Chapter 13

1. Money demand will increase if the following declines:
   a) The price level.
   b) The interest rate.
   c) The real level of output (income).
   d) All of the above.

2. Let P equal the aggregate price level. Assuming that G, T, and MS remain the same, the impact of an increase in the price level on the economy can be described as follows:

a) $\uparrow P \rightarrow \uparrow M^d \rightarrow \uparrow r \rightarrow \downarrow I \rightarrow \downarrow AE$
b) $\uparrow P \rightarrow \downarrow M^d \rightarrow \downarrow r \rightarrow \uparrow I \rightarrow \uparrow AE$
c) $\uparrow P \rightarrow \uparrow M^d \rightarrow \uparrow r \rightarrow \uparrow I \rightarrow \downarrow AE$
d) $\uparrow P \rightarrow \uparrow M^d \rightarrow \uparrow r \rightarrow \uparrow I \rightarrow \uparrow AE$
e) $\uparrow P \rightarrow \downarrow M^d \rightarrow \uparrow r \rightarrow \downarrow I \rightarrow \downarrow AE$

3. Along the aggregate demand curve, each point represents:
   a) Macroeconomic equilibrium or equilibrium in all markets of the economy.
   b) Equilibrium in the goods market, regardless of the equilibrium situation in the money market.
   c) Simultaneous equilibrium in both the goods and money markets.
   d) Equilibrium in the money market, regardless of the equilibrium situation in the goods market.

4. The aggregate demand curve represents:
   a) A negative relationship between aggregate output (income) and the price level.
   b) The sum of all market demand curves in the economy.
   c) A market demand curve.
   d) All of the above.

5. Among the differences between a market demand curve and an aggregate demand curve is that in drawing a market demand curve we assume that:
   a) The price of the good in question varies, but other prices are fixed.
   b) When the price of the good in question rises, households continue to buy the same amount of the good rather than substituting other goods for the good in question.
   c) When the price of the good in question increases, real income remains the same.
   d) All of the above.

6. Behind the explanation as to why the aggregate demand has a negative slope is the fact that when the aggregate price level increases,
   a) A higher interest rate causes aggregate output to fall.
   b) The aggregate quantity of output demanded (Y) also increases.
   c) Other prices and income remain fixed.
   d) All of the above.

7. The consumption link that helps to explain why an aggregate demand curve slopes downward states that, other things being equal:

a) Consumption expenditures and planned investment move in opposite directions in response to an increase in the interest rate.
b) Consumption expenditures tend to rise when the interest rate falls and to fall when the interest rate rises.
c) Consumption expenditures do not change with changes in the interest rate.
d) Consumption expenditures tend to fall when the interest rate falls and to rise when the interest rate rises.

8. According to the real wealth effect, an increase in the aggregate price level:

a) Lowers the real value of wealth.
b) May or may not alter wealth, so it is difficult to determine if wealth will increase or decrease.
c) Does not alter the real value of wealth.
d) Increases the real value of wealth.

9. At every point along the aggregate demand curve, the aggregate quantity demanded is exactly equal to:

a) The aggregate quantity supplied.
b) Planned aggregate expenditure, C + I + G.
c) The sum of demands in all markets of the economy.
d) All of the above.

10. What is the impact of an increase in the quantity of money supplied on the aggregate demand curve?

a) The aggregate demand curve shifts to the right.
b) There is a move upward along the aggregate demand curve.
c) There is a move downward along the aggregate demand curve.
d) The aggregate demand curve shifts to the left.

11. What is the impact of an increase in government purchases on the aggregate demand curve?

a) There is a move upward along the aggregate demand curve.
b) There is a move downward along the aggregate demand curve.
c) The aggregate demand curve shifts to the left.
d) The aggregate demand curve shifts to the right.

12. Which of the following policy mixes consistently shifts the aggregate demand curve to the right?
   a) Contractionary monetary policy accompanied by contractionary fiscal policy.
   b) Expansionary monetary policy accompanied by contractionary fiscal policy.
   c) Expansionary monetary policy accompanied by expansionary fiscal policy.
   d) Contractionary monetary policy accompanied by expansionary fiscal policy.

13. How does an aggregate supply curve compare with a market supply curve?
   a) When drawing an aggregate supply curve, a higher aggregate price level does not affect input prices.
   b) The aggregate supply curve is the sum of market supply curves.
   c) When drawing a market supply curve, changes in output price do not correspond to an increase in costs.
   d) When we draw a market supply curve, we assume that input prices are changing.

14. Which of the following is more likely to exist?
   a) Supply curves for imperfectly competitive firms.
   b) An "aggregate supply curve," in the traditional sense of the word supply.
   c) A "price/output response" curve instead of an aggregate supply curve.
   d) All of the above have equal chance of existing.

