70/100

ECONOMICS 212

EXAM II (ONE HOUR)
50 MULTIPLE CHOICE TYPE QUESTIONS

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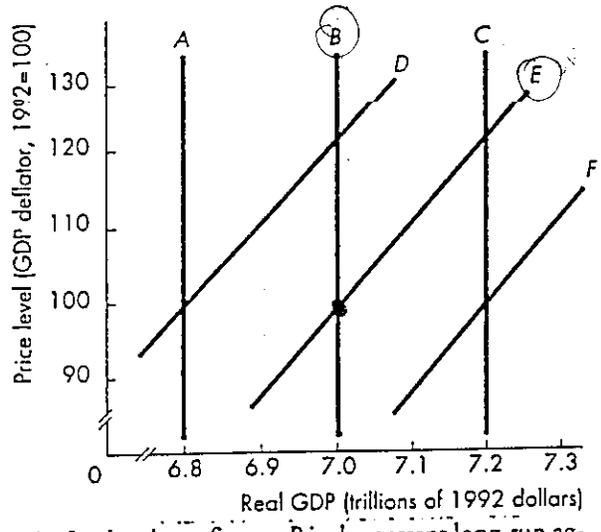
) A major technological advance causes
A) the long-run aggregate supply curve to shift rightward and the short-run aggregate supply curve to shift leftward.
B) the long-run aggregate supply curve to shift rightward and the short-run aggregate supply curve to remain where it is.
C) the short-run aggregate supply curve to shift rightward and the long-run aggregate supply curve to remain where it is.
(D) both the long-run and the short-run aggregate supply curves to shift rightward.

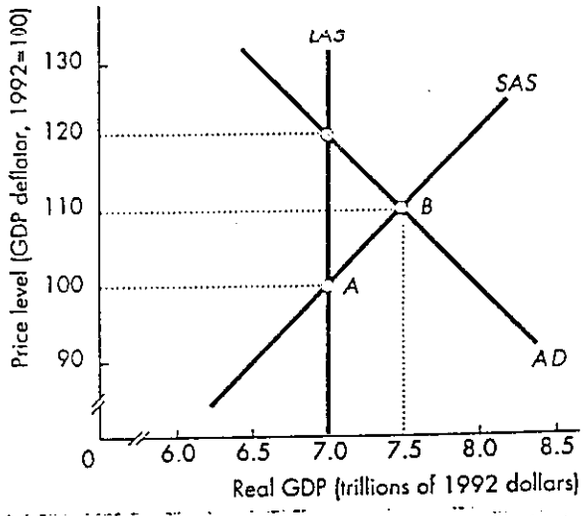


) In the above figure, *B* is the current long-run aggregate supply curve and *E* is the current short-run aggregate supply curve. If there is an increase in the full-employment quantity of labor, then the long-run aggregate supply curve and the short-run aggregate supply curve
(A) remain *B* and *E*.
B) shift to *A* and *D*, respectively.
C) shift to *C* and *F*, respectively.
D) shift to *A* and *F*, respectively.

) In the above figure, *B* is the current long-run aggregate supply curve and *E* is the current short-run aggregate supply curve. Technological advances cause the long-run aggregate supply curve and short-run aggregate supply curve to
A) remain *B* and *E*.
B) shift to *A* and *D*, respectively.
(C) shift to *C* and *F*, respectively.
D) shift to *C* and remain *E*, respectively.

) All of the following shift the short-run aggregate supply curve EXCEPT
(A) a change in the price level.
B) a change in the money wage rate.
C) a change in the price of a needed raw material.
D) technological progress.

) If the money wage has fully adjusted to any changes, the economy is
(A) at its long-run macroeconomic equilibrium.
(B) at a short-run macroeconomic equilibrium but not at a long-run macroeconomic equilibrium.
C) experiencing an inflationary gap.
D) experiencing a recessionary gap.



) In the above figure, suppose the economy had been at point *A* and now is at *B*. Without any economic growth, what will the new long-run equilibrium be?
A) Aggregate demand will decrease until real GDP is $7 trillion and the price level is 110.
B) Money wages will fall and the aggregate demand curve will shift leftward until the price level is 100 and real GDP is $7.0 trillion.
C) The population will increase, causing the long-run aggregate supply to increase to $7.5 trillion and the price level to fall to 100.
(D) Money wages will increase and the short-run aggregate supply curve will shift leftward until the price level is 120 and real GDP is $7 trillion.

