Name: ___________________________________ Date: ______________

1. Increasing government spending when the economy is in a recession is an example of:
   A) active monetary policy.
   B) active fiscal policy.
   C) passive monetary policy.
   D) passive fiscal policy.

2. Keeping the money supply constant over the business cycle is an example of:
   A) active monetary policy.
   B) active fiscal policy.
   C) passive monetary policy.
   D) passive fiscal policy.

3. The time between a policy action and its influence on the economy is called the:
   A) automatic stabilizer.
   B) time inconsistency of policy.
   C) inside lag.
   D) outside lag.

4. Fiscal policy has a relatively long ______ lag, and monetary policy has a relatively long ______ lag.
   A) inside; outside
   B) outside; inside
   C) inside; inside
   D) outside; outside

5. The lag between the time that economic stimulus is needed and the time that a tax cut is passed by Congress is an example of a:
   A) fiscal inside lag.
   B) fiscal outside lag.
   C) monetary inside lag.
   D) monetary outside lag.

6. Which of the following is an example of a fiscal policy that has no inside lag?
   A) a decrease in income tax rates
   B) an ongoing unemployment insurance program
   C) an increase in government spending for job training
   D) a reduction in the age at which people become eligible for retirement benefits

7. Conducting fiscal policy so that $G = T + \beta\,(u - u_n)$, where G is government expenditures, T is tax revenue, u is the unemployment rate, u_n is the natural rate of unemployment, and β is a positive number, is an example of a(n):
   A) active rule.
   B) passive rule.
   C) discretionary policy.
   D) automatic stabilizer.

8. Conducting monetary policy so that the FF rate = $\pi + 0.5(\pi - 2) + 0.5$ (GDP gap), where the FF rate is the nominal federal funds interest rate, π is the annual inflation rate, and GDP gap is the percentage shortfall of real GDP from its natural level, is an example of :
   A) an active policy rule.
   B) a passive policy rule.
   C) discretionary policy.
   D) an automatic stabilizer.

9. Inflation targeting is a monetary policy rule that requires the central bank to adjust _____ in order to attain the desired inflation rate.
   A) a price index
   B) the velocity of money
   C) nominal GDP
   D) the money supply

10. Unlike a monetarist policy rule, an inflation target has the advantage of:
   A) eliminating the need to announce the policy target.
   B) providing a real target rather than a nominal one.
   C) allowing the central bank unlimited discretion.
   D) insulating the economy from changes in money velocity.

11. A monetary policy rule that targets nominal GDP would ______ money growth when nominal GDP rises above the target and ______ money growth when nominal GDP falls below the target.
    A) reduce; raise
    B) raise; reduce
    C) reduce; reduce
    D) raise; raise

12. Conducting monetary policy so that the FF rate = 0.05, where the FF rate is the nominal federal funds interest rate, is an example of :
    A) an active policy rule.
    B) a passive policy rule.
    C) discretionary policy.
    D) an automatic stabilizer.

13. The lags involved in implementing monetary and fiscal policy are:
    A) short and predictable.
    B) long and predictable.
    C) short and variable.
    D) long and variable.

14. Passive economic policy seeks to:
    A) offset fluctuations in real GDP.
    B) use monetary and fiscal policy to shift aggregate demand.
    C) respond to changing economic conditions.
    D) take a hands-off approach to macroeconomic policy.

15. The Lucas critique argues that because the way people form expectations is based ______ on government policies, economists ______ predict the effect of a change in policy without taking changing expectations into account.
    A) partly; cannot
    B) only partly; can
    C) in no way; can
    D) in no way; cannot

16. If past policies kept the economy insulated from shocks to aggregate demand and supply, the historical evidence would support using:
    A) active macroeconomic policy only.
    B) passive macroeconomic policy only.
    C) either active or passive macroeconomic policy.
    D) neither active nor passive macroeconomic policy.

17. Economic research finds that greater central-bank independence is ______ correlated with lower and more stable inflation as well as ______ correlated with the average growth and variability of real GDP.
    A) strongly; strongly
    B) strongly; not
    C) not; strongly
    D) not; not

18. Policy is conducted by rule if policymakers:
    A) announce in advance how policy will respond to various situations and commit themselves to following through on this announcement.
    B) are free to size up the situation case by case and choose whatever policy seems appropriate at the time.
    C) set policy according to election results, i.e., set policy by rule of the ballot box.
    D) manipulate policy to ensure both low inflation and unemployment on election day.

19. Policy is conducted by discretion if policymakers:
    A) announce in advance how policy will respond to various situations and commit themselves to following through on this announcement.
    B) are free to size up the situation case by case and choose whatever policy seems appropriate at the time.
    C) announce and maintain a constant growth rate of the money supply.
    D) announce and achieve a balanced government budget.

20. Monetary policy rules that target nominal variables would target *any* of the following *except* the:
    A) price level.
    B) money supply
    C) unemployment rate.
    D) level of nominal GDP.