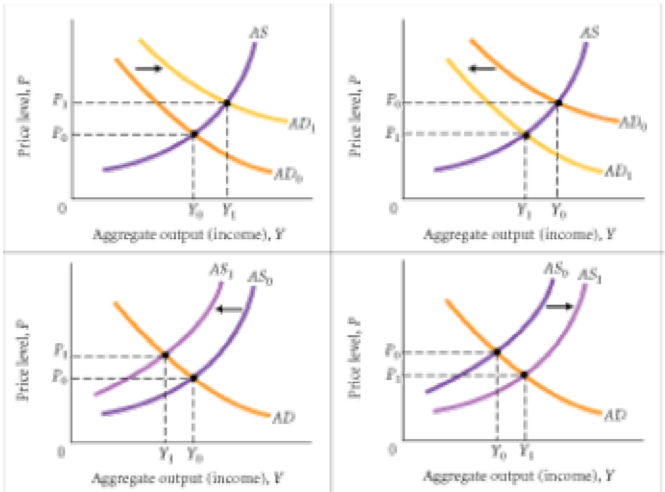
15. The short-run aggregate supply curve is:
   a) Fairly steep at low levels of output, and relatively flat at high levels of output.
   b) Fairly steep throughout the entire range of output.
   c) Fairly flat throughout the entire range of output.
   d) Fairly flat at low levels of output, and vertical or nearly vertical at high levels of output.

16. Which of the following factors affects the shape of the AS curve?
   a) The price of output.
   b) Capacity constraints.
   c) Economic growth.
   d) Cost shocks.

17. How are firms likely to respond to an increase in aggregate demand when the economy is operating at low levels of output?
   a) There will be little increase in output and probably a substantial increase in the overall price level.
   b) There will be an increase in output and probably a decrease in the overall price level.
   c) There will be an increase in output with little or no increase in the overall price level.
   d) There will be a decrease in output as well as a decrease in the overall price level.

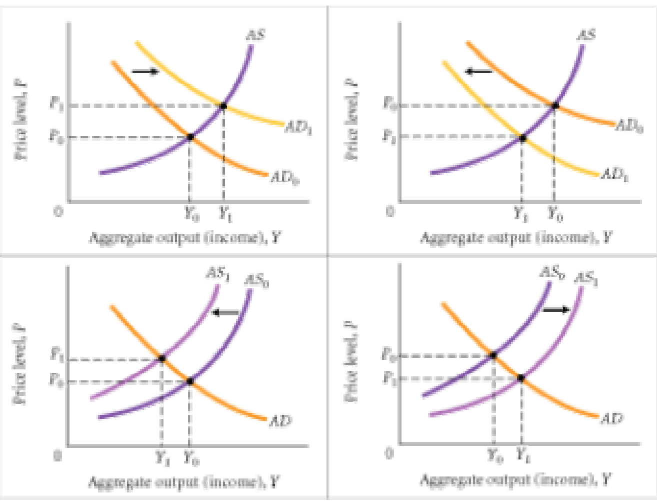
18. If input prices changed at exactly the same rate as output prices, then:
   a) The aggregate supply curve would be vertical.
   b) The aggregate supply curve would be horizontal.
   c) The aggregate demand curve would be vertical.
   d) The aggregate demand curve would be horizontal.

19. Refer to the figure below. Oil is an important input for many firms and industries. Which of the graphs below best represents the impact of an increase in the price of oil, or a similar cost increase?



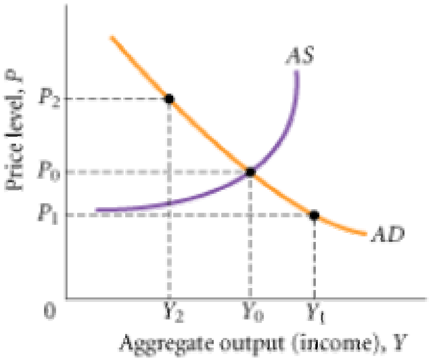
   a) The graph in the lower right.
   b) The graph in the upper left.
   c) The graph in the upper right.
   d) The graph in the lower left.

20. Refer to the figure below. Which of the graphs below best represents the idea that deregulation and tax reduction stimulate the economy and increase the incentives for people to work?



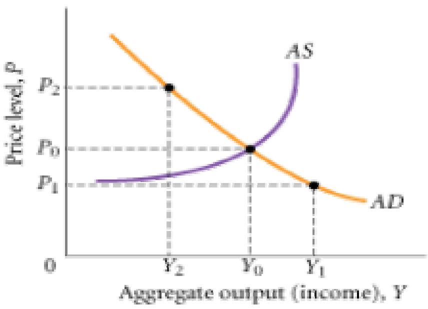
a) The graph in the upper left.
b) The graph in the lower right.
c) The graph in the lower left.
d) The graph in the upper right.

