

Chapter 10

Real GDP and the Price Level in the Long Run

10.1 Output Growth and the Long-Run Aggregate Supply Curve

1) The aggregate supply curve

- A) shows what each producer is willing and able to produce at each income level.
- B) relates planned aggregate production to price level.
- C) becomes vertical if there is excess production capacity within the economy.
- D) shows a negative relationship between the price level and real Gross Domestic Product (GDP).

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

2) The total of all planned production for the entire economy is known as

- A) aggregate expenditures.
- B) aggregate demand.
- C) aggregate supply.
- D) aggregate inflation.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

3) The long run aggregate supply curve (LRAS) also represents

- A) the full-information level of output.
- B) the full-employment level of output.
- C) the full-adjustment level of output.
- D) all of the above.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

4) All of the following would shift the LRAS curve to the right EXCEPT

- A) an increase in the size of the labor force.
- B) a net inflow of human capital.
- C) an increase in the overall price level.
- D) an improvement in technology.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

5) Long-run aggregate supply reflects

- A) total production in the economy at full employment.
- B) total spending in the economy at full employment.
- C) both production and spending in the economy.
- D) only foreign production from U.S. subsidiaries.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

6) The long-run aggregate supply curve is

- A) horizontal at the full-employment level of real Gross Domestic Product (GDP).
- B) vertical at the full-employment level of real Gross Domestic Product (GDP).
- C) sloping upward due to the effects of price level changes on real Gross Domestic Product (GDP).
- D) the same as the short run aggregate supply (SRAS) curve.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

7) The long-run aggregate supply curve

- A) shifts to the right when there is a tax increase.
- B) indicates the level of output (GDP) that occurs when resources are fully employed.
- C) indicates that an increase in the overall price level will cause an increase in production.
- D) shifts to the right when the Federal Reserve increases the money supply.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

8) The long-run aggregate supply curve is vertical because

- A) the economy has yet to use all its available resources.
- B) the economy has reached its potential real Gross Domestic Product (GDP) and is at full employment.
- C) the economy has contracted.
- D) the economy has large numbers of unemployed.

Answer: B

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The long-run aggregate supply curve
- A) shows that at higher prices, potential real Gross Domestic Product (GDP) increases.
 - B) slopes up and to the right.
 - C) shows that long-run aggregate supply equals potential real Gross Domestic Product (GDP).
 - D) is very sensitive to changes in the price level.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 10) What is measured on the vertical axis of the aggregate demand/aggregate supply model?
- A) Real Gross Domestic Product (GDP)
 - B) Nominal income
 - C) The price level
 - D) The interest rate

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Which of the following statements is TRUE?
- A) The long-run aggregate supply curve is upward sloping.
 - B) The long-run aggregate demand curve is upward sloping.
 - C) The short-run aggregate supply curve is vertical.
 - D) The long-run aggregate supply curve is vertical.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Long-run aggregate supply is
- A) the sum of planned expenditures by consumers and firms.
 - B) the level of output that occurs when the economy is operating on the production possibilities curve.
 - C) downward sloping.
 - D) upward sloping.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

13) The long-run aggregate supply curve is

- A) upward sloping.
- B) downward sloping.
- C) vertical.
- D) horizontal.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

14) The long-run aggregate supply curve of an economy corresponds to

- A) a point inside the production possibilities curve.
- B) a point outside the production possibilities curve.
- C) a point on the production possibilities curve.
- D) none of the above: there is no relationship between the long-run aggregate supply curve and the production possibilities curve.

Answer: C

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: New

15) If a nation's production possibilities curve shifts outward, we should expect its long-run aggregate supply curve to

- A) have an upward movement along the curve.
- B) have a downward movement along the curve.
- C) have a rightward shift.
- D) have a leftward shift.

Answer: C

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: New

16) The full-employment and full-adjustment level of real Gross Domestic Product (GDP) in the economy is represented by

- A) the LRAS curve.
- B) the horizontal line at the price level.
- C) the AD curve.
- D) the distance between the LRAS curve and the AD curve.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 17) A human resource such as ingenuity can be thought of as
- A) a positive for imports.
 - B) part of a country's endowment.
 - C) part of government spending programs.
 - D) a causal factor for aggregate supply shifting left.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following will NOT cause a leftward shift in the Long-Run Aggregate Supply curve?
- A) a net outflow of human capital
 - B) a reduction in the amount of oil
 - C) a reduction in the amount of capital
 - D) a reduction in government spending

Answer: D

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Which of the following will cause the long-run aggregate supply curve to shift?
- I. Changes in technology.
 - II. Changes in government spending.
 - III. Changes in the money supply.
- A) I only B) II only C) I, II, and III D) only I and II

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 20) As the capital stock grows and technology improves, we would expect the long-run aggregate supply curve to
- A) shift right.
 - B) shift left.
 - C) remain the same.
 - D) first shift right, then shift left.

Answer: A

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

21) The long-run aggregate supply will increase when

- A) labor supply decreases.
- B) international trade barriers are removed.
- C) the price level increases.
- D) tax rates increase.

Answer: B

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

22) A country's long-run aggregate supply curve will shift to the left when there is (are)

- A) fewer regulatory impediments to business.
- B) a discovery of new oil reserves in that country.
- C) a reduction in the labor force.
- D) a reduction in the money supply.

Answer: C

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Revised

23) Over time in a growing economy, the long run aggregate supply curve will

- A) move so as to match the short run aggregate supply (SRAS) curve.
- B) shift outward to the right.
- C) shift inward to the left.
- D) become increasingly steep.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

24) Aggregate supply is

- A) the summation of all product supply curves.
- B) the horizontal summation of all supply curves for services.
- C) the stock of all goods in the economy.
- D) the sum of all planned production in the economy.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Economic growth can be depicted as
- A) a shift of the LRAS curve to the left.
 - B) an inward shift of the production possibilities curve.
 - C) a shift of the LRAS curve to the right.
 - D) a movement along the production possibilities curve.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 26) An assumption on the LRAS curve is
- A) technology remains unchanged.
 - B) an increase in the average price level occurs.
 - C) the economy is operating to the right of the production possibilities curve.
 - D) labor productivity is increasing.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 27) The total of all planned production for the economy is
- A) aggregate supply.
 - B) aggregate demand.
 - C) endowments.
 - D) real-balance effect.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 28) The total of all planned production for the economy is
- A) determined only by individuals and firms.
 - B) determined only by the government.
 - C) aggregate demand.
 - D) aggregate supply.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 29) When talking about aggregate supply, it is necessary to
- A) focus on the short run.
 - B) focus on the long run.
 - C) distinguish between the long-run aggregate supply curve and the short-run aggregate supply curve.
 - D) distinguish between the long-run aggregate supply curve and the long run aggregate demand curve when all adjustments to price level changes have been made.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 30) The real output of the economy under conditions of full employment
- A) is long-run aggregate supply.
 - B) is long-run aggregate demand.
 - C) happens only when there is no inflation.
 - D) is determined by the real-balance effect.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 31) The full-employment level of GDP is
- A) endowments.
 - B) long-run aggregate demand.
 - C) long-run aggregate supply.
 - D) economic growth.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 32) The position of the long-run aggregate supply curve is determined by
- A) the long-run aggregate demand curve.
 - B) the production possibilities curve.
 - C) the open economy effect.
 - D) the interest rate effect.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 33) The long-run aggregate supply when resources are fully employed
- A) has no relationship with the production possibilities curve.
 - B) will always be associated with a point outside the production possibilities curve.
 - C) will always be associated with a point on the production possibilities curve.
 - D) is determined by demand.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 34) The long-run aggregate supply curve is
- A) horizontal.
 - B) vertical.
 - C) upward sloping.
 - D) downward sloping.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 35) The long run aggregate supply curve is vertical because
- A) the production possibilities curve is vertical.
 - B) the aggregate demand curve is downward sloping.
 - C) technology increases at a constant rate.
 - D) a change in the level of prices will have no effect on real output in the long-run.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 36) The long-run aggregate supply curve occurs at the level of real GDP consistent with
- A) individuals' tastes and preferences.
 - B) the natural rate of unemployment.
 - C) no inflation.
 - D) low levels of inflation.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Which of the following does NOT affect the long-run aggregate supply curve?
- A) Technology
 - B) Production possibilities curve
 - C) Endowments of resources
 - D) Price level

Answer: D

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 38) An increase in the level of prices of goods and services will do what to the long-run aggregate supply curve?
- A) Shift it to the right
 - B) Shift it to the left
 - C) Not shift the curve at all
 - D) Depends upon the long-run aggregate demand curve

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 39) The long-run aggregate supply curve is determined by all of the following EXCEPT
- A) aggregate demand.
 - B) endowments.
 - C) technology.
 - D) the amount of resources that exist in the economy.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 40) The long-run aggregate supply curve can be thought of as the
- A) level of output that the nation is currently producing.
 - B) full-employment level of real GDP.
 - C) level of real GDP associated with a constant price level.
 - D) level of output for which real GDP equals nominal GDP.

Answer: B

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 41) The long-run aggregate supply curve will shift to the left when
- A) population decreases.
 - B) the price level increases.
 - C) technology improves.
 - D) new sources of oil are discovered.

Answer: A

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 42) The long-run aggregate supply curve will shift outward to the right when
- A) there is economic growth.
 - B) the price level decreases.
 - C) the real-balance effect increases.
 - D) the amount of labor decreases.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The natural rate of unemployment will help determine
- A) the open economy effect.
 - B) the position of the long-run aggregate supply curve.
 - C) the level of economic growth in the economy.
 - D) low levels of inflation.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition



- 44) The above figure shows a
- A) short-run aggregate demand curve.
 - B) short-run aggregate supply curve.
 - C) long-run aggregate demand curve.
 - D) long-run aggregate supply curve.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 45) The curve in the above figure will shift to the right when
- A) the price level falls.
 - B) technology increases.
 - C) population falls.
 - D) the proportion of the population that is elderly increases.

Answer: B

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Which of the following will NOT lead to a rightward shift of the long-run aggregate supply curve?
- A) Increase in labor productivity
 - B) Increase in aggregate demand
 - C) Increase in capital
 - D) Increase in labor

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Which of the following would cause the long-run aggregate supply curve to shift to the right?
- A) An increase in wages
 - B) An increase in demand
 - C) An increase in productivity
 - D) An increase in taxes on profits

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 48) If our economy is growing at a constant rate of 5 percent per year, then over a period of 10 years we would expect to see which of the following?
- A) Nice, steady flat-line growth
 - B) An upward sloping growth path
 - C) A downward sloping growth path
 - D) It is impossible to say what kind of growth path we would see.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Economic growth can be thought of as
- A) an increase in the price level.
 - B) a decrease in the price level.
 - C) an increase in long-run aggregate supply.
 - D) an increase in aggregate demand.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 50) Real GDP will increase over the long run if
- A) prices continually go up.
 - B) the long-run aggregate supply curve shifts continually to the right.
 - C) the long-run aggregate supply curve shifts continually to the left.
 - D) the long-run aggregate demand curve shifts continually to the left.

