Name: __________________________________ Date: _____________

1. Short-run fluctuations in output and employment are called:
   A) sectoral shifts.
   B) the classical dichotomy.
   C) business cycles.
   D) productivity slowdowns.

2. Over the business cycle, investment spending ______ consumption spending.
   A) is inversely correlated with
   B) is more volatile than
   C) has about the same volatility as
   D) is less volatile than

3. 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.

4. A decline in the Index of Supplier Deliveries is typically an indicator of a future _____ in economic production, and a narrowing of the interest rate spread between the 10-year Treasury note and 3-month Treasury bill is typically an indicator of a future _____ in economic production.
   A) increase; slowdown
   B) increase; increase
   C) slowdown; increase
   D) slowdown; slowdown

5. Most economists believe that prices are:
   A) flexible in the short run but many are sticky in the long run.
   B) flexible in the long run but many are sticky in the short run.
   C) sticky in both the short and long runs.
   D) flexible in both the short and long runs.

6. The aggregate demand curve is the ______ relationship between the quantity of output demanded and the ______.
   A) positive; money supply
   B) negative; money supply
   C) positive; price level
   D) negative; price level

7. 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.

8. When the Federal Reserve reduces the money supply, at a given price level the amount of output demanded is ______ and the aggregate demand curve shifts ______.
   A) greater; inward
   B) greater; outward
   C) lower; inward
   D) lower; outward

9. When the Federal Reserve increases the money supply, at a given price level the amount of output demanded is ______ and the aggregate demand curve shifts ______.
   A) greater; inward
   B) greater; outward
   C) lower; inward
   D) lower; outward

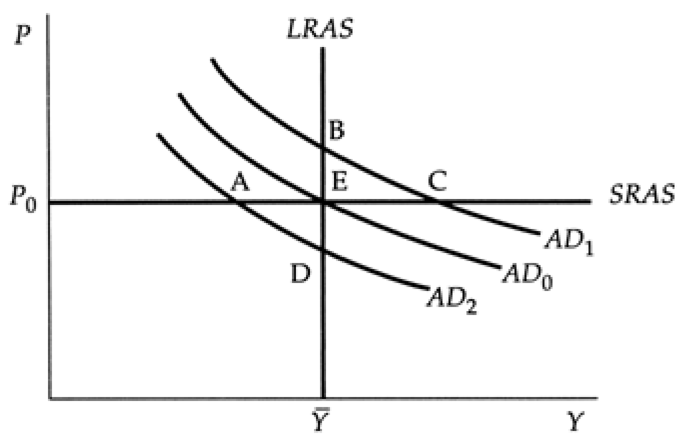
10. In the long run, the level of output is determined by the:
   A) interaction of supply and demand.
   B) money supply and the levels of government spending and taxation.
   C) amounts of capital and labor and the available technology.
   D) preferences of the public.

11. 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

12. 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

Use the following to answer question 13.

Exhibit: Shift in Aggregate Demand



13. (Exhibit: Shift in Aggregate Demand) In this graph, initially the economy is at point E, with price P_0 and output $\underline{Y}$. Aggregate demand is given by curve AD_0, and *SRAS* and *LRAS* represent, respectively, short-run and long-run aggregate supply. Now assume that the aggregate demand curve shifts so that it is represented by AD_1. The economy moves first to point ______ and then, in the long run, to point ______.
    A) A; D
    B) D; A
    C) C; B
    D) B; C

14. Starting from long-run equilibrium, if a drought pushes up food prices throughout the economy, the Fed could move the economy more rapidly back to full employment output by:
    A) increasing the money supply, but at the cost of permanently higher prices.
    B) decreasing the money supply, but at the cost of permanently lower prices.
    C) increasing the money supply, which would restore the original price level.
    D) decreasing the money supply, which would restore the original price level.

15. 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.

16. 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.