21. Refer to the graph below. At which point are the goods and money markets in equilibrium simultaneously?



a) At Y0, P0 only.
b) At points corresponding to low price levels, such as (Y1, P1).
c) At every point along the AD curve.
d) At points corresponding to high price levels, such as (Y2, P2).

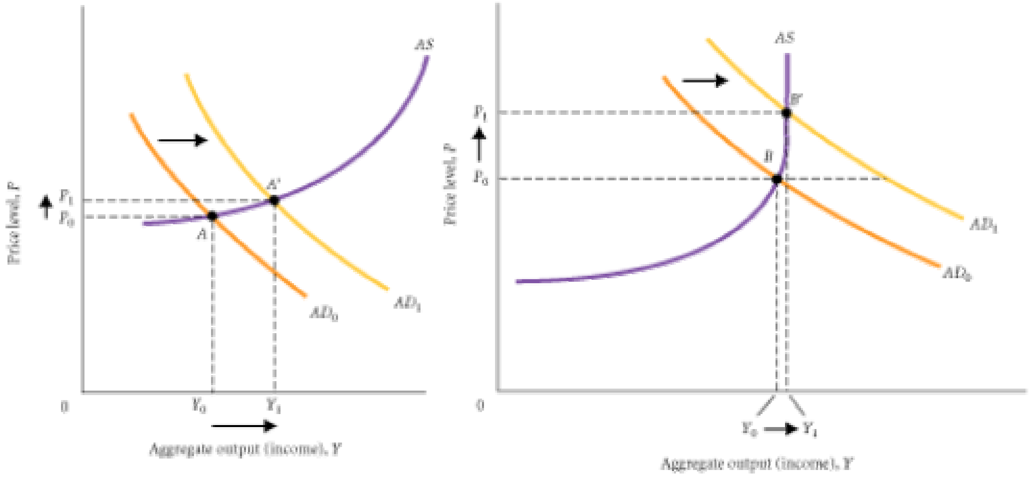
22. Refer to the graph below. At which point is Y = C + I + G?



a) At Y0, P0 only.
b) At points corresponding to high price levels, such as (Y2, P2).
c) At every point along the AD curve.
d) At points corresponding to low price levels, such as (Y1, P1).

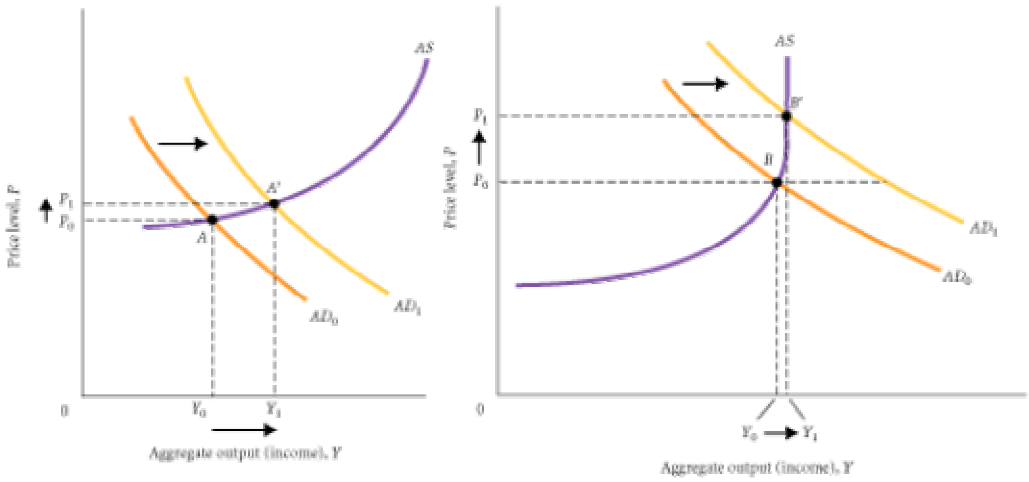
23. The level of aggregate output that can be sustained in the long run without inflation is called:
a) Actual output.
b) Potential output.
c) Real GDP.
d) Nominal GDP.

24. Refer to the figure below. In which case is expansionary policy more effective?



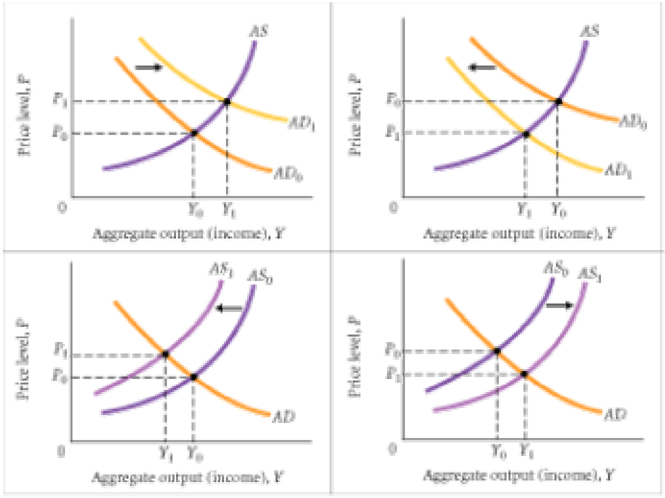
a) In the case on the right.
b) Expansionary policy works well in both cases.
c) Expansionary policy is ineffective in either case.
d) In the case on the left.

