Name: ______________________ Date: ____________

1. During periods of low inflation, the short-run aggregate supply curve is:
   A) vertical.
   B) horizontal.
   C) upward sloping.
   D) downward sloping.

2. In the long run, any given percentage increase in the money supply:
   A) decreases real GDP.
   B) leads to an equal percentage increase in the overall price level.
   C) increases real GDP.
   D) leads to an equal percentage decrease in the unemployment rate.

3. The short-run Phillips curve shows:
   A) a direct relationship between unemployment and inflation.
   B) an inverse relationship between unemployment and inflation.
   C) consequences of the misperceptions theory.
   D) the optimal level of employment.

4. The short-run Phillips curve represents the relationship between the unemployment rate and the rate of change in:
   A) the interest rate.
   B) output.
   C) wages only.
   D) the aggregate price level.

5. A supply shock:
   A) moves our economy along the short-run aggregate supply curve.
   B) moves us along the short-run Phillips curve.
   C) shifts the short-run Phillips curve.
   D) shifts the short-run aggregate supply curve but not the short-run Phillips curve.

6. A trade-off between unemployment and inflation is depicted by:
   A) the Phillips curve.
   B) Keynes's law.
   C) the multiplier.
   D) the Friedman curve.

7. A Phillips curve implies a negative relationship between:
   A) consumption and saving.
   B) inflation and prices.
   C) inflation and unemployment.
   D) consumption and inflation.

8. The short-run Phillips curve:
   A) is upward sloping because inflation and unemployment rates have a positive relationship in the short run.
   B) is vertical because there is no trade-off between inflation and unemployment rates in the short run.
   C) is downward sloping because there is a trade-off between inflation and unemployment rates in the short run.
   D) is horizontal because there is no trade-off between inflation and unemployment rates in the short run.

9. An increase in the expected rate of inflation:
   A) shifts the short-run Phillips curve down.
   B) shifts the short-run Phillips curve up.
   C) moves the economy along the short-run Phillips curve to higher rates of inflation.
   D) moves the economy along the short-run Phillips curve to higher rates on unemployment.

10. If workers expect a lower rate of inflation, the short-run Phillips curve will:
   A) remain constant, but there will be a movement down the curve.
   B) be unaffected.
   C) shift up.
   D) shift down.

11. During the 1990s, the short-run Phillips curve:
   A) shifted downward because oil prices fell and productivity increased.
   B) shifted downward because oil prices rose and productivity decreased.
   C) shifted upward because oil prices rose and productivity decreased.
   D) shifted upward because oil prices fell and productivity increased.

12. The long-run Phillips curve is:
   A) the same as the short-run Phillips curve.
   B) negatively sloped, showing an inverse relationship between unemployment and inflation.
   C) vertical at the nonaccelerating-inflation rate of unemployment (NAIRU).
   D) unrelated to the NAIRU.

13. In the long run, when the actual inflation rate gets embedded into people's expectation:
   A) the trade-off between inflation and unemployment becomes even stronger.
   B) it is possible to achieve lower unemployment in the long run by accepting higher inflation.
   C) there is no longer a trade-off between inflation and unemployment.
   D) actual inflation at any unemployment rate is always higher than expected inflation.

14. The long-run Phillips curve shows the relationship between:
   A) potential aggregate output and the natural rate of unemployment at a given rate of expected inflation.
   B) expected inflation and actual inflation after the expectation becomes embedded in people's minds.
   C) the aggregate output and the aggregate price level in the economy at a given rate of expected inflation.
   D) unemployment and inflation after expectations of inflation have had time to adjust to experience.

15. Disinflation is costly to the economy if:
   A) deflation is forced on the economy, employment decreases and aggregate output falls.
   B) increasing inflation is forced on the economy, unemployment decreases and aggregate price level increases.
   C) stagflation is forced on the economy, unemployment increases and inflation increases.
   D) a recession is forced on the economy, unemployment increases and aggregate output falls.

16. Disinflation means a decrease in:
   A) prices.
   B) the rate of inflation.
   C) aggregate supply.
   D) the money supply.

17. The short-run Phillips curve:
   A) depicts the positive relationship between the unemployment rate and the inflation rate.
   B) broke down in the 1970s because of a supply shock.
   C) illustrates that expected inflation has little impact on the natural rate of unemployment.
   D) shows that policies may not be effective in changing the natural rate of unemployment.

18. The long-run Phillips curve shows that:
   A) there is a trade-off between unemployment and inflation.
   B) an expansionary policy could lead to lower unemployment temporarily.
   C) the natural rate of unemployment occurs when the actual inflation rate equals the expected inflation rate.
   D) lower unemployment can be sustained indefinitely with continuous expansionary policies.