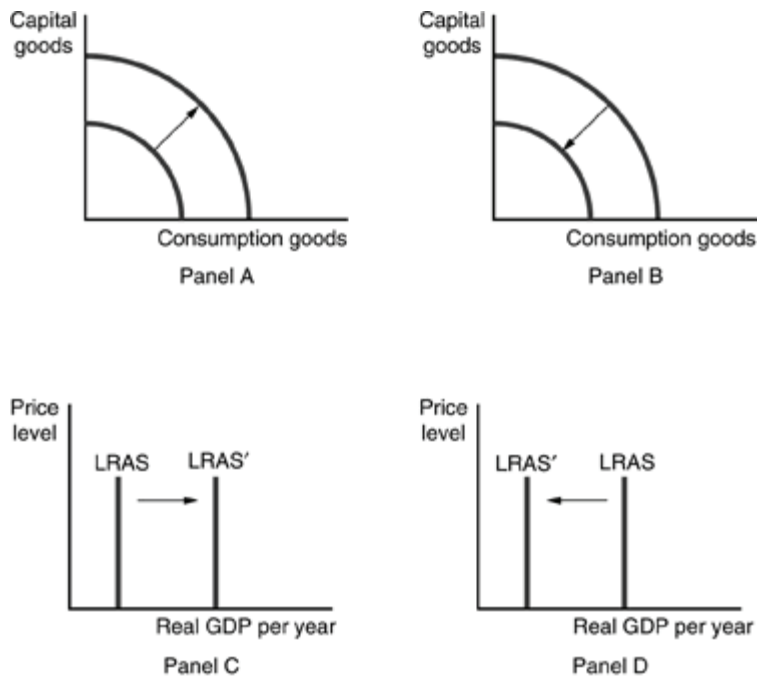
Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition



51) Refer to the above figures. Which panel(s) represent economic growth?

- A) Panel A only.
- B) Panels A and C only.
- C) Panel D only.
- D) Panels B and D only.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

52) Refer to the above figures. Which panel(s) represent the effect of an increase in the price level?

- A) Panel A only.
- B) Panels A and C only.
- C) Panel D only.
- D) None of the panels.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: New

53) Refer to the above figures. Which panel(s) represent the effect of a decrease in labor productivity?

- A) Panel A only.
- B) Panels A and C only.
- C) Panel D only.
- D) Panels B and D only.

Answer: D

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: New

- 54) The aggregate supply curve cannot tell us
- A) anything about the quantity demanded of all commodities and the price level.
 - B) what the effect of changes in interest rates will be on real GDP.
 - C) how the total dollar values of spending will ultimately be divided between output and prices.
 - D) how changes in the price level affect quantity demanded of all commodities.

Answer: C

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 55) The aggregate supply curve shows
- A) the total of all planned production for an economy.
 - B) the various quantities of goods consumers will purchase.
 - C) that real GDP can only increase when the price level increases.
 - D) what an economy can produce if resource prices are constant.

Answer: A

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 56) Aggregate supply
- A) is the total amount of raw materials available in an economy.
 - B) is the overall wealth within an economy.
 - C) is the total amount of money circulating in an economy.
 - D) is the total of all planned production in an economy.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 57) We draw the long-run aggregate supply curve as a vertical line to reflect the fact that
- A) the productive capacity of the economy never changes after full adjustment has occurred.
 - B) changes in the price level do not alter the level of long-run real GDP after full adjustment has occurred.
 - C) technology and resource endowments do not affect long-run real GDP after full adjustment has occurred.
 - D) an accurate depiction of the production possibilities curve is vertical after full adjustment has occurred.

Answer: B

Diff: 3

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 58) The level of real GDP identified by the long-run aggregate supply curve is
- A) the full-employment level of real GDP.
 - B) the level of GDP at which each business firm is experiencing growth in sales.
 - C) the level of GDP at which each industry is experiencing growth in sales.
 - D) the level of GDP at which no one is below the poverty line.

Answer: A

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 59) What is measured on the vertical axis when we draw a graph of long-run aggregate supply?
- A) production of capital goods
 - B) output of consumer goods
 - C) the price level
 - D) real GDP

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 60) The values on the axes of the long-run aggregate supply diagram are
- A) real GDP per year and the price level.
 - B) nominal GDP and the price level.
 - C) real GDP and interest rates.
 - D) real GDP and nominal GDP.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 61) When the production possibilities curve shifts outward,
- A) the long-run aggregate supply curve shifts to the left.
 - B) the long-run aggregate supply curve is unchanged.
 - C) the price level rises in the long run.
 - D) the long-run aggregate supply curve shifts to the right.

Answer: D

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 62) What is measured on the horizontal axis when we draw a graph of the long-run aggregate supply curve?
- A) production of capital goods
 - B) production of consumer goods
 - C) the price level
 - D) real GDP

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

63) What causes the long-run aggregate supply curve to shift right?

- A) economic growth
- B) inflation
- C) unemployment
- D) scarcity

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

64) The long-run aggregate supply curve shifts right at the same time as

- A) the Laffer curve shifts upward.
- B) the production possibilities curve shifts outward.
- C) the production possibilities curve shifts inward.
- D) the inflation rate increases.

Answer: B

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

65) A rightward shift of the long-run aggregate supply curve is caused by

- A) an increase in the minimum wage.
- B) an increase in the average duration of unemployment.
- C) improvements in technology and resource endowments.
- D) an increase in the GDP deflator.

Answer: C

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

66) The long-run aggregate supply curve assumes that

- A) the unemployment rate is more than 9 percent.
- B) all factors of production are fully employed.
- C) only laborers are fully employed.
- D) there is no government purchasing of goods and services.

Answer: B

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

67) The long-run aggregate supply curve is

- A) U-shaped.
- B) horizontal.
- C) upward sloping.
- D) vertical.

Answer: D

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 68) Long-run aggregate supply curve corresponds to
- A) nominal GDP when all resource costs have adjusted fully to a change in the price level.
 - B) real GDP when all resource costs have adjusted fully to a change in the price level.
 - C) potential real national income.
 - D) potential real personal income.

Answer: B

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 69) The slope of the long-run aggregate supply curve is
- A) positive.
 - B) negative.
 - C) zero.
 - D) undefined.

Answer: D

Diff: 3

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 70) Why is the long-run aggregate supply curve a vertical line?
- A) At that level of real GDP, the unemployment rate is 0 percent.
 - B) At that level of real GDP, the inflation rate is 0 percent.
 - C) At that level of real GDP, the production costs are at their lowest level.
 - D) At that level of real GDP, resource costs have fully adjusted to price changes.

Answer: D

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 71) Long-run aggregate supply is
- A) the possible combinations of real GDP and inputs after full adjustments have been made.
 - B) the extraction of natural resources.
 - C) the real production of goods and services after full adjustments have been made.
 - D) all of the physical and human resources in the economy.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 72) Long-run aggregate supply and a country's production possibility curve (PPC)
- A) are closely related.
 - B) are inversely related.
 - C) have no relationship.
 - D) are examples of microeconomic models.

Answer: A

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 73) A long-run aggregate supply curve may graphically be represented as a
- A) vertical line.
 - B) horizontal line.
 - C) an upward sloping line.
 - D) a downward sloping line.

Answer: A

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 74) Economic growth is represented on the aggregate supply model by a
- A) shift in the long-run aggregate supply curve to the left.
 - B) shift in the long-run aggregate supply curve to the right.
 - C) shift in the short-run aggregate supply curve to the left.
 - D) shift in the short-run aggregate supply curve to the right.

Answer: B

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 75) Economic growth can be shown by
- A) a leftward shift in the aggregate supply curve.
 - B) no change in the aggregate supply curve.
 - C) a rightward shift in the aggregate supply curve.
 - D) a leftward shift in the production possibilities curve.

Answer: C

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 76) Economic growth is demonstrated by the LRAS as it
- A) shifts to the right.
 - B) shifts to the left.
 - C) becomes more horizontal.
 - D) becomes more vertical.

Answer: A

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

77) Economic growth causes the

- A) production possibilities curve to shift rightward and the long-run aggregate supply curve to shift rightward.
- B) production possibilities curve to shift leftward and the long-run aggregate supply curve to shift rightward.
- C) production possibilities curve to shift rightward and the long-run aggregate supply curve to shift leftward.
- D) production possibilities curve to shift leftward and the long-run aggregate supply curve to shift leftward.

Answer: A

Diff: 2

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

78) What is the shape of the long-run aggregate supply curve? Why?

Answer: The long-run aggregate supply curve is vertical because, in the long run, people have full information about all relevant facts and make their decisions based only on relative prices and not on the absolute price level.

Diff: 1

Topic: 10.1 Output Growth and the Long-Run Aggregate Supply Curve

AACSB: Analytic skills

Question Status: Previous Edition

10.2 Total Expenditures and Aggregate Demand

1) Which of these questions does aggregate demand help us answer?

- I. What determines the total amount of our output that individuals, firms, governments and foreigners want to buy?
 - II. What is the economy's long-run real Gross Domestic Product (GDP)?
 - III. What determines the economy's equilibrium price level and the rate of inflation?
- A) I only B) I and II C) II and III D) I and III

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

2) The total level of all planned expenditures in the economy best describes

- A) aggregate supply.
- B) aggregate demand.
- C) aggregate expenditures.
- D) both B and C are correct.

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 3) All of the following explain the downward slope of the aggregate demand curve EXCEPT
- A) changes in the stock of real wealth held by individuals.
 - B) the effect of changing interest rates on the quantity demanded of interest-rate-sensitive goods.
 - C) the availability of foreign substitute goods.
 - D) the presence of unused production capacity and unemployment.