Suppose the current situation is such that the price level is 120, real GDP is $4 trillion, and GDP along the long-run aggregate supply is $3.6 trillion. What will take place to restore the long-run equilibrium?

A) The price level will fall until long-run aggregate supply increases to $4 trillion.
B) The price level will fall and money wages will rise until real GDP along the long-run aggregate supply curve is $4 trillion.
C) Money wages will rise until real GDP is $3.6 trillion.
D) Aggregate demand will increase until both short-run and long-run aggregate supply equal $4 trillion.

Induced taxes
A) decrease the government purchases multiplier.
B) do not change the government purchases multiplier.
C) increase the government purchases multiplier.
D) may change the government purchases multiplier depending on the magnitude of the marginal propensity of consume.

Suppose that real GDP equals $2 trillion while potential GDP is $3 trillion. There no imports or taxes and prices are constant. If the government wants to increase aggregate demand to fill the gap, it should increase government spending by ____ if the *MPC* equals ____.
A) $200 billion; 0.80.
B) $1 trillion; 0.80
C) $250 billion; 0.75
D) Both answers A and C are correct.

The most expansionary fiscal policy would be one that
A) decreases government purchases and lowers taxes.
B) increases the nation's money supply.
C) increases government purchases and lowers taxes.
D) raises tax rates.

If the economy is at a level of GDP less than potential GDP, which of the following fiscal policies would lead to a higher equilibrium level of real GDP in the short run?
A) only decrease government spending.
B) only increase taxes.
C) increase government spending and/or decrease taxes.
D) decrease government spending and/or increase taxes.

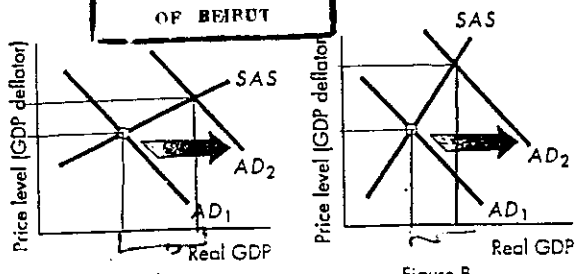


Figure A Figure B

In the above figure, an increase in government purchases increases aggregate demand. In both figures, the rightward shift in the aggregate demand curve is exactly the same. In which of the two figures is the multiplier the largest?
A) Figure A.
B) There is no multiplier effect shown.
C) Figure B.
D) The multiplier is the same in both figures.

If consumers decide to purchase more imports at each level of GDP then the
A) multiplier will decrease in value.
B) multiplier will increase in value.
C) multiplier will not change in value.
D) effect on the multiplier will depend on what happens to exports.

In the ____, the government purchases multiplier is ____.
A) long run; greater than 0
B) long-run; less than 0
C) short-run; less than 0
D) short-run; greater than 0

[redacted] when the economy is on its long-run aggregate supply curve and the government initiates an expansionary fiscal policy, the result is
A) a permanent increase in real GDP and a permanent increase in the price level.
B) a temporary increase in real GDP and a temporary increase in the price level.
C) a temporary increase in real GDP and an increase in the price level, followed by a reduction of real GDP to its original level and a further increase in the price level.
D) a temporary increase in real GDP and an increase in the price level, followed by a further increase in the price level and no subsequent change in real GDP.

Suppose the economy is at an equilibrium on the *LAS* curve and the government increases its purchases. In the short run one would expect real GDP to ____ and the price level to ____.
A) increase; increase
B) constant; increase
C) increase; remain constant.
D) remain constant; remain constant

...mple economy, the consumption function is ...n by $C=100+0.8(Y-T)$, where Y is aggregate ...come and $T=100$ is lump-sum taxes. The level ...of investment is fixed at I_0, there is no foreign sector, and government purchases are fixed at G_0. If lump-sum taxes increase by 10 then the aggregate expenditure curve

A) shifts upward by 10.
B) shifts downward by 10.
C) shifts downward by 8.
D) shifts upward by 8.

In a simple economy, the consumption function is given by $C=100+0.8(Y-T)$, where Y is aggregate income and $T=100$ is lump-sum taxes. The level of investment is fixed at I_0, there is no foreign sector, and government purchases are given by the letter G. If G increases by 100 then the aggregate expenditure line

A) pivots upwards and becomes steeper.
B) shifts downward by 100.
C) shifts upward by 80.
D) shift upward by 100.

