Questions and Answers

Ch 1 (continued)

Q1: MCQ

Aggregate Demand

1) The aggregate demand curve shows
A) total expenditures at different levels of national income.
B) the quantity of real GDP demanded at different price levels.
C) that real income is directly (positively) related to the price level.
D) All of the above answers are correct.
Answer: B

2) The aggregate demand curve
A) has a negative slope.
B) has a positive slope.
C) is vertical.
D) is horizontal.
Answer: A

3) Aggregate demand is the relationship between the quantity of real GDP demanded and the ________.
A) price level
B) money wage rate
C) real wage rate
D) nominal GDP demanded
Answer: A

4) Moving along the aggregate demand curve, a decrease in the quantity of real GDP demanded is a result of
A) an increase in the price level.
B) a decrease in the price level.
C) an increase in income.
D) a decrease in income.
Answer: A

5) The aggregate demand curve shows the ________ relationship between the price level and ________.
A) positive; the quantity of real GDP demanded
B) negative; aggregate labor demanded
C) positive; aggregate labor demand
D) negative; the quantity of real GDP demanded
Answer: D

6) Other things equal, along the aggregate demand curve, a higher price level is associated with
A) an increase in the quantity of real GDP demanded.
B) a decrease in the quantity of real GDP demanded.
C) a decrease in the quantity of nominal GDP demanded.
D) higher income levels.

Answer: B

7) The aggregate demand curve shows that, if other factors are held constant, the higher the price level, the

A) greater the quantity of real GDP demanded.
B) smaller the quantity of real GDP demanded.
C) larger consumption expenditure.
D) None of the above answers is correct.
Answer: B

8) The aggregate demand curve shows that, if other factors are held constant, a

A) higher price level results in a decrease in the quantity of real GDP demanded.
B) higher price level results in an increase in the quantity of real GDP demanded.
C) higher price level results in a lower interest rate.
D) lower price level results in inflationary conditions.
Answer: A

9) The quantity of real GDP demanded equals $12.2 trillion when the price level is 90. If the price level rises to 95, the quantity of real GDP demanded equals

A) less than $12.2 trillion.
B) $12.2 trillion.
C) more than $12.2 trillion.
D) more information is needed to determine if the quantity of real GDP demanded increases, decreases, or does not change.
Answer: A

10) Which of the following changes while moving along the aggregate demand curve?

A) future incomes of households
B) the price level
C) the amount of money in the economy
D) future profits from investment projects
Answer: B

11) Your real wealth is measured as the

A) amount of assets you have in dollar terms.
B) amount of money you have.
C) amount of goods and services your wealth will buy.
D) amount of goods you have divided by the price level.
Answer: C

12) As the price level falls and other things remain the same, real wealth ________ and ________.

A) decreases; short-run aggregate supply decreases
B) decreases; the quantity of real GDP demanded decreases
C) increases; aggregate demand increases
D) increases; the quantity of real GDP demanded increases
Answer: D

13) If you are have $1,000 of money in the bank and the price level rises 5 percent, your

A) money is worth more in terms of what it can purchase.
B) money is worth less in terms of what it can purchase.
C) money is worth the same in terms of what it can purchase.
D) purchasing power has risen.
Answer: B

15) If you have $5,000 in wealth and the price level decreases 20 percent, then

A) the $5,000 will buy fewer goods and services.
B) the $5,000 will buy more goods and services.

C) the real value of the $5,000 decreases.
D) the real value of the $5,000 remains constant.
Answer: B

16) A rise in the price level changes aggregate demand because
A) firms increase their investment when prices are higher.
B) the real value of people's wealth varies directly with the price level and so does their spending.
C) the real value of people's wealth decreases and so they decrease their consumption.
D) the more money people have, the more it is worth and hence the more goods and services they demand.
Answer: C

17) One reason that the aggregate demand curve has a negative slope is because
A) people buy fewer goods and save more when the price level rises because their real wealth decreases.
B) firms produce more when the price rises.
C) people earn more money when output rises.
D) The premise of the question is wrong because the aggregate demand curve has a positive slope.
Answer: A