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Other things being equal, the economy's aggregate demand curve shows that
- A) as the price level falls, total planned expenditures fall as well.
 - B) a change in the general price level causes the curve to shift.
 - C) a change in the general price level causes a change in the quantity of final goods and services purchased.
 - D) real Gross Domestic Product (GDP) and the price level are not related.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Revised

- 5) Aggregate demand reflects
- A) planned total spending in the economy.
 - B) planned total production in the economy.
 - C) both spending and production in the economy.
 - D) planned demand for consumer goods only.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 6) What is measured on the horizontal axis of the aggregate demand/aggregate supply model?
- A) Prices
 - B) Real Gross Domestic Product (GDP)
 - C) Real wealth
 - D) Nominal income

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 7) The sum of all planned expenditures for the entire economy at each possible price level is
- A) aggregate supply.
 - B) effective demand.
 - C) aggregate demand.
 - D) actual expenditures by consumers.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The aggregate demand curve plots
- A) desired expenditures against production.
 - B) total expenditures against the level of employment.
 - C) planned expenditures against the price level.
 - D) employment against the price level.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The aggregate demand curve is usually
- A) vertical.
 - B) upward sloping.
 - C) downward sloping.
 - D) horizontal.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 10) The horizontal axis for an aggregate demand curve measures
- A) quantity demanded of the representative good.
 - B) real Gross Domestic Product (GDP).
 - C) output of all goods and services measured as a quantity index.
 - D) disposable personal income.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Which of the following is NOT a reason for the slope of the aggregate demand curve?
- A) The substitution effect
 - B) The real balance effect
 - C) The interest rate effect
 - D) The open-economy effect

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 12) At each price level, the aggregate demand curve indicates
- A) the nominal value of total production of goods and services domestic income that will be produced.
 - B) the total amount of real planned expenditures.
 - C) the nominal Gross Domestic Product (GDP) that will be produced.
 - D) the total amount of real Gross Domestic Product (GDP) that will be produced.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 13) The aggregate demand curve shows that, if other factors are held constant,
- A) higher price levels will result in lower total planned spending.
 - B) higher price levels will result in higher total planned spending.
 - C) higher price levels will result in lower interest rates.
 - D) lower price levels will result in inflationary conditions.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 14) According to the interest rate effect, an increase in the price level, if other factors are held constant, will lead to
- A) a reduction in total real spending on interest-rate-sensitive goods.
 - B) an increase in the stock of real wealth held by the public.
 - C) an outward shift of the aggregate demand curve.
 - D) an increase in the real interest rate.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 15) The real-balance effect implies that when
- A) the price level decreases, the value of money balances held by individuals, firms, government, and foreigners increases and spending decreases.
 - B) the price level increases, the value of money balances held by individuals, firms, government, and foreigners increases and spending increases.
 - C) the price level increases, the value of money balances held by individuals, firms, government, and foreigners decreases and spending decreases.
 - D) the price level decreases, the value of money balances held by individuals, firms, government, and foreigners decreases and spending decreases.

Answer: C

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 16) The real-balance effect refers to
- A) the economy's response to interest rate changes.
 - B) the change in the value of cash balances due to price level changes.
 - C) the change in net exports.
 - D) the economy's ability to balance recession and expansion.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 17) When prices increase, the real interest rate
- A) will increase and total planned spending on goods and services will increase.
 - B) will increase and total planned spending on goods and services will decrease.
 - C) will decrease and total planned spending on goods and services will decrease.
 - D) will not be affected.

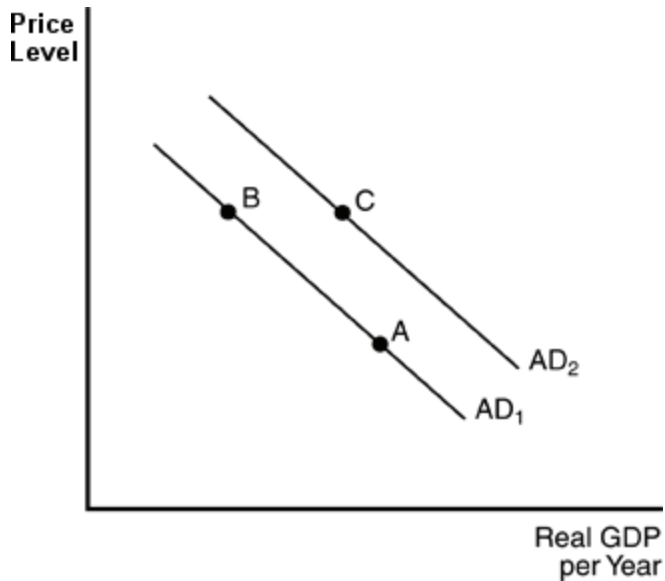
Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition



- 18) In the above figure, a movement from point A to point B can be explained by
- A) an decrease in the quantity of money in circulation.
 - B) a decrease in the real value of cash balances.
 - C) the decrease in interest rates.
 - D) the increase in exports to the foreign sector.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 19) In the above figure, a movement from point B to point A can be explained by
- A) an increase in spending due to a war.
 - B) an increase in spending due to increases in education expenditures.
 - C) an increase in the demand for manufacturing goods due to new technology.
 - D) a drop in the price level.

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 20) The interest rate effect operates through
- A) credit markets by changing borrowing costs.
 - B) the purchasing power of individuals' checking accounts.
 - C) government spending levels.
 - D) labor supply.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 21) When a change in the price level causes a change in the purchasing power of currency, which then changes planned real expenditures at all income levels, it is called
- A) the real-balance effect.
 - B) the substitution effect.
 - C) the open-economy effect.
 - D) the interest rate effect.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 22) One reason that the aggregate demand curve slopes downward is because
- A) higher price levels increase real wealth and consumption.
 - B) higher price levels reduce net exports.
 - C) higher price levels reduce interest rates.
 - D) higher price levels increase investment.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 23) A rise in the price level has a direct effect on spending because
- A) people like to spend more when prices are higher.
 - B) the real value of the money people have varies directly with the price level.
 - C) the real value of the money people have decreases and they can buy less with it.
 - D) a higher price gives people more money, and so the more goods and services they can buy.

Answer: C

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Revised

24) The real-balance effect shows that

- A) aggregate demand is upward sloping.
- B) a higher price level leads to higher interest rates.
- C) a lower price level will increase the purchasing power of currency and increase personal consumption.
- D) consumption and the price level are positively correlated.

Answer: C

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

25) Another term for the real-balance effect is

- A) the substitution effect.
- B) the wealth effect.
- C) the indirect effect.
- D) the interest rate effect.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

26) If other factors are held constant, an increase in the price level

- A) causes desired net export spending to rise.
- B) causes desired net export spending to fall.
- C) causes the real value of the money to increase.
- D) induces people to spend their money faster.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

27) The interest rate effect that helps explain the slope of the aggregate demand curve arises because

- A) interest rates and total planned real expenditures are unrelated.
- B) an increase in the price level lead to decreases in interest rates, which induces more borrowing and hence raises planned real expenditures.
- C) an increase in the price level boosts interest rates, which discourages borrowing and hence reduces planned real expenditures.
- D) a decrease in the price level boosts interest rates, which discourages borrowing and hence frees up income for more planned real expenditures.

Answer: C

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Higher interest rates tend to
- A) reduce the total planned spending on goods and services.
 - B) lower the costs of building new plants and equipment.
 - C) increase the quantity demanded of goods and services.
 - D) make it less costly for people to buy houses and cars.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 29) When interest rates rise,
- A) borrowing costs increase, and total planned real expenditures decline.
 - B) borrowing costs increase and total planned real expenditures increase.
 - C) borrowing costs decline, and total planned real expenditures increase.
 - D) borrowing costs decline, and total planned real expenditures decline.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 30) When the relative prices of U.S.-manufactured goods go up, the result is
- A) an increase in exports.
 - B) a decrease in exports.
 - C) a decrease in imports.
 - D) no net change in imports or exports.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 31) A price level increase tends to reduce net exports, thereby reducing the amount of real goods and services purchased in the United States. Economists refer to this phenomenon as
- A) the wealth effect.
 - B) the barrier effect.
 - C) the open-economy effect.
 - D) the Gross Domestic Product (GDP) effect.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 32) If the price level increases,
- A) the buying power of your checking account falls.
 - B) the buying power of your checking accounts rises with it.
 - C) there is no effect on buying power.
 - D) the economy tends to grow faster.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 33) One impact of a rise in the dollar's value is that
- A) imports become cheaper for the U.S. consumer.
 - B) exports will increase sharply.
 - C) U.S. goods will become cheaper overseas.
 - D) U.S. goods are cheaper domestically.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 34) An individual holds \$10,000 in a non-interest-earning checking account, and the overall price level rises significantly. Other things being constant, we would expect
- A) the individual's real wealth to decrease and consumption to decline.
 - B) the individual's stock of real wealth to decrease but real national income to increase.
 - C) no change in the individual's real wealth but a decline in real national product.
 - D) the individual's wealth to increase.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 35) A higher domestic price level should
- | | |
|--|---------------------------------|
| A) decrease net exports. | B) increase desired investment. |
| C) increase real wealth and consumption. | D) none of these. |

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 36) According to the interest rate effect, a decrease in the price level will
- A) decrease the real value of money balances, which causes total planned real expenditures to increase.
 - B) cause interest rates to fall, which generates an increase in borrowing, so that total planned real expenditures increase.
 - C) lead to a decrease in net exports, which causes total planned real expenditures to decrease.
 - D) increase the real value of money balances, which causes interest rates to increase, thereby reducing total planned expenditures.

Answer: B

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 37) What happens when the price level falls?
- A) Total planned real spending remains constant.
 - B) Total planned real spending increases.
 - C) Total planned real spending also falls.
 - D) Planned real spending on goods increases but planned real spending on services falls.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 38) When the U.S. price level falls, the open economy effect indicates that
- A) U.S. imports will rise.
 - B) U.S. residents will move away from domestic goods and buy more foreign goods.
 - C) U.S. exports will increase.
 - D) foreigners will buy fewer U.S. goods.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 39) The aggregate demand curve differs from an individual demand curve in that
- A) the aggregate demand curve may not slope down while an individual demand curve must always slope down.
 - B) the aggregate demand curve looks at the entire circular flow of income and product, while an individual demand curve looks at one good, holding everything else constant.
 - C) prices change along an individual demand curve but prices are held constant along an aggregate demand curve.
 - D) the aggregate demand curve slopes up while an individual demand curve slopes down.

Answer: B

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 40) How does aggregate demand curve (AD) differ from an individual demand curve (D)?
- A) AD is generally vertical while D is usually downward sloping.
 - B) D represents the price–quantity relationship for a single good or service while AD looks at the entire economic system.
 - C) Look for D in macroeconomic analyses and for AD in microeconomics.
 - D) AD is generally a downward sloping curve while D usually slopes upward.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 41) Aggregate demand is
- A) the horizontal summation of all demand curves for a product.
 - B) the sum of all planned expenditures for the economy.
 - C) the total quantity of all goods sold in an economy in a year.
 - D) the horizontal summation of all demand curves for state, local, and federal governments and business firms.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 42) The total of all planned expenditures in the entire economy is the definition of
- A) aggregate supply.
 - B) production possibilities curve.
 - C) aggregate demand.
 - D) net domestic product.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The open economy effect suggests that
- A) a decrease in domestic price level will cause foreign residents to buy fewer domestic goods, increasing net exports .
 - B) a decrease in domestic price level will cause foreign residents to buy more domestic goods, increasing net exports.
 - C) a rise in domestic price level will cause foreign residents to buy more domestic goods.
 - D) a rise in domestic price level will cause domestic residents to buy fewer imported goods.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 44) The interest rate effect suggests that
- A) an increase in the price level decreases the interest rate, which causes businesses and consumers to reduce desired spending.
 - B) an increase in the price level increases the interest rate, which causes businesses and consumers to reduce desired spending.
 - C) a decrease in the price level decreases the interest rate, which causes businesses and consumers to reduce desired spending.
 - D) an increase in the price level increases the money supply, which causes businesses and consumers to increase desired spending.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 45) The aggregate demand curve gives the
- A) planned purchases for all goods and services in the economy, holding other things such as the price level constant.
 - B) planned purchase rates for all goods and services in the economy at various price levels.
 - C) demand for goods and services by the government at various price levels.
 - D) amount of all goods everyone wants to buy at various income levels.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 46) The total of all planned expenditures in the entire economy is
- A) the open economy effect.
 - B) LRAS.
 - C) aggregate supply.
 - D) aggregate demand.