In a simple economy, the consumption function is given by $C=100+0.8(Y-T)$, where Y is aggregate income and $T=100$ is lump-sum taxes. The level of investment is fixed at I_0, there is no foreign sector, and government purchases are fixed at G_0. If lump-sum taxes increase by 10 then output

A) decreases by 10.
B) decreases by 40.
C) decreases by 50.
D) increases by 10.

In a simple economy, the consumption function is given by $C=100+0.8(Y-T)$, where Y is aggregate income and $T=100$ are lump-sum taxes. The level of investment is fixed at I_0, there is no foreign sector, and government purchases are given by the letter G. If G increases by 100 then output

A) increases by 100.
B) increases by 500.
C) decreases by 100.
D) increases by 125.

Suppose the only revenue taken in by the government is in the form of income tax, and the tax rate is 10 percent. If aggregate income is $800 billion, and government expenditures are $100 billion then

A) the government budget shows a deficit of $20 billion.
B) the government budget shows a surplus of $20 billion.
C) the government budget shows neither a surplus nor a deficit.
D) the government budget shows a deficit of $80 billion.

Suppose that in a particular economy, the multiplier is equal to 5. In terms of aggregate demand and aggregate supply, this value for the multiplier means that after a change in investment

A) at each level of real GDP, the aggregate demand curve shifts upward by an amount equal to 5 times the change in investment.
B) at each level of real GDP, the aggregate supply curve shifts upward by an amount equal to 5 times the change in investment.
C) at each price level, the aggregate supply curve shifts rightward by an amount equal to 5 times the change in investment
D) at each price level, the aggregate demand curve shifts rightward by an amount equal to 5 times the change in investment

If the exchange rate between the dollar and the French franc changes from 5 francs per dollar to 4 francs per dollar:

a. the franc is now worth less than before.
b. this represents an appreciation of the franc.
c. this represents a depreciation of the dollar.
d. this represents a depreciation of the franc.
e. the dollar is now worth more than before.

If the exchange rate between the dollar and the yen changes from 100 yen per dollar to 125 yen per dollar:

a. U.S. goods become relatively more expensive in Japan, reducing Japanese demand for U.S. dollars.
b. U.S. goods become relatively cheaper in Japan, increasing Japanese demand for U.S. dollars.
c. Japanese goods become relatively more expensive in the United States, increasing U.S. demand for yen.
d. U.S. goods become relatively cheaper in Japan, reducing Japanese demand for U.S. dollars.
e. U.S. goods become relatively more expensive in Japan, increasing Japanese demand for U.S. dollars.

When there is excess capacity:

a. an increase in aggregate demand has no effect on output.
b. an increase in aggregate supply puts upward pressure on prices.
c. a decrease in aggregate supply puts upward pressure on prices.
d. an increase in aggregate demand increases output with little effect on prices.
e. an increase in aggregate supply increases output and reduces the price level.

If wages and prices are perfectly flexible the aggregate:

a. demand curve is vertical.
b. supply curve is vertical.
c. supply curve is upward sloping.
d. supply curve is horizontal.
e. demand curve is horizontal.

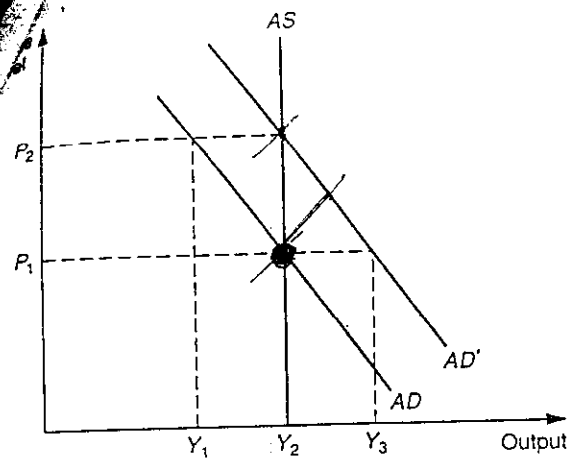


Figure 8.4

. Figure 8.4 shows the aggregate product market, which is initially in equilibrium at P_1 and Y_2. If the price level is downwardly rigid, and the aggregate demand curve shifts rightward:

a. the price level stays at P_1, and the quantity of output sold in the economy stays at Y_2.
b. the price level rises to P_2, and the quantity of output sold in the economy stays at Y_2.
c. the price level stays at P_1, and the quantity of output sold in the economy rises to Y_3.
d. the price level rises to P_2, and the quantity of output sold in the economy falls to Y_1.
e. the price level stays at P_1, and the quantity of output sold in the economy falls to Y_1.

