

Name: _____ Date: _____

1. According to the sticky-price model, output will be at the natural level if:
 - A) firms expect a high price level and the demand for goods is high.
 - B) the proportion of firms with flexible prices equals the proportion of firms with sticky prices.
 - C) the price level equals the expected price level.
 - D) expectations are formed adaptively, but not if expectations are formed rationally.

2. The imperfect-information model assumes that producers find it difficult to distinguish between changes in:
 - A) real wages and nominal wages.
 - B) the overall level of prices and relative prices.
 - C) the overall level of prices and the expected level of prices.
 - D) cost-push inflation and demand-pull inflation.

3. Which of the following will shift the aggregate supply curve up to the left?
 - A) an increase in the price level
 - B) a decrease in the level of output
 - C) an increase in the expected price level
 - D) a decrease in the price level

4. The Phillips curve shows a _____ relationship between inflation and unemployment, and the short-run aggregate supply curve shows a _____ relationship between the price level and output.
 - A) positive; positive
 - B) positive; negative
 - C) negative; negative
 - D) negative; positive

5. The classical dichotomy breaks down for a Phillips curve, which shows the relationship between a nominal variable, _____, and a real variable, _____.
 - A) output; prices
 - B) money; output
 - C) inflation; unemployment
 - D) unemployment; inflation

6. The most prominent feature of the U.S. economy in the 1970s was:
- A) cost-push deflation.
 - B) cost-push inflation.
 - C) demand deflation.
 - D) demand inflation.
7. According to the natural-rate hypothesis, the levels of output and unemployment depend on:
- A) aggregate demand in the short run, but not in the long run.
 - B) aggregate demand in the long run, but not in the short run.
 - C) the natural rate of unemployment in the short run, but the natural rate of inflation in the long run.
 - D) the natural rate of inflation in the short run, but the natural rate of unemployment in the long run.
8. If the short-run aggregate supply curve is assumed to be horizontal and international capital flows are infinitely elastic, then the mother of all models in the Appendix to Chapter 14 corresponds to which of the following special cases?
- A) classical closed economy
 - B) aggregate demand and aggregate supply
 - C) *IS-LM* model
 - D) Mundell-Fleming model with floating exchange rate
9. Assume that an economy has the Phillips curve $\pi = \pi_{-1} - 0.5(u - 0.06)$. Then the natural rate of unemployment is:
- A) 0.5.
 - B) 0.12.
 - C) 0.06.
 - D) 0.03.
10. Assume that an economy has the Phillips curve $\pi = \pi_{-1} - 0.5(u - 0.06)$. How many percentage-point-years of cyclical unemployment are needed to reduce inflation by 5 percentage points?
- A) 20
 - B) 10
 - C) 5
 - D) 2.5

11. Assume that an economy has the usual type of Phillips curve except that the natural rate of unemployment in an economy is given by an average of the unemployment rates in the last two years. Then, there is:
- A) a long-run tradeoff between inflation and unemployment.
 - B) no long-run tradeoff between inflation and unemployment.
 - C) no short-run tradeoff between inflation and unemployment.
 - D) a sacrifice ratio that is large but not infinite.
12. If only unanticipated changes in the money supply affect real GDP, the public has rational expectations, and everyone has the same information about the state of the economy, then:
- A) monetary policy can be used to systematically stabilize output.
 - B) monetary policy cannot be used to systematically stabilize output.
 - C) a policy of keeping the money supply constant is optimal.
 - D) a policy of adjusting the money supply in response to the state of the economy is optimal.
13. The government can lower inflation with a low sacrifice ratio if the:
- A) money supply is reduced slowly.
 - B) public has adaptive expectations.
 - C) short-run aggregate supply schedule is relatively flat.
 - D) public believes that policymakers are committed to reducing inflation.
14. Based on the sticky-price model, the short-run aggregate supply curve will be steeper, the greater the:
- A) target nominal-wage rate.
 - B) target real-wage rate.
 - C) proportion of firms with flexible prices.
 - D) proportion of firms with sticky prices.
15. Starting from the natural level of output, an unexpected monetary contraction will cause output and the price level to _____ in the short run; and in the long run the expected price level will _____, causing the level of output to return to the natural level.
- A) increase; increase
 - B) increase; decrease
 - C) decrease; decrease
 - D) decrease; increase

16. The model of aggregate demand and aggregate supply is consistent with short-run monetary _____ and long-run monetary _____.
- A) neutrality; neutrality
 - B) nonneutrality; nonneutrality
 - C) neutrality; nonneutrality
 - D) nonneutrality; neutrality
17. If the equation for a country's Phillips curve is $\pi = 0.02 - 0.8(u - 0.05)$, where π is the rate of inflation and u is the unemployment rate, what is the short-run inflation rate when unemployment is 4 percent (0.04)?
- A) above 2 percent (0.02)
 - B) below 2 percent (0.02)
 - C) 2 percent (0.02)
 - D) -2 percent (-0.02)
18. The assumption of adaptive expectations for inflation means that people will form their expectations of inflation by:
- A) taking all information into account using the best economic model available.
 - B) asking the opinions of experts.
 - C) basing their opinions on recently observed inflation.
 - D) flipping a coin.