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 47) The various quantities of all final commodities demanded at various price levels, *ceteris paribus*, is the
- A) LRAS.
 - B) production possibilities curve.
 - C) aggregate demand curve.
 - D) aggregate supply curve.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

48) The aggregate demand curve gives

- A) the total amount of real domestic output that will be purchased at each price level.
- B) the total amount of nominal domestic income that will be purchased at each price level.
- C) the total value of nominal GDP in an economy for a year, holding income and technology constant.
- D) the total value of output produced by workers in both foreign and domestic markets at each price level.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

49) All of the following are components of aggregate demand EXCEPT

- A) consumption spending.
- B) government purchases.
- C) the level of technology.
- D) net foreign spending on domestic production.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

50) The aggregate demand curve

- A) is vertical at the full-employment level of output.
- B) is horizontal at the full-employment level of output.
- C) is downward sloping.
- D) is upward sloping.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

51) The aggregate demand curve has

- A) no relationship between the price level and real GDP.
- B) a negative relationship between the price level and real GDP.
- C) a positive relationship between the price level and real GDP.
- D) a positive relationship between the price level and nominal GDP.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

52) Which of the following explains why the aggregate demand curve is downward sloping?

- A) the interest rate effect
- B) the real-balance effect
- C) the open economy effect
- D) all of the above

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

53) Suppose that along the aggregate demand curve, real GDP equals \$14.2 trillion when the GDP deflator is 90. If the GDP deflator were 95, real GDP along the aggregate demand curve would equal

- A) less than \$14.2 trillion.
- B) \$14.2 trillion.
- C) more than \$14.2 trillion but less than \$14.8 trillion.
- D) more than \$14.8 trillion.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

54) Other things being equal, along an aggregate demand curve, a higher price level is associated with

- A) a higher real GDP.
- B) a lower real GDP.
- C) a lower nominal GDP.
- D) higher income levels.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

55) Other things being equal, the lower are planned real expenditures along an aggregate demand curve, the

- A) more the production possibilities curve shifts to the left.
- B) lower the price level.
- C) higher the price level.
- D) lower the level of endowments.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 56) When the price level increases, total planned real expenditures on goods and services falls. All of the following are responsible EXCEPT
- A) the substitution effect.
 - B) the real-balance effect.
 - C) the interest rate effect.
 - D) the open economy effect.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Revised

- 57) Which of the following is a factor that determines the shape of the aggregate demand curve?
- A) The real-balance effect
 - B) The nominal-balance effect
 - C) The price level effect
 - D) The wage effect

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 58) According to the real-balance effect, an increase in the price level will
- A) leave total planned real expenditures unchanged since the price level of all goods has increased.
 - B) decrease total planned real expenditures because of an increase in interest rates.
 - C) lead to a corresponding increase in total planned real expenditures since businesses are now earning higher profits.
 - D) decrease total planned real expenditures as a result of a decrease in the real value of money balances.

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 59) The change in total planned real expenditures resulting from a change in the real value of money balances when the price level changes, all other things held constant, is
- A) the real-balance effect.
 - B) the interest rate effect.
 - C) the open economy effect.
 - D) demand side inflation.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 60) The real-balance effect refers to
- A) the real interest rate.
 - B) the production of real goods and services as opposed to financial instruments.
 - C) the prices of goods and services.
 - D) the real value of cash balances that a person is holding.

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 61) If you have \$5000 and the GDP deflator decreases from 100 to 80
- A) the \$5000 will buy 20 percent less of the goods and services produced by society.
 - B) the \$5000 will buy 20 percent more of the goods and services produced by society.
 - C) the value of the \$5000 decreases.
 - D) the value of the \$5000 remains constant.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 62) The wealth effect is another term for the
- A) substitution effect.
 - B) the indirect effect.
 - C) the real-balance effect.
 - D) the interest rate effect.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 63) Holding nominal money balances constant, a decrease in the price level
- A) causes the real value of the money balances to increase, in turn increasing total planned real expenditures.
 - B) causes the real value of the money balances to decrease, in turn decreasing total planned real expenditures.
 - C) causes the real value of the money balances to increase, thereby increasing the interest rate.
 - D) generates a reduction in the value of the money balances, leading to higher interest rates and a decrease in total planned real expenditures.

Answer: A

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 64) An indirect effect of an increase in the price level works through
- A) people substituting out of domestic goods and into foreign goods as exchange rates rise.
 - B) changes in trade balances as domestic goods become more expensive, causing interest rates to move in the opposite direction from the change in the exchange rate.
 - C) interest rates as people save more as the higher prices make their money balances less attractive.
 - D) interest rates as people borrow to maintain their money balances, bidding up interest rates and reducing total planned real expenditures.

Answer: D

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 65) The interest rate effect is part of the reason
- A) the short-run aggregate supply curve is upward sloping.
 - B) the long-run aggregate supply curve is vertical.
 - C) the aggregate demand curve is upward sloping.
 - D) the aggregate demand curve is downward sloping.

Answer: D

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 66) Which of the following statements is true about the interest rate effect?
- A) The interest rate effect is why the aggregate demand curve is upward sloping.
 - B) A lower price level lowers the interest rate, which causes businesses and consumers to increase their desired spending.
 - C) A higher price level lowers the interest rate, which causes business and consumers to increase their desired spending.
 - D) Expenditures will change as a result of a change in the real value of money balances when there is a change in the price level.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

67) Higher interest rates

- A) reduce total planned real expenditures because they increase the cost of borrowing funds.
- B) reduce total planned real expenditures because they reduce the income of bankers and other creditors.
- C) increase total planned real expenditures because they increase the incomes of all people in the economy.
- D) increase total planned real expenditures because they lower the costs of building new plants and equipment.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

68) If the price level increases, then

- A) the exchange rate will increase, causing U.S. goods to become cheaper and increasing total planned real expenditures.
- B) imports increase but exports do not change. Therefore, there is no effect on total planned real expenditures.
- C) foreign residents buy fewer U.S. goods, leaving more goods for U.S. residents and an increase in total planned real production by firms.
- D) domestic goods are more expensive relative to foreign goods, which reduces total planned real expenditures.

Answer: D

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

69) The open economy effect refers to the fact that

- A) the position and shape of the long run aggregate supply curve is partially due to the fact that we import goods.
- B) the aggregate supply curve shifts when the economy grows.
- C) the slope of the aggregate demand curve is partially explained by the reduction in the desire to buy fewer U.S. goods by U.S. residents and foreign residents as a result of a higher price level.
- D) the immigration policies of the United States are disruptive to labor markets.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

70) A shift away from expenditures on domestic goods and a shift toward expenditures on foreign goods when the domestic price level increases is known as

- A) the real-balance effect.
- B) the interest rate effect.
- C) the open economy effect.
- D) demand side inflation.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

71) Suppose a country has no trade with other countries and people can borrow as many funds as they want at the current interest rate. An increase in the price level will generate

- A) a decrease in total planned real expenditures because of the real-balance effect.
- B) a decrease in total planned real expenditures because of the open-economy effect and the indirect effect.
- C) a decrease in total planned real expenditures because the real-balance effect will be stronger than the indirect effect and the open-economy effect.
- D) a decrease in total planned real expenditures because the indirect effect will be stronger than the real-balance effect.

Answer: A

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

72) A fall in the price level

- A) increases the real value of money balances, which causes borrowing to decrease, leading to a decrease in investment and total planned real expenditures.
- B) causes exports to rise and imports to fall, leading to an increase in total planned real expenditures.
- C) leads to an increase in total planned real expenditures because of the indirect effect.
- D) causes total planned real expenditures to increase as long as the fall is less than the fall in the price level in other countries.

Answer: B

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

73) The aggregate demand curve

- A) is like individual demand curves in that prices of other goods are held constant.
- B) is like individual demand curves in that income is constant.
- C) differs from individual demand curves in that the aggregate demand curve is not downward sloping.
- D) differs from individual demand curves in that the aggregate demand curve looks at the entire circular flow of income and product while the individual demand curve looks at only one good.

Answer: D

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

74) Which of the following is NOT true about the aggregate demand curve?

- A) The production possibilities curve determines the slope of the aggregate demand curve.
- B) The aggregate demand curve shows total planned real expenditures at different price levels.
- C) Changes in the economic conditions in other countries will lead to a shift of the aggregate demand curve.
- D) The aggregate demand curve considers the entire circular flow of income.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

75) Which of the following is true about how the aggregate demand curve differs from the individual's demand curve?

- A) The individual's demand curve shows the relationship between price and quantity demanded while the aggregate demand curve is not influenced by price.
- B) For the individual's demand curve equilibrium is determined by the intersection of supply and demand while for the aggregate demand curve equilibrium is determined by the real balance effect.
- C) The individual's demand curve is just for an individual while the aggregate demand curve looks at the entire circular flow of income.
- D) The individual's demand curve will shift when there is a change in taxes while the aggregate demand curve will not.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

76) What determines the total value of aggregate demand for U.S. real GDP?

- A) the spending decisions of consumers, firms, and governments
- B) the Congressional Budget Office
- C) the Federal Reserve Board
- D) Wall Street

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

77) Total planned expenditures for domestically produced goods and services consist of

- A) government spending, business spending, and import spending only.
- B) consumer spending, business spending, and net export spending only
- C) consumer spending, business spending, government spending, and net export spending
- D) consumer spending, business spending, government spending, and import spending.

Answer: C

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

78) Which one of the following is NOT a component of aggregate demand?

- A) merchandise inventories
- B) consumption spending
- C) investment expenditures
- D) government purchases

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

79) The total of all planned real expenditures in the economy is called

- A) aggregate demand.
- B) aggregate spending.
- C) aggregate GDP.
- D) aggregate consumption.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

80) The aggregate demand curve shows the relationship between planned purchases of

- A) all final goods and services and interest rates.
- B) all final goods and services and the price level.
- C) all final goods and services and nominal GDP.
- D) all final goods and services and total planned production.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 81) The aggregate demand curve shows
- A) a direct relationship between changes in the price level and changes in real GDP.
 - B) real GDP does not change as the price level changes.
 - C) an inverse relationship between the price level and real GDP.
 - D) an inverse relationship between changes in the price level and changes in nominal GDP.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 82) Which of the following is NOT an explanation for the shape of the aggregate demand curve?
- A) real balance effect
 - B) interest rate effect
 - C) open economy effect
 - D) investment effect

Answer: D

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 83) The downward slope of the aggregate demand curve shows that
- A) an increase in aggregate demand reduces the long-run aggregate supply.
 - B) an increase in aggregate demand increases the long-run aggregate supply.
 - C) a higher price level will cause planned purchase rates for final goods and services to be higher.
 - D) a lower price level will cause planned purchase rates for final goods and services to be higher.