23) One reason that the aggregate demand curve has a negative slope is that when the domestic price level rises,
A) firms produce more goods and services.
B) firms produce fewer goods and services.
C) people substitute toward more imported goods and services.
D) peoples′ wealth increases.
Answer: C

24) One reason that the aggregate demand curve has a negative slope is because
A) firms supply more when prices rise.
B) people buy more foreign goods when the domestic price level rises.
C) the amount of money in the economy increases when the price level rises.
D) firms supply less when prices rise.
Answer: B

25) There are several reasons why the aggregate demand curve is downward sloping. Which of the following correctly describes one of these explanations?
A) A rise in the price level raises the purchasing power wealth and increases desired consumption.
B) A rise in the price level raises interest rates and increases investment spending.
C) A fall in the price level, holding foreign prices and the exchange rate constant, increases net exports.
D) A rise in the price level lowers the interest rate and increases investment spending.
Answer: C

26) When the prices of U.S.-produced goods rise and the price of foreign-produced goods do not change , the result is
A) an increase in exports.
B) a decrease in exports.
C) a decrease in imports.
D) no change in imports or exports.
Answer: B

30) An increase in aggregate demand is shown by a
A) rightward shift the *AD* curve.
B) movement upward along the *AD* curve.
C) movement downward along the *AD* curve.
D) leftward shift the *AD* curve.
Answer: A

31) Which of the following does NOT shift the aggregate demand curve?
A) a decrease in the quantity of money
B) an increase in people′s expected future incomes
C) an increase in the price level
D) an increase in current foreign income
Answer: C

32) Which of the following would NOT shift the U.S. aggregate demand curve?
A) a change in income in Canada
B) a change in the quantity of capital in the United States
C) an expectation that inflation will be lower in the future
D) U.S. monetary and fiscal policy
Answer: B

33) Which of the following changes would NOT shift the aggregate demand curve?
A) a change in fiscal policy
B) a change in monetary policy
C) a change in expectations about future income
D) an increase in technology
Answer: D

34) Aggregate demand increases when
A) foreign incomes fall.
B) interest rates rise.
C) the exchange rate rises.
D) None of the above answers is correct.
Answer: D

35) Which of the following does NOT shift the aggregate demand curve?
A) a decrease in the quantity of money
B) an increase in investment
C) an increase in the price level
D) a decrease in taxes
Answer: C

36) A change in ________ creates a movement along the aggregate demand curve, while a change in ________ shifts the aggregate demand curve.
A) expected profits; tax rates
B) the price level; government expenditures
C) foreign income; the foreign exchange rate
D) real wealth; human capital
Answer: B

The Actual and Simple Multiplier

1) The aggregate demand curve slopes downward because of
A) the multiplier.
B) the *MPC*.
C) wealth and substitution effects.
D) import and taxation effects.
Answer: C

2) If the price level rises, the purchasing power of wealth
A) increases.

B) does not change.
C) decreases.
D) increases at first but in the long run decreases.
Answer: C

3) The intertemporal substitution effect of a change in the price level results from a
A) change in the price of current goods relative to future goods.
B) change in the purchasing power of wealth.
C) change in the price of foreign goods relative to domestic goods.
D) Both answers B and C are correct.
Answer: A

4) Intertemporal substitution means changes in purchases
A) through time.
B) between imports and exports.
C) across different stores.
D) across different goods and services.
Answer: A

5) The larger the multiplier, the ________ the *AE* curve and the ________ the *AD* curve from an increase in investment.
A) steeper; smaller the shift in
B) steeper; larger the shift in
C) flatter; larger the movement along
D) flatter; smaller the movement along
Answer: B

6) If investment decreases, the *AE* curve shifts
A) upward and the *AD* curve shifts rightward.
B) downward and the *AD* curve shifts leftward.
C) upward and there is a movement along the *AD* curve.
D) downward and there is a movement along the *AD* curve.
Answer: B

