1. Economic science has provided convincing evidence in favor of the:
   A) rule favoring a constant rate of growth of the money supply.
   B) rule favoring use of the money supply to hit a nominal GDP target.
   C) rule requiring a constantly balanced budget for the federal government.
   D) fact that there is no simple and compelling case for any particular view of macroeconomic policy.

2. The political business cycle refers to the:
   A) pattern of holding primaries, conventions, and general elections every four years.
   B) cycle of electing U.S. representatives every two years, the U.S. president every four years, and U.S. senators every six years.
   C) manipulation of the economy to win elections.
   D) pattern of recession and expansion that follows every election.

3. Inflation targeting is a monetary policy rule that requires the central bank to adjust _____ in order to attain the desired inflation rate.
   A) a price index
   B) the velocity of money
   C) nominal GDP
   D) the money supply

4. The lags involved in implementing monetary and fiscal policy are:
   A) short and predictable.
   B) long and predictable.
   C) short and variable.
   D) long and variable.

5. Arguments in favor of passive economic policy include all of the following except:
   A) monetary and fiscal policies work with long and variable lags, which can produce destabilizing results.
   B) economic forecasts have too large a margin of error to be useful in formulating stabilization policy.
   C) recessions do not reduce economic well-being, so using monetary and fiscal policy for stabilization is unnecessary.
   D) the Great Depression could have been avoided if the Federal Reserve had pursued a policy of steady money growth.
6. Increasing government spending when the economy is in a recession is an example of:
   A) active monetary policy.
   B) active fiscal policy.
   C) passive monetary policy.
   D) passive fiscal policy.

7. According to the Lucas critique, when economists evaluate alternative policies they must take into consideration:
   A) how the policies will affect expectations and behavior.
   B) whether the policy will offset the impact of automatic stabilizers.
   C) the stage of the political business cycle in which the policy is to be implemented.
   D) the length of the inside lags associated with the policies.

8. Unlike a monetarist policy rule, an inflation target has the advantage of:
   A) eliminating the need to announce the policy target.
   B) providing a real target rather than a nominal one.
   C) allowing the central bank unlimited discretion.
   D) insulating the economy from changes in money velocity.

9. Arguments in favor of active economic policy include all of the following except:
   A) failing to use monetary and fiscal policy leads to inefficient fluctuations in output and employment.
   B) the Great Depression could have been avoided if the Federal Reserve had pursued a policy of steady money growth.
   C) fluctuations in real GDP have been less severe following World War II than prior to World War I.
   D) failure of policymakers to respond to large contractionary shocks to private spending caused the Great Depression.

10. The lag between the time that the money supply is increased and the time that investment expenditures increase is an example of a:
    A) fiscal inside lag.
    B) fiscal outside lag.
    C) monetary inside lag.
    D) monetary outside lag.

11. The outside lag is the time:
    A) before automatic stabilizers respond to economic activity.
    B) when automatic stabilizers are not effective.
    C) between a shock to the economy and the policy action responding to the shock.
    D) between a policy action and its influence on the economy.
12. If past economic fluctuations resulted from inept economic policies, then the historical evidence would support using:
A) active macroeconomic policy only.
B) passive macroeconomic policy only.
C) either active or passive macroeconomic policy.
D) neither active nor passive macroeconomic policy.

13. The Lucas critique argues that because the way people form expectations is based _______ on government policies, economists ______ predict the effect of a change in policy without taking changing expectations into account.
A) partly; cannot
B) only partly; can
C) in no way; can
D) in no way; cannot

14. The Phillips curve describing an economy takes the form \( u = u^n - \alpha(\pi - E\pi) \). The central bank directly sets the inflation rate to minimize the following loss function, \( L(u, \pi) = u - \gamma\pi^2 \). The symbol \( u \) denotes the unemployment rate, \( u^n \) is the natural rate of unemployment, \( \pi \) is the inflation rate, \( E\pi \) is the expected inflation rate, and \( \alpha \) and \( \gamma \) are behavioral response parameters of the economy. Private agents form their expectations rationally before the central bank sets the inflation rate. In an economy in which the central bank dislikes inflation much more than unemployment:
A) \( \alpha \) will be very large.
B) \( \alpha \) will be very small.
C) \( \gamma \) will be very large.
D) \( \gamma \) will be very small.

15. If the velocity of money varies a great deal, steady growth of the money supply is a(n):
A) ineffective way to stabilize aggregate demand.
B) example of discretionary monetary policy.
C) automatic stabilizer.
D) active policy rule.

16. The time between a shock to the economy and the policy action responding to that shock is called the:
A) automatic stabilizer.
B) time-inconsistency of policy.
C) inside lag.
D) outside lag.
17. A central bank operating with discretion can achieve the same outcome as the central bank committed to a fixed rule of zero inflation if:
   A) there are no inside lags.
   B) there are no outside lags.
   C) the central bank dislikes unemployment much more than inflation.
   D) the central bank dislikes inflation much more than unemployment.

18. The long and variable lag before a policy influences the economy makes the job of economic forecasters:
   A) impossible.
   B) easier.
   C) less important.
   D) more important.

19. Economic forecasters did:
   A) well in forecasting the Great Depression but did poorly in forecasting the recession of 1982.
   B) poorly in forecasting both the Great Depression and the recession of 1982.
   C) well in forecasting both the Great Depression and the recession of 1982.
   D) poorly in forecasting the Great Depression but did well in forecasting the recession of 1982.