Answer: D

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 84) What is one implication of the real-balance effect?
- A) The part of your wealth that you hold in the form of cash loses some of its value as the price level rises.
 - B) When the price level rises, people have an incentive to work harder in order to earn a higher income.
 - C) When the price level falls, most consumers reallocate their spending so as to have an equal balance between necessities and luxuries.
 - D) Aggregate demand and aggregate supply can never reach long-run equilibrium.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 85) The open economy effect and interest rate effect are two of the reasons why
- A) higher price levels increase long-run aggregate supply.
 - B) the aggregate demand curve slopes downward.
 - C) capital formation does not contribute to economic growth in poor countries.
 - D) growth of the labor force does not contribute to economic growth in wealthy countries.

Answer: B

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 86) The aggregate demand curve shows the
- A) total amount of planned expenditures on goods and services at each possible price level.
 - B) total amount of nominal goods that the participants in the economy want to purchase.
 - C) total amount of real goods that foreigners want to purchase.
 - D) amount of goods producers will produce as production costs fall.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 87) The aggregate demand curve is
- A) downward sloping.
 - B) vertical.
 - C) horizontal.
 - D) U shaped.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 88) The aggregate demand curve is
- A) horizontal if full employment exists in the economy.
 - B) vertical if full employment exists in the economy.
 - C) downward sloping because of the real-balance, interest rate, and open economy effects.
 - D) downward sloping because more goods are produced as per unit cost of producing each item falls.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 89) The real-balance effect indicates that at higher price levels
- A) the real value of money holdings fall, resulting in decreased spending.
 - B) the real value of money holdings increase, resulting in increased saving.
 - C) the purchasing power of money will increase.
 - D) the value of the dollar will increase.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 90) Which of the following will occur when an economy's price level increases?
- A) Aggregate demand will increase.
 - B) The purchasing power of money will increase.
 - C) The purchasing power of money will decrease.
 - D) The real value of wealth will increase.

Answer: C

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 91) The interest rate effect shows that if the price level increases,
- A) consumers and businesses will increase their spending to buy the same amount of goods as before to make up for the higher interest rates.
 - B) consumers and businesses will decrease their spending as the interest rate increases, thereby pushing up the cost of acquiring funds.
 - C) U.S. exports and imports will both decrease.
 - D) the real value of financial assets will increase.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 92) A decrease in U.S. prices relative to European prices
- A) will decrease European exports to the United States.
 - B) will increase U.S. imports from Europe.
 - C) will decrease U.S. exports to Europe.
 - D) will not affect U.S. trade with Europe.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 93) An increase in U.S. prices relative to Japanese prices will
- A) increase total planned spending on U.S. goods and services.
 - B) increase U.S. imports and decrease U.S. exports.
 - C) decrease U.S. imports and increase U.S. exports.
 - D) decrease both U.S. exports and imports.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 94) When the price level declines,
- A) the interest rate rises, and consumers borrow fewer funds, which causes a movement up the aggregate demand curve.
 - B) the interest rate falls, and consumers borrow more funds, which causes a movement down along the aggregate demand curve.
 - C) the interest rate is not affected, so there is no movement along the aggregate demand curve.
 - D) interest rates fall, and consumers borrow more funds, which causes the aggregate demand curve to shift to the left.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 95) When the price level falls,
- A) imports increase, and exports decrease, which causes a movement up along the aggregate demand curve.
 - B) there is no impact on imports or exports, so there is no associated movement along the aggregate demand curve.
 - C) imports decrease and exports increase, which cause a movement down along the aggregate demand curve.
 - D) imports decrease and exports increase, which cause a movement up along the aggregate demand curve.

Answer: C

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 96) The curve that displays total planned real spending on goods and services at each price level by households, businesses, the government, and foreign residents is called
- A) the aggregate supply curve.
 - B) the aggregate demand curve.
 - C) the price level curve.
 - D) the employment curve.

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 97) Which of the following cause the aggregate demand curve to slope downward and to the right?
- A) the prices of key goods
 - B) the interest rate effect
 - C) military expenditures of the government
 - D) the demand-shock effect

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 98) When a higher price level generates an increase in the interest rate that induces consumers to borrow less and buy less, this chain of events is referred to as
- A) the real-balance effect.
 - B) the interest rate effect.
 - C) the open economy effect.
 - D) the price level effect.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

- 99) Total planned real expenditures measured along the aggregate demand curve are made up of
- A) consumption spending, investment spending, government spending, and net export spending.
 - B) consumption spending, income, government spending, and net export spending.
 - C) consumption spending, saving, investment spending, and government spending.
 - D) consumption spending, factor payments, investment spending, and net export spending.

Answer: A

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB:

Question Status: Previous Edition

- 100) What is measured on the vertical axis of the aggregate demand graph?
- A) nominal income
 - B) real GDP per year
 - C) the price level
 - D) unemployment

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB:

Question Status: Previous Edition

- 101) What is measured on the horizontal axis on the aggregate demand graph?
- A) nominal income
 - B) real GDP per year
 - C) the price level
 - D) unemployment

Answer: B

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB:

Question Status: Previous Edition

102) When expenditures change due to changes in the real value of money caused by variations in the price level, this is known as the

- A) interest rate effect.
- B) real-balance effect.
- C) open economy effect.
- D) aggregate balances effect.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB:

Question Status: Previous Edition

103) When total planned real expenditures change due to changes in the cost of borrowing that result from variations in the price level, this is known as the

- A) interest rate effect.
- B) real-balance effect.
- C) open economy effect.
- D) aggregate balances effect.

Answer: A

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB:

Question Status: Previous Edition

104) When total planned real expenditures change due to the changes in net exports, this is known as the

- A) interest rate effect.
- B) real-balance effect.
- C) open economy effect.
- D) aggregate balances effect.

Answer: C

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB:

Question Status: Previous Edition

105) If your income stays the same and the price level increases, you will buy fewer goods and services due to the

- A) interest rate effect.
- B) real-balance effect.
- C) open economy effect.
- D) aggregate balances effect.

Answer: B

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

106) If the dollar appreciates and foreign goods become less expensive, the total planned expenditures on domestic goods and services will

- A) fall due to the open economy effect.
- B) fall due to the interest rate effect.
- C) increase due to the open economy effect.
- D) increase due to the interest rate effect.

Answer: A

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

107) What is the aggregate demand curve and what does it represent?

Answer: The aggregate demand curve shows total planned real spending on all goods and services in the economy at various price levels, other things held constant. It represents the components of real Gross Domestic Product (GDP), including consumption spending, investment expenditures, government purchases, and net foreign demand for domestic production.

Diff: 1

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

108) "The aggregate demand curve slopes down for the same reason that the individual demand curve for a good slopes down." Do you agree or disagree with this statement? Why?

Answer: Disagree. The aggregate demand curve does not use price, but uses the price level, and quantity demanded is not for a specific good, but for the total expenditures on real goods and services. As the relative price of a good falls, individuals will substitute toward that good. There are economy-wide reasons that cause the aggregate demand curve to slope downwards. For example, the lower aggregate price level will cause a reduction in the interest rate and an increase in the overall demand for goods.

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

109) What is the interest rate effect of an increase in the price level?

Answer: Higher price levels indirectly increase the interest rate. The higher interest rate cause people to reduce desired real spending due to the higher cost of borrowing. Hence, the higher price level leads to a reduction in total planned real spending.

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

110) What information is provided by the aggregate demand curve?

Answer: The aggregate demand curve relates total planned real expenditures to each price level. The price level is measured by the GDP deflator. The lower is the price level, the higher are total planned real expenditures, other things being equal.

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

111) What is the real-balance effect of an increase in the price level?

Answer: The real-balance effect is the change in the real value of the money balances when the price level changes, all other things constant. An increase in the price level means that the purchasing power of money balances is reduced.

Diff: 2

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

112) What are the three forces that cause the aggregate demand curve to slope down? Explain.

Answer: The three forces are the real-balance effect, the interest rate effect, and the open-economy effect. An increase in the price level causes the purchasing power of money balances to fall, interest rates to increase and borrowing to fall, and imports to increase and exports to decrease. Each of these cause total planned real expenditures to decrease.

Diff: 3

Topic: 10.2 Total Expenditures and Aggregate Demand

AACSB: Analytic skills

Question Status: Previous Edition

10.3 Shifts in the Aggregate Demand Curve

1) Which of the following would cause aggregate demand to decrease?

- A) The government increases taxes on both business and personal income.
- B) A drop in the foreign exchange value of the dollar
- C) The Fed increases the amount of money in circulation.
- D) Businesses and households believe that the economy is headed for good times, so they begin to feel increased security about their jobs.

Answer: A

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

2) An aggregate demand curve

- A) shifts to the right when the price level increases and to the left when the price level falls.
- B) shifts to the right when any non-price-level factor increases total planned real spending.
- C) shifts to the right when population decreases and shifts to the left when population increases.
- D) does not shift, unlike individual or market demand curves.

Answer: B

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Revised

3) Which of the following statements is correct?

- I. When economists derive the aggregate demand curve, they are looking at the effect of the price level on one commodity only.
 - II. Any non-price-level change that increases total planned real spending on domestic goods shifts the AD curve to the right.
- A) I only B) II only C) Both I and II D) Neither I nor II

Answer: B

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Europe and Asia both fall into deep economic recessions. What impact will this have on U.S. aggregate demand?

A) None. A nation's aggregate demand is only affected by its own economic conditions.
 B) U.S. aggregate demand will remain unchanged.
 C) U.S. aggregate demand will decrease.
 D) The U.S. aggregate demand curve will shift to the right.

Answer: C

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 5) An aggregate demand curve

A) shifts to the right when a non-price level change increases total planned real expenditures.
 B) shifts to the right when a non-price level change decreases total planned real expenditures.
 C) shifts to the right when the price level falls.
 D) does not shift to the right or to the left.

Answer: A

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 6) An increase in total planned real expenditures that is caused by a factor other than the price level will lead to the

A) aggregate supply curve shifting to the right.
 B) aggregate demand curve shifting to the right.
 C) aggregate supply curve shifting to the left.
 D) aggregate demand curve shifting to the left.

Answer: B

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 7) An increase in the money supply will cause which of the following to occur?