. An increase in the tax rate in the model of income-expenditure analysis:

a. increases the multiplier and makes the aggregate expenditures schedule flatter.
b. decreases the multiplier and makes the aggregate expenditures schedule steeper.
c. has no effect on the multiplier or the aggregate expenditures schedule.
d. decreases the multiplier and makes the aggregate expenditures schedule flatter.
e. increases the multiplier and makes the aggregate expenditures schedule steeper.

. The introduction of trade into the model of income-expenditure analysis:

a. increases the multiplier and makes the aggregate expenditures function flatter.
b. decreases the multiplier and makes the aggregate expenditures function flatter.
c. increases the multiplier and makes the aggregate expenditures function steeper.
d. decreases the multiplier and makes the aggregate expenditures function steeper.
e. has no effect on the multiplier or the aggregate expenditures function.

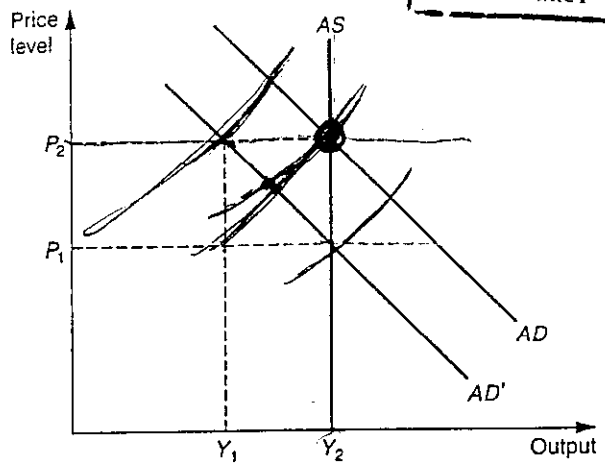


Figure 8.3

. Figure 8.3 shows the aggregate product market, which is initially in equilibrium at P_2 and Y_2. If the price level is rigid, and the aggregate demand curve shifts leftward:

a. the price level falls to P_1, aggregate demand equals Y_2, and aggregate supply equals Y_1.
b. the price level stays at P_2, aggregate demand equals Y_2, and aggregate supply equals Y_1.
c. the price level falls to P_1 and aggregate demand equals aggregate supply at Y_2.
d. the price level stays at P_2, aggregate demand equals Y_1, and aggregate supply equals Y_2.
e. the price level falls to P_1, aggregate demand equals Y_1, and aggregate supply equals Y_2.

. Figure 8.3 shows the aggregate product market, which is initially in equilibrium at P_2 and Y_2. If the price level is rigid, and the aggregate demand curve shifts leftward:

a. the price level stays at P_2 and output equals Y_1, which is less than the full employment level of output.
b. the price level falls to P_1 and output equals Y_1, which is less than the full employment level of output.
c. the price level slowly falls to P_1, and as it does so, full employment output slowly falls too.
d. the price level falls to P_1 and output equals Y_1, which is the new full employment level of output.
e. the price level stays at P_2 and output equals Y_2, the original full employment level of output.

. Figure 8.3 shows the aggregate product market, which is initially in equilibrium at P_2 and Y_2. If the price level is flexible, and the aggregate demand curve shifts leftward:

a. the price level falls to P_1, and the quantity of output sold in the economy falls to Y_1.
b. the price level stays at P_2, and the quantity of output sold in the economy falls to Y_1.
c. the price level stays at P_2, and the aggregate demand shifts back to its original position.
d. the price level stays at P_2, and the quantity of output sold in the economy stays at Y_2.
e. the price level falls to P_1, and the quantity of output sold in the economy stays at Y_2.

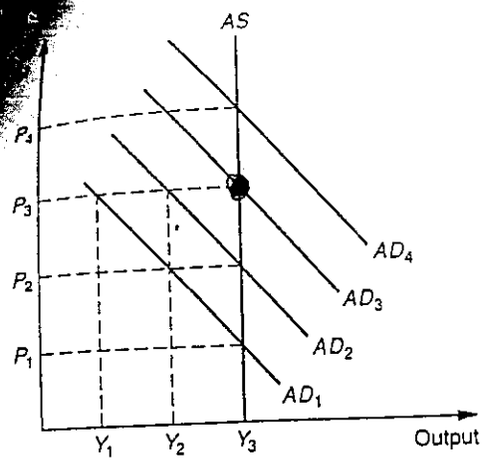


Figure 8.5

1. Figure 8.5 shows the aggregate product market. If the price level is downwardly rigid, and is currently at P_3, which of the following shifts represents the effect of a fiscal stimulus designed to ensure full employment?
   a. AD_3 to AD_2
   b. AD_3 to AD_1
   c. AD_2 to AD_3
   d. AD_1 to AD_2
   e. AD_2 to AD_1