7) Which of the following shifts the aggregate demand curve rightward?
A) an increase in the price level
B) an increase in the income tax rate
C) an increase in government expenditure
D) a decrease in investment
Answer: C

8) An increase in investment spending results in a ________ the aggregate expenditure curve and ________ the aggregate demand curve.
A) movement along; a shift in
B) shift in; a movement along
C) shift in; has no effect on
D) shift in; a shift in
Answer: D

9) Which of the following shifts the aggregate expenditure curve AND shifts the aggregate demand curve?
I. a decrease in investment
II. a change in the price level
III. an increase in exports
A) I and II
B) I and III
C) II and III
D) III only

Answer: B

10) Because the short-run aggregate expenditure model assumes that the price level is ________, its predicted effect of changes in autonomous expenditure on equilibrium output is ________ than the prediction of the *AD/SAS* model.
A) fixed; greater
B) fixed; less
C) flexible; greater
D) flexible; less
Answer: A

11) A fall in the price level
A) shifts the aggregate expenditure curve upward and increases the quantity of real GDP demanded.
B) shifts the aggregate demand curve rightward and increases equilibrium GDP.
C) decreases aggregate planned expenditures and shifts the aggregate demand curve leftward.
D) shifts both the aggregate expenditures curve and aggregate demand curve upward.
Answer: A
Topic: AE Curve, AD Curve, and the Price Level

12) An increase in the price level results in a
A) downward shift in the *AE* curve and a movement up along the *AD* curve.
B) downward shift in both the *AE* and *AD* curves.
C) downward shift in the *AD* curve and a movement down along the *AE* curve.
D) leftward movement along both the *AE* and *AD* curves.
Answer: A

13) A shift in the aggregate expenditure curve as a result of an increase in the price level results in a
A) leftward shift in the aggregate demand curve.
B) movement down along the aggregate demand curve.
C) rightward shift in the aggregate demand curve.
D) movement up along the aggregate demand curve.
Answer: D

14) Any change in the price level will result in a
A) shift in the *AE* curve and a movement along the *AD* curve.
B) movement along the *AE* curve and a shift of the *AD* curve.
C) shift in the *AE* and *AD* curves in the same direction.
D) shift in the *AE* and *AD* curves in opposite directions.
Answer: A

15) If the price level increases, the *AE* curve shifts
A) upward and the *AD* curve shifts leftward.
B) downward and the *AD* curve shifts rightward.
C) upward and we move along the *AD* curve.
D) downward and we move along the *AD* curve.
Answer: D

16) An increase in ________ shifts the *AE* curve ________ and an increase in ________ shifts the aggregate demand curve ________.
A) autonomous expenditure; upward; the price level; leftward
B) the price level; downward; autonomous expenditure; rightward
C) the price level; upward; autonomous expenditure; leftward
D) autonomous expenditure; upward; the price level; rightward
Answer: B

17) The multiplier measures the
A) horizontal shift in the aggregate demand curve from an increase in autonomous spending.
B) vertical shift in the aggregate demand curve from an increase in autonomous spending.
C) horizontal difference between two points on the same aggregate demand curve.
D) vertical difference between two points on the same aggregate demand curve.
Answer: A

18) An increase in the price level decreases planned expenditure because
A) real wealth decreases, thus decreasing expenditure.
B) current prices rise relative to future prices, increasing expenditure.
C) domestic prices rise relative to foreign prices, increasing net exports.
D) the real interest rate rises, increasing consumption expenditure.
Answer: A

19) An increase in the price level decreases planned expenditures because
A) real wealth increases, decreasing expenditure.
B) current prices rise relative to future prices, decreasing expenditure.
C) domestic prices rise relative to foreign prices, increasing net exports.
D) the real interest rate rises, increasing expenditure.
Answer: B

20) When autonomous expenditure changes, the horizontal distance by which the aggregate demand curve shifts
A) depends on the size of the multiplier.
B) depends on the size of the wealth effect.
C) is increased by the existence of automatic stabilizers.
D) is determined by the inverse of the multiplier.
Answer: A

