# Assignment 4

Last Name ______________________________

First Name ____________________________

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Chapter 9

1. Recessions typically, but not always, include at least ______ consecutive quarters of declining real GDP.
   A) two
   B) four
   C) six
   D) eight

2. Leading economic indicators are:
   A) the most popular economic statistics.
   B) data that are used to construct the consumer price index and the unemployment rate.
   C) variables that tend to fluctuate in advance of the overall economy.
   D) standardized statistics compiled by the National Bureau of Economic Research.

3. Alan Blinder's survey of firms found that the theory of price stickiness accepted by the most firms was:
   A) menu costs.
   B) coordination failure.
   C) nominal contracts.
   D) procyclical elasticity.

4. If an aggregate demand curve is drawn with real GDP \( Y \) along the horizontal axis and the price level \( P \) along the vertical axis, using the quantity theory of money as a theory of aggregate demand, this curve slopes ______ to the right and gets ______ as it moves farther to the right.
   A) downward; steeper
   B) downward; flatter
   C) upward; steeper
   D) upward; flatter

5. The vertical long-run aggregate supply curve satisfies the classical dichotomy because the natural rate of output does not depend on:
   A) the labor supply.
   B) the supply of capital.
   C) the money supply.
   D) technology.
6. The short-run aggregate supply curve is horizontal at:
   A) a level of output determined by aggregate demand.
   B) the natural level of output.
   C) the level of output at which the economy's resources are fully employed.
   D) a fixed price level.

7. If a short-run equilibrium occurs at a level of output above the natural rate, then in the transition to the long run, prices will ______ and output will ______.
   A) increase; increase
   B) decrease; decrease
   C) increase; decrease
   D) decrease; increase

8. Starting from long-run equilibrium, if the velocity of money increases (due to, for example, the invention of automatic teller machines) and no action is taken by the government:
   A) prices will rise in both the short run and the long run.
   B) output will rise in both the short run and the long run.
   C) prices will rise in the short run and output will rise in the long run.
   D) output will rise in the short run and prices will rise in the long run.

Use the following to answer questions 9-10:

Exhibit: Shift in Aggregate Demand
9. (Exhibit: Shift in Aggregate Demand) In this graph, initially the economy is at point E, with price $P_0$ and output $Y$. 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

10. (Exhibit: Shift in Aggregate Demand) Assume that the economy is initially at point A with aggregate demand given by $AD_2$. A shift in the aggregate demand curve to $AD_0$ could be the result of either a(n) ______ in the money supply or a(n) ______ in velocity.

A) increase; increase  
B) increase; decrease  
C) decrease; increase  
D) decrease; decrease

Use the following to answer questions 11-12:

Exhibit: Supply Shock

[Diagram of economic graph showing LRAS, SRAS, and AD curves with points A, B, C, D, E, Y, and Y.]}
11. (Exhibit: Supply Shock) In this graph, assume that the economy starts at point A and there is a favorable supply shock that does not last forever. In this situation, point ______ represents short-run equilibrium and point ______ represents long-run equilibrium.
A) B; C
B) B; A
C) E; D
D) E; A

12. (Exhibit: Supply Shock) Assume that the economy is at point E. With no further shocks or policy moves, the economy in the long run will be at point:
A) A.
B) B.
C) C.
D) D.

13. In the short run, an adverse supply shock causes:
   A) both prices and output to rise.
   B) prices to rise and output to fall.
   C) prices to fall and output to rise.
   D) both prices and output to fall.

14. If the Fed accommodates an adverse supply shock, output falls ______ and prices rise ______.
   A) less; more
   B) less; less
   C) more; less
   D) more; more

15. 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.
1. The *IS-LM* model takes ______ as exogenous.
   A) the price level and national income
   B) the price level
   C) national income
   D) the interest rate

2. When planned expenditure is drawn on a graph as a function of income, the slope of the line is:
   A) zero.
   B) between zero and one.
   C) one.
   D) greater than one.

Use the following to answer questions 3-4:

Exhibit: Keynesian Cross

3. (Exhibit: Keynesian Cross) In this graph, the equilibrium levels of income and expenditure are:
   A) $Y_1$ and $PE_1$.
   B) $Y_2$ and $PE_2$.
   C) $Y_3$ and $PE_3$.
   D) $Y_3$ and $PE_4$. 
4. (Exhibit: Keynesian Cross) In this graph, if firms are producing at level $Y_3$, then inventories will ______ inducing firms to ______ production.

A) rise; increase
B) rise; decrease
C) fall; increase
D) fall; decrease

5. In the Keynesian-cross model, if government purchases increase by 100, then planned expenditures ______ for any given level of income.

A) increase by 100
B) increase by more than 100
C) decrease by 100
D) increase, but by less than 100

6. According to the Keynesian-cross analysis, if $MPC$ stands for marginal propensity to consume, then a rise in taxes of $\Delta T$ will:

A) decrease equilibrium income by $\Delta T$.
B) decrease equilibrium income by $\Delta T/(1 – MPC)$.
C) decrease equilibrium income by $(\Delta T)(MPC)/(1 – MPC)$.
D) not affect equilibrium income at all.

7. An increase in government spending generally shifts the IS curve, drawn with income along the horizontal axis and the interest rate along the vertical axis:

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

8. When the $LM$ curve is drawn, the quantity that is held fixed is:

A) the nominal money supply.
B) the real money supply.
C) government spending.
D) the tax rate.
9. According to the theory of liquidity preference, if the demand for real money balances exceeds the supply of real money balances, individuals will:
   A) sell interest-earning assets in order to obtain non-interest-bearing money.
   B) purchase interest-earning assets in order to reduce holdings of non-interest-bearing money.
   C) purchase fewer goods and services.
   D) be content with their portfolios.

10. With the real money supply held constant, the theory of liquidity preference implies that a higher income level will be consistent with:
   A) no change in the interest rate.
   B) a lower interest rate.
   C) a higher interest rate.
   D) first a lower and then a higher interest rate.

11. A decrease in the real money supply, other things being equal, will shift the \( LM \) curve:
   A) downward and to the left.
   B) upward and to the left.
   C) downward and to the right.
   D) upward and to the right.

12. A decrease in the price level, holding nominal money supply constant, will shift the \( LM \) curve:
   A) upward and to the right.
   B) downward and to the right.
   C) downward and to the left.
   D) upward and to the left.

13. Changes in monetary policy shift the:
   A) \( LM \) curve.
   B) planned spending curve.
   C) money demand curve.
   D) \( IS \) curve.

14. The intersection of the \( IS \) and \( LM \) curves determines the values of:
   A) \( r, Y, \) and \( P \), given \( G, T, \) and \( M \).
   B) \( r, Y, \) and \( M \), given \( G, T, \) and \( P \).
   C) \( r \) and \( Y \), given \( G, T, M, \) and \( P \).
   D) \( p \) and \( Y \), given \( G, T, \) and \( M \).
15. The *IS-LM* model is generally used:
   A) only in the short run.
   B) only in the long run.
   C) both in the short run and the long run.
   D) in determining the price level.