curve shifts left, output decreases, and prices decrease.
 - The aggregate demand curve shifts right, output increases, and prices increase.
20. A natural disaster that destroys part of a country's infrastructure is a type of _____ and therefore shifts the _____ to the _____.
- negative demand shock; aggregate demand curve; right
 - negative supply shock; aggregate demand curve; left
 - negative supply shock; short-run aggregate supply curve; left
 - negative demand shock; long-run aggregate supply curve; left

Use the following to answer question 21:

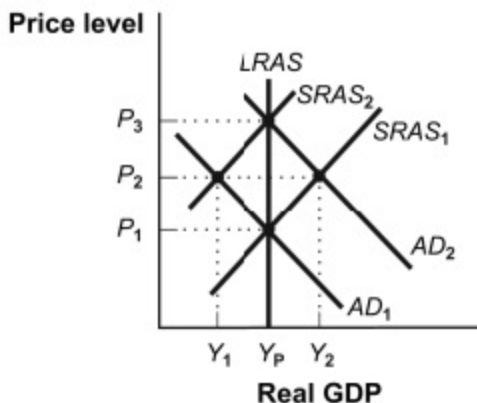
Figure: Macroeconomics Equilibrium



21. (Figure: Macroeconomic Equilibrium) Refer to the accompanying figure called Macroeconomic Equilibrium. Curve 1 refers to _____, curve 2 refers to _____, and curve 3 refers to _____.
- A) long-run aggregate supply; short-run aggregate supply; aggregate demand
 B) aggregate demand; short-run aggregate supply; long-run aggregate supply
 C) short-run aggregate supply; long-run aggregate supply; aggregate demand
 D) aggregate demand; long-run aggregate supply; short-run aggregate supply
22. In the short run, the equilibrium price level and the equilibrium level of total output are determined by the intersection of:
- A) *LRAS* and *SRAS*.
 B) *LRAS* and aggregate demand.
 C) *SRAS* and aggregate demand.
 D) potential output and *LRAS*.
23. An increase in investment leads to _____ in the price level and _____ in real GDP in the short run.
- A) an increase; no change
 B) a decrease; no change
 C) no change; no change
 D) an increase; an increase
24. The intersection of an economy's aggregate demand and long-run aggregate supply curves:
- A) determines its equilibrium real GDP in both the long run and the short run.
 B) determines its equilibrium price level in both the long run and the short run.
 C) occurs at the economy's potential output.
 D) occurs at high levels of cyclical unemployment.

Use the following to answer question 25:

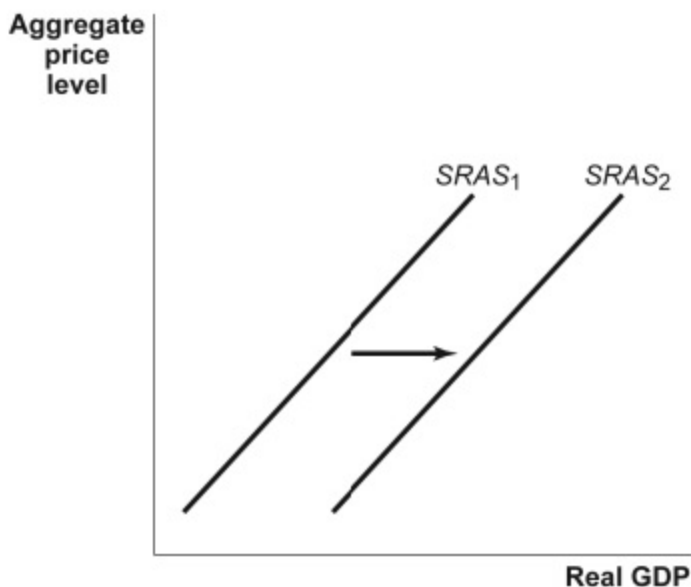
Figure: An Increase in Aggregate Demand



25. (Figure: An Increase in Aggregate Demand) Assume that the economy is initially in long-run equilibrium at Y_p and P_1 . Now suppose that there is an increase in the level of government purchases at each price level. This will:
- A) shift the aggregate demand curve from AD_2 to AD_1 .
 - B) shift the aggregate demand curve from AD_1 to AD_2 .
 - C) lead to increased output and a decrease in the price level.
 - D) lead to decreased output and price level.
26. A decrease in aggregate demand will generate _____ in real GDP and _____ in the price level in the short run.
- A) an increase; no change
 - B) a decrease; no change
 - C) a decrease; a decrease
 - D) no change; an increase
27. In the long run (as the economy self-corrects), an increase in aggregate demand will cause the price level to _____ and potential output to _____.
- A) rise; increase
 - B) fall; decrease
 - C) rise; remain stable
 - D) fall; remain stable
28. In the long run (as the economy self-corrects), a decrease in aggregate demand, all other things unchanged, will cause the price level to _____ and potential output to _____.
- A) rise; increase
 - B) fall; decrease
 - C) rise; remain stable
 - D) fall; remain stable
29. In the United States during the 1970s, oil prices increased dramatically and caused:
- A) AD to shift right.
 - B) AD to shift left.
 - C) $SRAS$ to shift right.
 - D) $SRAS$ to shift left.

Use the following to answer question 30:

Figure: Aggregate Supply Movements



30. (Figure: Aggregate Supply Movements) Refer to the accompanying figure called Aggregate Supply Movements. In this figure, _____.
- A) an increase in the price level is responsible for pushing the $SRAS$ curve to the right
 - B) a decrease in the price level is responsible for pushing the $SRAS$ curve to the right
 - C) that there has been an increase in the short-run aggregate supply
 - D) that there has been a decrease in the short-run aggregate supply