25. Refer to the figure below. Which graph describes the likelihood of nearly complete crowding out of planned investment?



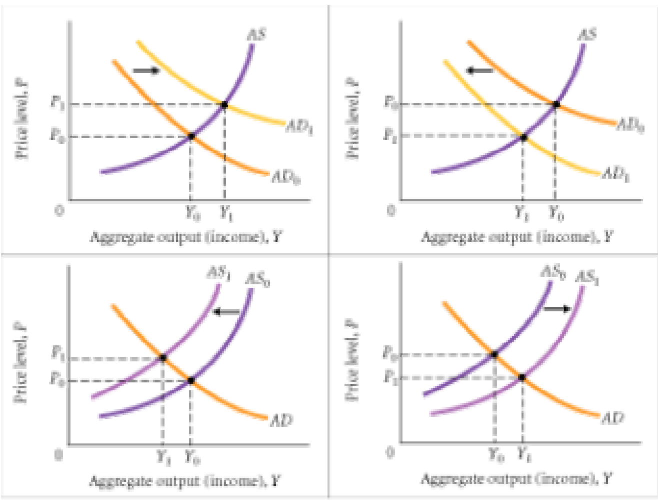
a) Both graphs imply complete crowding out of investment.
b) The graph on the left.
c) The graph on the right.
d) Neither graph suggests the crowding out of investment.

26. Refer to the figure below. Which graphs shows the phenomenon called demand-pull inflation?



a) The graph in the lower left.
b) The graph in the upper left.
c) The graph in the lower right.
d) The graph in the upper right.

27. Refer to the graphs below. Which of these graphs shows the phenomenon called stagflation?



a) The graph in the upper left.
b) The graph in the upper right.
c) The graph in the lower left.
d) The graph in the lower right.

28. If people have adaptive expectations of inflation, then:
   a) Firms will continue raising prices even if demand is slowing.
   b) Firms will increase their prices regardless of the previous trends in price adjustments.
   c) Firms will lower prices even if costs and other prices in the economy had been rising.
   d) Firms will not change prices, regardless of changes in costs.

29. Which of the following scenarios leads to hyperinflation?
   a) A decrease in the money supply when the economy finds itself on the flat portion of the AS curve.
   b) Fed accommodation of expansionary fiscal policy, while the economy is on the flat portion of the AS curve.
   c) A decrease in the money supply when the economy finds itself on the steep portion of the AS curve.
   d) Fed accommodation of expansionary fiscal policy, while the economy is on the steep part of the AS curve.

30. Sustained inflation is:
   a) A purely monetary phenomenon.
   b) Strictly a situation of too many goods chasing too few dollars.
   c) Entirely the fault of contractionary fiscal policy during periods of economic recession.
   d) Exclusively attributed to the pricing practices of business firms.

31. An increase in the price level causes the demand for money to increase.
   a) True
   b) False

32. Once there is a single equilibrium set in the money market, we can use it to derive entire aggregate demand curve.
   a) True
   b) False

33. The aggregate demand curve is the sum of the market demand curves in the economy.
   a) True
   b) False

34. Only when the aggregate supply curve intersects the aggregate demand curve, the quantity of aggregate output demanded equals planned aggregate expenditure.
   a) True
   b) False

35. An increase in the quantity of money supplied shifts the aggregate demand curve to the right.

a) True
b) False

36. The aggregate supply curve is a "price/output response" curve.

a) True
b) False

37. Anything that affects individual firms' decisions can shift the AS curve.

a) True
b) False

38. The aggregate supply slopes upward when costs fully adjust to changes in prices.

a) True
b) False

39. Expansionary monetary policy has no impact on output in the long run.

a) True
b) False

40. Stagflation refers to a condition of extremely low aggregate demand.

a) True
b) False

41. Summarize the equilibrium outcomes associated with the aggregate demand curve. Also, describe the rationale that explains the pairs of values found along an aggregate supply curve. Combine these concepts to describe equilibrium when aggregate demand intersects aggregate supply.

42. A single point on the aggregate demand curve is consistent with a given set of circumstances in both the goods and money markets. Describe the procedure you would use for deriving a second point.

43. Describe the effectiveness or desirability of expansionary policy along the aggregate supply curve.