A) a rightward shift of the aggregate supply curve
 B) a leftward shift of the aggregate demand curve
 C) a leftward shift of the aggregate supply curve
 D) a rightward shift of the aggregate demand curve

Answer: D

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The aggregate demand curve would shift to the right as a result of
- A) a drop in the price level.
 - B) tax increases.
 - C) an increase in the U.S. real interest rate.
 - D) a decrease in the amount of money in circulation.

Answer: C

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Which of the following will cause a leftward shift in the aggregate demand curve?
- A) a reduction in the money supply
 - B) an increase in taxes
 - C) a reduction in government spending
 - D) all of the above

Answer: D

Diff: 3

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Which one of the following would NOT increase aggregate demand?
- A) an increase in long-run aggregate supply
 - B) a reduction in real interest rates
 - C) tax decreases
 - D) an increase in the amount of money in circulation

Answer: A

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 11) All of the following would cause the aggregate demand curve to shift EXCEPT
- A) a rise in real interest rates.
 - B) an increase in taxes.
 - C) improvements in economic conditions in other countries.
 - D) a decrease in the price level.

Answer: D

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

12) Which of the following will NOT shift the aggregate demand curve?

- A) a change in the domestic marginal tax rates
- B) a change in government expenditures
- C) a change in the domestic price level
- D) depreciation in the value of the national currency

Answer: C

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

13) The aggregate demand curve will shift to the left if

- A) people are more optimistic about their future.
- B) a reduction in the price level pushes down borrowing costs.
- C) government expenditures increase.
- D) the national incomes of our trading partners decrease.

Answer: D

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

14) A weakening in consumer confidence causes a

- A) shift of the aggregate demand curve to the right.
- B) shift of the aggregate demand curve to the left.
- C) movement up along the aggregate demand curve.
- D) movement down along the aggregate demand curve.

Answer: B

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

15) Which of the following will NOT shift the aggregate demand curve?

- A) a change in the price level
- B) a change in tax rates
- C) a change in the amount of money in circulation
- D) a change in real interest rates

Answer: A

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 16) An increase in the amount of money in circulation would cause a
- A) shift of the aggregate demand curve to the right.
 - B) shift of the aggregate demand curve to the left.
 - C) movement up the aggregate demand curve.
 - D) movement down the aggregate demand curve.

Answer: A

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 17) An increase in the U.S. price level causes a
- A) shift of the U.S. aggregate demand curve to the right.
 - B) shift of the U.S. aggregate demand curve to the left.
 - C) movement up the U.S. aggregate demand curve.
 - D) movement down the U.S. aggregate demand curve.

Answer: C

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following would likely result in a shift of the aggregate demand curve to the right?
- A) a tax cut
 - B) a decrease in job security
 - C) a rise in the real interest rate
 - D) a decrease in the quantity of money in circulation

Answer: A

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 19) An increase in aggregate demand is shown by
- A) a rightward shift in the aggregate demand curve.
 - B) a leftward shift in the aggregate demand curve.
 - C) a movement up along the aggregate demand curve.
 - D) the movement down along the aggregate demand curve.

Answer: A

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

20) Which of the following would likely result in a decrease in aggregate demand?

- A) tax increases
- B) a reduction in the real interest rate
- C) increased job and future income security
- D) a rise in the quantity of money in circulation

Answer: A

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

21) Other things being equal, appreciation of the dollar

- A) increases aggregate demand in the United States, and may increase aggregate supply by reducing the prices of imported resources.
- B) increases aggregate demand in the United States, and may decrease aggregate supply by reducing the prices of imported resources.
- C) decreases aggregate demand in the United States, and may increase aggregate supply by reducing the prices of imported resources.
- D) decreases aggregate demand in the United States, and may decrease aggregate supply by increasing the prices of imported resources.

Answer: C

Diff: 3

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

22) Other things being equal, a depreciation of the dollar

- A) increases aggregate demand in the United States, and may increase aggregate supply by reducing the prices of imported resources.
- B) increases aggregate demand in the United States, and may decrease aggregate supply by increasing the prices of imported resources.
- C) decreases aggregate demand in the United States, and may increase aggregate supply by reducing the prices of imported resources.
- D) decreases aggregate demand in the United States, and may decrease aggregate supply by increasing the prices of imported resources.

Answer: B

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

23) When investors buy more capital goods because the interest rates have fallen, the aggregate demand curve

- A) shifts right.
- B) shifts left.
- C) does not shift.
- D) stays the same.

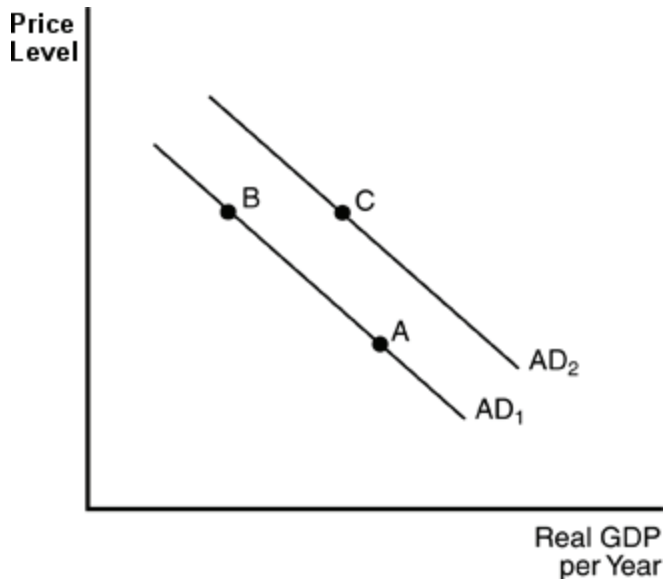
Answer: A

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition



- 24) In the above figure, a movement from point B to point C could be explained by
- A) an increase in the price level.
 - B) a decrease in the quantity of money in circulation.
 - C) increased government spending.
 - D) the real-balance effect.

Answer: C

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Which of the following would cause an increase in aggregate demand (AD)?
- A) A decrease in price levels
 - B) An increase in interest rates
 - C) A decrease in taxes
 - D) A rise in the foreign exchange value of the dollar

Answer: C

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Which of the following statements is correct?
- I. A drop in the foreign exchange value of the dollar would decrease aggregate demand
 - II. A decrease in the amount of money in circulation would increase aggregate demand
- A) I only B) II only C) Both I and II D) Neither I nor II

Answer: D

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

27) What causes the aggregate demand curve to shift?

Answer: Anything that causes total planned real expenditures on domestic goods to increase or decrease, other than changes in the price level, causes the curve to shift. These include things like changes in the exchange rate, changes in economic conditions in other countries, changes in the real interest rate (not associated with price level changes), and a change in the amount of money in circulation.

Diff: 1

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

28) How can the long-run equilibrium level of real Gross Domestic Product (GDP) increase without the price level changing?

Answer: Since the long-run aggregate supply curve is vertical, the only way real Gross Domestic Product (GDP) can increase without the price level changing is if aggregate demand increases and long-run aggregate supply increases. For the latter to happen, either the endowment of inputs must increase or technology must change.

Diff: 2

Topic: 10.3 Shifts in the Aggregate Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

10.4 Long-Run Equilibrium and the Price Level

- 1) The shape of the aggregate demand curve does not tell us anything about how the total dollar value of spending will ultimately be divided between output and prices. For this we need
- A) information about the standard of living in the country.
 - B) information that only the Consumers' Price Index can provide.
 - C) an aggregate supply curve.
 - D) to know how far from the origin the aggregate demand curve is.

Answer: C

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 2) To find an economy's long-run equilibrium price level, locate the point where _____ and _____ cross and look to the left.
- A) demand; supply
 - B) aggregate demand; short-run aggregate supply
 - C) aggregate demand; price level
 - D) long-run aggregate supply; aggregate demand

Answer: D

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Suppose total planned expenditures equal \$14.4 trillion when the value of the price level is 95. If the price level dropped to 90, total planned real expenditures will equal
- A) less than \$14.4 trillion but more than \$1 trillion.
 - B) less than \$14.4 trillion.
 - C) more than \$14.4 trillion.
 - D) \$14.4 trillion.

Answer: C

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 4) If you have \$1,000 and the Gross Domestic Product (GDP) deflator increases from 100 to 120, then
- A) the \$1,000 will buy 20 percent less of the goods and services produced by society.
 - B) the \$1,000 will buy 20 percent more of the goods and services produced by society.
 - C) the value of the \$1,000 increases.
 - D) you will be able to buy fewer goods, but the real value of those goods will increase.

Answer: A

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 5) A persistently declining price level resulting from economic growth and unchanged aggregate demand is called
- A) demand-side deflation.
 - B) supply-side deflation.
 - C) ozian deflation.
 - D) secular deflation.

Answer: D

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 6) How is economic growth graphically depicted?
- A) The aggregate demand curve shifts to the left.
 - B) Aggregate demand shifts to the right.
 - C) Short-run aggregate supply shifts left.
 - D) The long-run aggregate supply curve shifts right.

Answer: D

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Which of the following will result in secular deflation?
- A) A one-time rightward shift of the aggregate demand curve.
 - B) Continuous rightward shifts of the aggregate demand curve.
 - C) A one-time rightward shift of the long-run aggregate supply curve.
 - D) Continuous rightward shifts of the long-run aggregate supply curve.

Answer: D

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: New

- 8) Secular deflation occurs when
- A) there is no economic growth and aggregate demand falls.
 - B) aggregate demand increases at the same time there is no economic growth.
 - C) aggregate demand remains unchanged while economic growth increases long-run aggregate supply.
 - D) both aggregate demand and aggregate supply are shifting left.

Answer: C

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 9) An increase in the amount of physical capital will cause
- A) an increase in both aggregate demand and real GDP, but have no effect on the price level.
 - B) aggregate demand and aggregate supply to increase by the same amounts, causing real GDP to increase and the price level to remain constant.
 - C) an increase in both aggregate supply and real GDP, but have no effect on the price level.
 - D) an increase in both aggregate supply and real GDP and a reduction in the price level.

Answer: D

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 10) The U. S. has experienced inflation every year since 1959 due to
- A) a sustained decrease in aggregate demand.
 - B) a sustained increase in aggregate demand accompanied by an even larger decrease in LRAS.
 - C) a sustained decrease in aggregate supply.
 - D) a sustained increase in aggregate supply accompanied by an even larger increase in aggregate demand.

Answer: D

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

11) Supply-side inflation is caused by

- A) a decrease in aggregate supply and no change in aggregate demand.
- B) a decrease in aggregate demand and no change in aggregate supply.
- C) an increase in aggregate supply and no change in aggregate demand.
- D) an increase in aggregate supply and no change in aggregate demand.

Answer: A

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

12) If the economy grows steadily over several years and at the same time maintains the aggregate demand curve in its present position, then the economy will experience which of the following?

- A) inflation
- B) a stable price level
- C) secular deflation
- D) The price level cannot be determined without more information.