21) In general, an increase in autonomous expenditure that is NOT created by a change in the price level results in a
A) rightward shift of the *AD* curve.
B) movement upward along the *AD* curve.
C) movement downward along the *AD* curve.
D) leftward shift of the *AD* curve.
Answer: A

22) 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 an increase 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.
Answer: D

23) In an economy, the multiplier is 3. If government expenditure increases by $1 million, then in the short run, the price level ________ and real GDP ________ $3 million.
A) falls; decreases by less than
B) rises; equals
C) rises; increases by less than
D) rises; decreases by less than
Answer: C

24) The government increases its expenditures. The steeper the *SAS* curve, the ________ will be the increase in the price level and the ________ will be the increase in real GDP.
A) larger; larger
B) larger; smaller
C) smaller; larger
D) smaller; smaller
Answer: B

25) With a steep short-run aggregate supply curve,
A) an increase in government expenditure will not have an impact on the price level.
B) fiscal policy will be an effective tool to reduce unemployment without raising prices too much.
C) an increase in taxes that does not change potential GDP will not decrease real GDP by much.
D) there is a large change in real GDP whenever the price level rises.
Answer: C

26) Taking into account the upward-sloping short-run aggregate supply curve, the *short-run* effect of an increase in government expenditure on real GDP is that
A) real GDP increases by more in the short run than in the long run.
B) real GDP increases by the same amount in the short run as in the long run.
C) real GDP increases by less in the short run than in the long run.
D) real GDP does not change in the short run because the price level increases.
Answer: A

27) Because of changes in the ________, the long-run effect of a $10 increase in investment on real GDP equals ________.
A) interest rate; zero
B) interest rate; $10
C) money wage rate and price level; zero
D) money wage rate and price level; $10
Answer: C

28) The size of the multiplier
A) is unaffected by the amount of time that elapses.
B) increases in the long run.
C) decreases in the long run.
D) is constant in the long run.
Answer: C

29) The multiplier effect is smallest
A) in the long run.
B) in the short run.
C) when the price level is fixed.
D) when the economy is in a recession.
Answer: A

30) The short-run multiplier is equal to 3, real GDP equals potential GDP of $8,000, and the price level is equal to 100. Suppose that government expenditure decreases by $200. The *long-run* effect of the decrease in government expenditure changes real GDP by
A) a decrease of 600.
B) an increase of 600.
C) nothing; that is, in the long run real GDP equals $8,000.
D) a decrease of $200 because the long-run multiplier is 1.
Answer: C

31) After an increase in autonomous spending, in the long run, changes in the price level
A) will make the *AE* curve steeper.

B) will make the *AE* curve flatter.
C) will reduce the effect of the multiplier.
D) will not affect the multiplier.
Answer: C

32) In the long run, the multiplier
A) is greater than 1 because of the position and slope of the *SAS* curve.
B) is twice the short-run multiplier.
C) is 0.
D) depends on the slope of the *AD* curve.
Answer: C

33) When the economy is at full employment and investment increases, in the long run the price level will ________ and, if potential GDP does not change, in the long run real GDP will ________.
A) increase; increase
B) decrease; not change
C) decrease; decrease
D) increase; not change
Answer: D

34) A fall in the price level shifts the *AE* curve ________ and ________ equilibrium expenditure.
A) upward; increases
B) upward; decreases
C) downward; increases
D) downward; decreases
Answer: A

35) If the multiplier is 4.0 and investment decreases by $2.5 billion, the *AD* curve
A) shifts rightward by $10 billion.
B) shifts rightward by less than $10 billion.
C) shifts leftward by $10 billion.
D) shifts leftward by more than $30 billion.
Answer: C

36) The multiplier is 2.5 and the *SAS* curve is upward sloping. Investment increases by $20 billion. In the short run, equilibrium real GDP will
A) increase by $50 billion.
B) increase by less than $50 billion.
C) decrease by $50 billion.
D) decrease by less than $50 billion.
Answer: B