2. A demand shock ____; a fiscal stimulus ____.
   a. always shifts the aggregate demand curve to the right; always shifts the curve to the left
   b. always shifts the aggregate demand curve to the right; always shifts the curve to the right
   c. may shift the aggregate demand curve in either direction; always shifts the curve to the right
   d. always shifts the aggregate demand curve to the left; always shifts the curve to the left
   e. always shifts the aggregate demand curve to the left; always shifts the curve to the right

3. Assume a closed economy in which households spend 80 percent of any increase in disposable income they receive. In income-expenditure analysis, a reduction in taxes of $100 million, put into effect by rebating the same amount to everyone in the population, will cause the equilibrium level of national output to change by:
   a. $80 million.
   b. $100 million.
   c. $400 million.
   d. $500 million.
   e. $800 million.

$$Y_B = \frac{A - B T_1 + b}{1 - B} = \frac{80}{0.2}$$

4. Assume a closed economy in which households spend 80 percent of any increase in disposable income they receive. In income-expenditure analysis, an increase in government spending of $100 million, accompanied by an increase in taxes of $100 million that is put into effect by increasing the taxes of everyone in the population by the same amount, will cause the equilibrium level of national output to change by:
   a. $80 million.
   b. $100 million.
   c. $400 million.
   d. $500 million.

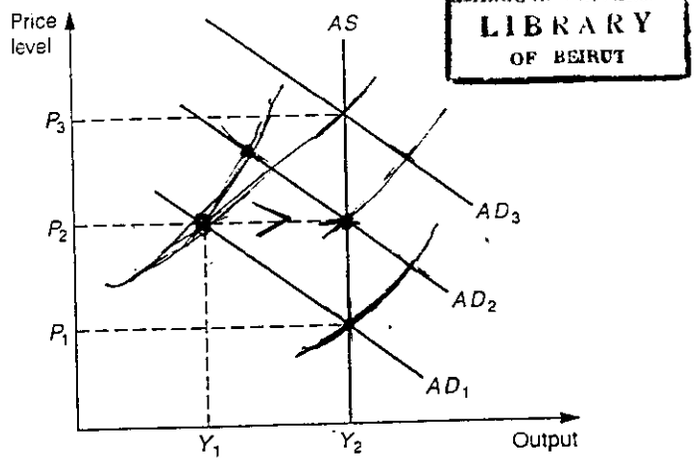


Figure 14.1

5. Figure 14.1 depicts the product market. If the price level is fixed at P_2, a shift in aggregate demand from AD_1 to AD_2:
   a. increases output from Y_1 to Y_2 and increases the price level from P_1 to P_2.
   b. increases the price level from P_2 to P_3 but leaves output unchanged.
   c. increases output from Y_1 to Y_2 but leaves the price level unchanged.
   d. increases the price level from P_1 to P_2 but leaves output unchanged.
   e. increases output from Y_1 to Y_2 and increases the price level from P_2 to P_3.

6. Figure 14.1 depicts the product market. If the price level is flexible, a shift in aggregate demand from AD_2 to AD_3:
   a. increases output from Y_1 to Y_2 and increases the price level from P_1 to P_2.
   b. increases the price level from P_2 to P_3 but leaves output unchanged.
   c. increases output from Y_1 to Y_2 but leaves the price level unchanged.
   d. increases the price level from P_1 to P_2 but leaves output unchanged.
   e. increases output from Y_1 to Y_2 and increases the price level from P_2 to P_3.

7. At low levels of output the aggregate supply curve will be almost ____, and at high levels of output the aggregate supply curve will be ____.
   a. vertical; horizontal
   b. horizontal; vertical
   c. vertical; vertical
   d. horizontal; upward sloping
   e. vertical; upward sloping

8. An increase in both government spending and taxes, keeping the overall budget balanced, will:
   a. shift the aggregate expenditures schedule up.
   b. leave the aggregate expenditures schedule unchanged.
   c. shift the aggregate expenditures schedule down.
   d. rotate the aggregate expenditures schedule to the left.
   e. rotate the aggregate expenditures schedule to the right.