Answer: C

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

13) Suppose the Federal Reserve implements expansionary monetary policy where the money supply increases. Which of the following will tend to occur in the long run as a result of this monetary policy action?

- A) Output and the price level will both increase.
- B) Output will increase with no change in the price level.
- C) An increase in the price level and no change in output.
- D) No change in either the price level or output.

Answer: C

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

14) When the price level is below the level at which the aggregate demand curve crosses the long run aggregate supply curve

- A) there will be no price level change.
- B) there will be pressures that will lead to a shift of either the aggregate demand or the long run aggregate supply curves.
- C) total planned real expenditures will exceed actual real GDP, and the price level will increase.
- D) total planned real expenditure will be lower than actual real GDP, and the price level will increase.

Answer: C

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 15) When the price level is below the level at which the aggregate demand curve crosses the long run aggregate supply curve,
- A) there will be no price level change.
 - B) there will be pressures that will lead to a shift of either the aggregate demand or the long run aggregate supply curves.
 - C) actual real GDP would be less than total planned real expenditures, and the price level will rise.
 - D) actual real GDP would exceed total planned real expenditures, and the price level will fall.

Answer: C

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Economic growth will be associated with a constant price level when
- A) the increase in aggregate demand exactly equals the increase in long-run aggregate supply.
 - B) the increase in aggregate demand is more than the increase in long-run aggregate supply.
 - C) the increase in aggregate demand is less than the increase in long-run aggregate supply.
 - D) the increase in aggregate demand is accompanied by a reduction in short-run aggregate supply.

Answer: A

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Over the last twenty years, real GDP in the U.S. economy has increased and there has been inflation. This indicates that
- A) aggregate demand has increased while aggregate supply has been constant.
 - B) aggregate demand has been constant while aggregate supply has increased.
 - C) aggregate demand has increased more than aggregate supply.
 - D) aggregate demand has increased less than aggregate supply.

Answer: C

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Economic growth takes place
- A) only when both aggregate demand and aggregate supply increase.
 - B) when aggregate supply increases.
 - C) when aggregate demand decreases.
 - D) only if the price level is constant or rising.

Answer: B

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Revised

- 19) The U.S. economy has had persistent inflation in recent decades. A possible explanation for the inflation is that
- A) there have been decreases in the growth rate while aggregate demand has remained unchanged.
 - B) there have been increases in the growth rate while aggregate demand has remained unchanged.
 - C) there have been decreases in aggregate demand while aggregate supply has remained unchanged.
 - D) growth in aggregate demand has been greater than growth in aggregate supply.

Answer: D

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Revised

- 20) In the long run, an increase in government spending, other things equal, generates
- A) a higher real GDP in the long run.
 - B) a lower real GDP in the short run.
 - C) a higher price level.
 - D) both a higher real GDP and a lower price level.

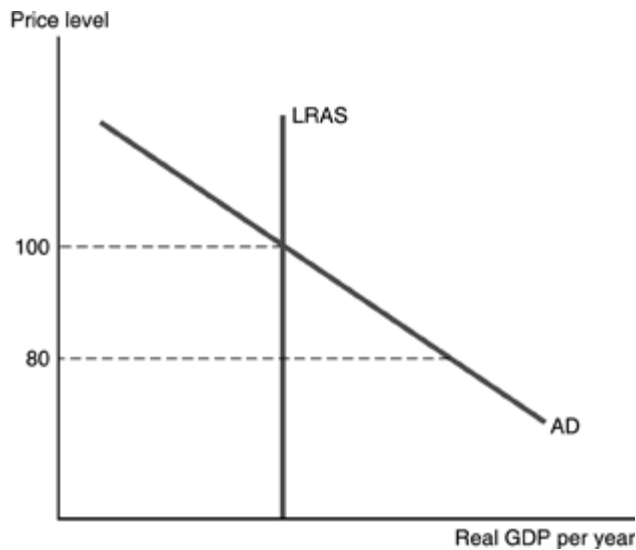
Answer: C

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition



- 21) Refer to the above figure. If the price level is 80,
- A) the total planned real expenditures by individuals, businesses, and the government are less than total planned production by firms.
 - B) the total planned real expenditures by individuals, businesses, and the government exceed total planned production by firms.
 - C) the economy will have economic growth and the new equilibrium price level will be 80.
 - D) the aggregate demand curve will automatically shift leading to a stable equilibrium.

Answer: B

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 22) The intersection of aggregate demand and long-run aggregate supply identify the price level at which total planned
- A) real expenditures equal actual nominal GDP.
 - B) real expenditures equal total planned production.
 - C) export spending equals total planned import spending.
 - D) government spending equals total planned tax revenues.

Answer: B

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

23) What would happen in an economy if total planned production exceeded total planned real expenditures?

- A) Inventories would be depleted, and firms would tend to lower prices.
- B) Inventories would accumulate, and firms would tend to lower prices.
- C) Inventories would be depleted, and firms would tend to raise prices.
- D) Inventories would accumulate, and firms would tend to raise prices.

Answer: B

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

24) If the current price level is lower than the equilibrium price level, then it must be true that total planned

- A) government spending is less than total planned tax revenues.
- B) government spending exceeds total planned tax revenues.
- C) real expenditures are less than total planned production.
- D) real expenditures exceed total planned production.

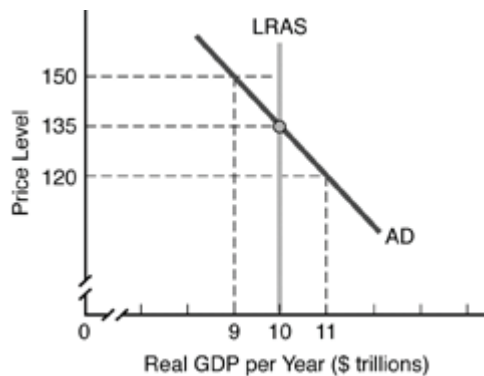
Answer: D

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition



25) Consider the above figure. At a price level of 150,

- A) total planned production exceeds total planned real expenditures.
- B) total planned real expenditures exceed total planned real production.
- C) inventories of unsold goods decline.
- D) the price level would rise.

Answer: A

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Consider the above figure. At a price level of 120,
- A) total planned real expenditures exceed total planned production.
 - B) total planned production exceeds total planned expenditures.
 - C) prices would fall.
 - D) inventories would begin to accumulate.

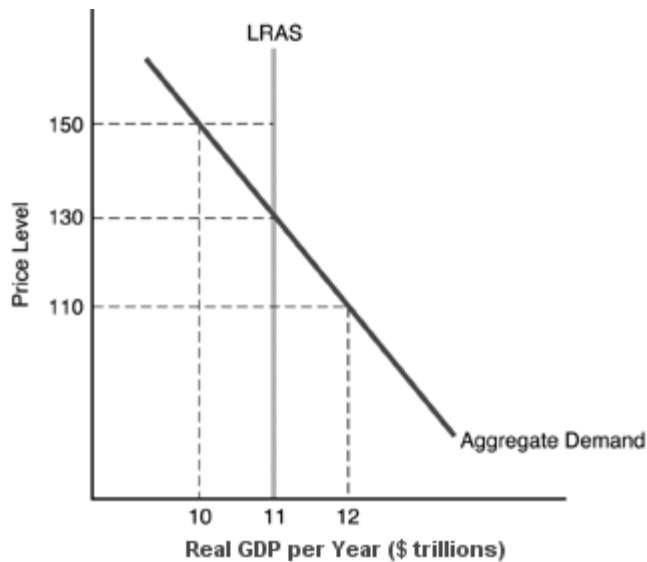
Answer: A

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition



- 27) In the above figure, the long-run equilibrium price level is
- A) 150.
 - B) 130.
 - C) 110.
 - D) not displayed.

Answer: B

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 28) In the above figure, the long-run equilibrium real GDP is
- A) \$10 trillion.
 - B) \$11 trillion.
 - C) \$12 trillion.
 - D) not displayed.

Answer: B

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 29) In the above figure, if the price level is 150,
- A) total planned production exceeds total expenditures.
 - B) total expenditures exceed total planned expenditures.
 - C) total planned production equals total expenditures.
 - D) total planned production is less than total expenditures.

Answer: A

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 30) If consumers' confidence in the economy rises,
- A) aggregate demand will shift leftward and the price level will rise.
 - B) aggregate demand will shift leftward and the price level will fall.
 - C) aggregate demand will shift rightward and the price level will rise.
 - D) aggregate demand will shift rightward and the price level will fall.

Answer: C

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 31) A persistent decline in the price level resulting from economic growth in the presence of stable aggregate demand is known as
- A) demand-side deflation.
 - B) the interest rate effect.
 - C) secular deflation.
 - D) the real balance effect.

Answer: C

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 32) If aggregate demand is stable and there is economic growth, the economy will experience
- A) secular degeneration.
 - B) secular deflation.
 - C) secular decline.
 - D) secular depreciation.

Answer: B

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

- 33) A rightward shift of long-run aggregate supply without any change in aggregate demand
- A) will leave real GDP unchanged.
 - B) results in a lower price level.
 - C) increases the price level without any change in real GDP.
 - D) increases the price level along with an increase in real GDP.

Answer: B

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

34) An economy experiences real growth over time with stable aggregate demand. This would likely result in

- A) increasing prices.
- B) decreasing prices.
- C) secular inflation.
- D) increased unemployment.

Answer: B

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

35) Which of the following is consistent with secular deflation?

- A) a persistently decreasing price level caused by several periods of economic growth with stable AD
- B) a persistently increasing price level caused by several periods of economic growth with decreasing AD
- C) a persistently decreasing price level caused by increases in government expenditures
- D) a persistently decreasing price level caused by money being withdrawn from the economy

Answer: A

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

36) If persistent inflation was due to declines in long-run aggregate supply, what pattern would be observed?

- A) Increases in the price level would occur simultaneously with decreases in real GDP.
- B) Increases in the price level would occur simultaneously with increases in real GDP.
- C) Only prices of goods would increase; prices of services would remain constant.
- D) Only prices of services would increase; prices of goods would remain constant.

Answer: A

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

37) In an economy in which aggregate demand is stable and a period of sustained and significant productivity growth occurs, there will be

- A) secular deflation.
- B) secular inflation.
- C) a constant price level.
- D) a shift of aggregate supply to the left.

Answer: A

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

38) What could cause a decrease in the price level and simultaneously an increase in GDP similar to the 1920s in the United States?

- A) an increase in interest rates
- B) a decrease in consumer confidence
- C) an increase in productivity
- D) a decrease in interest rates

Answer: C

Diff: 3

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

39) Long-run equilibrium will occur at the price level at which

- A) the long-run aggregate demand and short-run aggregate supply curves intersect.
- B) the aggregate demand and short-run aggregate supply curves intersect.
- C) the aggregate demand and long-run aggregate supply curves intersect.
- D) the short-run aggregate supply and long-run aggregate supply curves intersect.

