

Macroeconomic theory 3rd quiz November 1 (in class)

Name:

1) The version of Okun's law studied in Chapter 10 assumes that with no change in unemployment, real GDP normally grows by 3 percent over a year. If the unemployment rate rose by 2 percentage points over a year, Okun's law predicts that real GDP would:

- A) decrease by 1 percent.
- B) decrease by 2 percent.
- C) decrease by 3 percent.
- D) increase by 1 percent.

2) When an aggregate demand curve is drawn with real GDP (Y) along the horizontal axis and the price level (P) along the vertical axis, if the money supply is decreased, then the aggregate demand curve will shift:

- A) downward and to the left.
- B) downward and to the right.
- C) upward and to the left.
- D) upward and to the right.

3) Which of the following is an example of a demand shock?

- A) a large oil-price increase
- B) the introduction and greater availability of credit cards
- C) a drought that destroys agricultural crops
- D) unions obtain a substantial wage increase

4) If the demand for money increases, but the Fed keeps the money supply the same, then in the short run output will:

- A) fall and in the long run prices will remain unchanged.
- B) remain unchanged and in the long run prices will fall.
- C) remain unchanged and in the long run prices will remain unchanged.
- D) fall and in the long run prices will fall.

5) Assume that the economy starts from long-run equilibrium. If the Federal Reserve increases the money supply, then _____ increase(s) in the short run and _____ increase(s) in the long run.

- A) prices; output
- B) output; prices
- C) output; output
- D) prices; prices

6) On two occasions in the 1970s:

- A) world oil prices rose rapidly, inflation was high, and the unemployment rate was high.
- B) world oil prices rose rapidly, inflation was moderate, and the unemployment rate was high.
- C) world oil prices rose rapidly, inflation was high, and the unemployment rate was moderate.
- D) world oil prices rose rapidly, but the Fed used monetary policy to curb inflation.

7) If the fraction of employed workers who lose their jobs each month (the rate of job separations) is 0.01 and the fraction of the unemployed who find a job each month is 0.09 (the rate of job findings), then the natural rate of unemployment is:

- A) 1 percent.

- B) 9 percent.
- C) 10 percent.
- D) about 11 percent.

8) All of the following are reasons for frictional unemployment except:

- A) workers have different preferences and abilities.
- B) unemployed workers accept the first job offer that they receive.
- C) the flow of information is imperfect.
- D) geographic mobility takes time.

9) In a steady state:

- A) no hiring or firings are occurring.
- B) the number of people finding jobs equals the number of people losing jobs.
- C) the number of people finding jobs exceeds the number of people losing jobs.
- D) the number of people losing jobs exceeds the number of people finding jobs.

10) If the rate of job separation is 0.02 per month and the rate of job finding is 0.10 per month, what is the natural rate of unemployment?