Answer: C

Diff: 1

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Revised

40) Explain how an economy can experience long-run economic growth and deflation at the same time.

Answer: If aggregate demand remains relatively constant during the growth periods, then as the LRAS supply curve shifts right, the new equilibrium point of AD and the LRAS curve will be lower, indicating deflation.

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

41) How can a country experience economic growth and stable prices?

Answer: A country can experience economic growth and stable prices if aggregate supply and aggregate demand increase by the same amount. The new equilibrium then is at the same price level, but real GDP is higher.

Diff: 2

Topic: 10.4 Long-Run Equilibrium and the Price Level

AACSB: Analytic skills

Question Status: Previous Edition

10.5 Causes of Inflation

1) Over the past several decades, what has been true about price levels in the United States?

- A) Inflation rates have been consistently negative.
- B) The nation has experienced persistent deflation.
- C) Price levels have been very stable.
- D) Inflation rates have been consistently positive.

Answer: D

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB:

Question Status: Revised

2) Supply-side inflation could be caused by which of the following?

- A) An increase in aggregate demand
- B) A decrease in aggregate demand
- C) An increase in long-run aggregate supply
- D) A decrease in long-run aggregate supply

Answer: D

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

3) If there are steady decreases in aggregate supply, the economy will experience

- A) a slow decrease in price levels.
- B) demand-side inflation.
- C) an expansionary gap.
- D) supply-side inflation.

Answer: D

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

4) What has caused persistent inflation in the United States?

- A) The nation's long-run aggregate supply curve has shifted to the left.
- B) Supply-side inflation
- C) A decrease in labor productivity
- D) None of the above

Answer: D

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Whenever the general level of prices rises because of continual increases in aggregate demand, we say that the economy is experiencing

A) supply-side inflation. B) monetary stagflation.
C) demand-side inflation. D) aggregate supply shock.

Answer: C

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Demand-side inflation occurs when

A) increases in aggregate demand are not matched by increases in aggregate supply.
B) increases in aggregate supply outstrip increases in aggregate demand.
C) aggregate demand falls more rapidly than aggregate supply.
D) long-run aggregate demand rises faster than short-run aggregate supply.

Answer: A

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 7) In looking back over the past 40 years, which of the following has the U.S. economy experienced?

A) Persistent deflation
B) Consistent inflation at a slow constant rate
C) Persistent inflation
D) Years of both inflation and deflation

Answer: C

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Which of the following factors could cause the economy to experience supply-side inflation?

A) Increased security about jobs and future income.
B) Government laws which say that the average work week must be reduced by one hour every year.
C) Increase the number of immigrants allowed into the country.
D) Develop new technology to increase productivity.

Answer: B

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Supply side inflation can be caused by
- A) a continual increase in aggregate supply while aggregate demand remains unchanged.
 - B) a continual decrease in aggregate supply while aggregate demand remains unchanged.
 - C) a continual decrease in aggregate supply while aggregate demand has significant decreases.
 - D) a continual increase in aggregate demand while aggregate supply remains unchanged.

Answer: B

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Which of the following is the main cause of the persistent inflation that we have experienced in the United States?
- A) Supply-side inflationary factors.
 - B) Demand-side inflationary factors.
 - C) A combination of supply- and demand-side inflationary factors.
 - D) Supply-side secularity factors.

Answer: B

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 11) A reduction the amount of oil (a resource) will tend to cause which of the following?
- A) a reduction in output and a reduction in the price level
 - B) a reduction in output with no change in the price level
 - C) a reduction in output and an increase in the price level
 - D) an increase in the price level and no change in output if accompanied by an increase in the money supply

Answer: C

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 12) If there is persistent inflation,
- A) long-run aggregate supply is growing at a faster rate than aggregate demand.
 - B) long-run aggregate supply is growing at a slower rate than aggregate demand.
 - C) there is an excess of total planned expenditures.
 - D) long-run aggregate supply is constant.

Answer: B

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

13) Secular deflation

- A) has been a serious problem during the last three decades in the United States.
- B) although present, has not been a problem during the last three decades in the United States.
- C) has not been present in the United States since 1959.
- D) cannot exist in a capitalistic economy.

Answer: C

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

14) Which of the following is the most likely explanation for inflation in the United States?

- A) increases in aggregate supply
- B) decreases in aggregate supply
- C) increases in aggregate demand
- D) decreases in aggregate demand

Answer: C

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

15) In the long run, persistent inflation in the United States is caused by

- A) leftward shifts in both the long-run aggregate supply curve and in the aggregate demand curve.
- B) rightward shifts in the long-run aggregate supply curve and the leftward shift of the aggregate demand curve.
- C) a faster rightward shift of the aggregate demand curve than the rightward shift of the long-run aggregate supply curve.
- D) leftward shifts in the aggregate demand curve while the position of the long-run supply curve is unchanged.

Answer: C

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

16) For supply-side inflation to occur in the long run,

- A) the aggregate demand curve has to shift to the left.
- B) the aggregate demand curve has to shift to the right.
- C) the long-run aggregate supply curve has to shift to the right.
- D) the long-run aggregate supply curve has to shift to the left.

Answer: D

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

17) Which of the following can cause supply-side inflation?

- A) an increase in human capital
- B) increases in the money supply
- C) tax cuts
- D) none of the above

Answer: D

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

18) Suppose that an economy is initially producing at the full-employment level of output. Now suppose there is a reduction in the money supply. Other things being equal we can expect

- A) supply-side inflation.
- B) demand-side inflation.
- C) cost-pull inflation.
- D) deflation.

Answer: D

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

19) What will be the result in a growing economy if increases in aggregate demand outpace rightward shifts of the long-run aggregate supply curve?

- A) secular deflation
- B) inflation accompanied by declines in real GDP
- C) inflation accompanied by increases in real GDP
- D) a decline in consumption spending

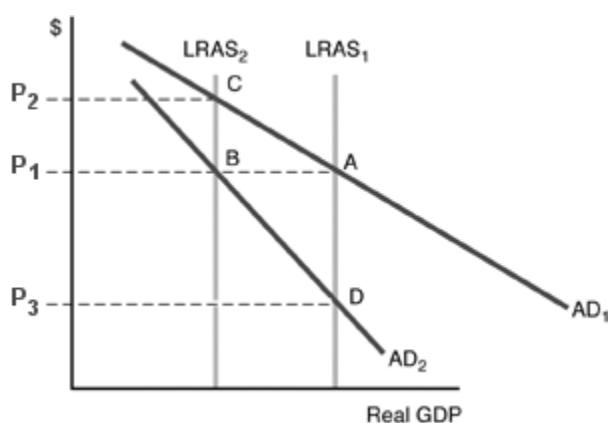
Answer: C

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition



- 20) Refer to the above figure. Suppose the economy's initial equilibrium is represented by the intersection of $LRAS_1$ and AD_1 . Suppose there is a persistent reduction in labor force participation, which reduces total planned production at any given price level. The resulting change in the economy's long-run equilibrium position would be represented by a
- A) movement from A to C.
 - B) movement from A to B.
 - C) movement from B to C.
 - D) movement from C to A.

Answer: A

Diff: 3

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Revised

- 21) Refer to the above figure. A movement from B to C would be NOT be the result of
- A) an increase in foreign income levels.
 - B) an increase in government spending.
 - C) an increase in worker productivity.
 - D) an increase in consumption spending.

Answer: C

Diff: 3

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Refer to the above figure. A movement from B to D would be a result of
- A) an increase in the quantity of money in circulation.
 - B) an increase in labor productivity.
 - C) an increase in government expenditures.
 - D) an increase in the marginal income tax rate.

Answer: B

Diff: 3

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Refer to the above figure. Suppose the economy's initial equilibrium is represented by the intersection of LRAS₁ and AD₁. Now there is an increase in labor productivity which increases total planned production at any given price level and aggregate demand remains stable. The resulting change in the economy's long-run equilibrium position would be represented by a
- A) movement from B to D.
 - B) movement from C to D.
 - C) movement from C to B.
 - D) movement from A to B.

Answer: A

Diff: 3

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Revised

- 24) When the economy is in long-run equilibrium, the price level adjusts so as to equate which two values with one another?
- A) import and export spending
 - B) the inflation rate and the unemployment rate
 - C) government spending and tax revenues
 - D) total planned real expenditures and total planned production

Answer: D

Diff: 1

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 25) What pattern would you observe in an economy in which aggregate demand is increasing but in which long-run aggregate supply remained the same?
- A) secular deflation
 - B) inflation accompanied by no change in real GDP
 - C) inflation accompanied by declines in real GDP
 - D) a decline in consumption spending

Answer: B

Diff: 3

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Steadily improving improvements in technology, other things being equal, will result in
- A) no change in the price level and steadily increasing output.
 - B) persistent deflation
 - C) steadily rising price level (inflation) and steadily increasing output.
 - D) a steadily falling price level with no change in output.

Answer: B

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 27) When the aggregate demand curve shifts _____ than the long-run aggregate supply shifts rightward, the result will be inflation.

A) rightward at a slower rate
 B) leftward at a slower rate
 C) rightward at a faster rate
 D) leftward at the same rate

Answer: C

Diff: 3

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 28) What would likely happen to the long-run aggregate supply curve if the U.S. federal government increases marginal tax rates on wages?

A) The LRAS curve would shift rightward.
 B) The LRAS curve would shift leftward.
 C) The LRAS curve would remain stable while the AD curve would shift leftward.
 D) The LRAS curve would remain stable while the AD curve would shift rightward.

Answer: B

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Revised

- 29) Which of the following would unambiguously generate inflation?

A) a decrease in aggregate demand accompanied by an increase in aggregate supply
 B) an increase in aggregate demand accompanied by an increase in aggregate supply
 C) a decrease in aggregate demand accompanied by a decrease in aggregate supply
 D) an increase in aggregate demand accompanied by a decrease in aggregate supply

Answer: D

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 30) If long-run economic growth is not accompanied by a change in aggregate demand, the result will be

A) persistent inflation.
 B) secular deflation.
 C) devaluation of the dollar.
 D) appreciation of the dollar.

Answer: B

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

- 31) What causes demand-side inflation? What causes supply-side inflation?

Answer: Demand-side inflation is caused by an increase in aggregate demand while long-run aggregate supply is constant. Supply-side inflation is caused by a reduction in short-run aggregate supply.

Diff: 3

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition

32) What are three causes of supply-side inflation?

Answer: Shifting the LRAS to the left can be caused by any of the following factors: a reduction in the labor force, a reduction in the labor force participation rate, higher marginal taxes on businesses, and government programs which act as incentives for unemployed workers to not go back to work.

Diff: 2

Topic: 10.5 Causes of Inflation

AACSB: Analytic skills

Question Status: Previous Edition