1. The greater the extent of crowding out of private spending by government, the
   a) smaller the rightward shift in Aggregate Demand from an increase in investment spending.
   b) smaller the rightward shift in Aggregate Demand from an increase in taxes.
   c) smaller the rightward shift in Aggregate Demand from an increase in government spending.
   d) all of the above.

2. “Ricardian Equivalence” as presented in class:
   a) implies that complete “crowding out” can take place without any change in interest rates.
   b) implies that government deficit spending financed by borrowing will not shift the AD curve.
   c) implies that a budget deficit financed by borrowing will **not** stimulate the economy.
   d) all of the above.
   e) none of the above.

3) What happens to the aggregate expenditure (AE) curve when interest rates increase, all else constant?
   a) it shifts downward
   b) it shifts upward
   c) it does not shift, but the economy moves leftward along it (so output declines).
   d) it becomes steeper, as the marginal propensity to consume increases.

4) What happens in the money market when aggregate income (Y) increases (all else constant).
   a) money demand shifts rightward
   b) money demand shifts leftward
   c) money supply shifts rightward
   d) money supply shifts leftward

5. In the Aggregate Expenditures model, if government spending increases then:
   a. The AE curve shifts upward and the Aggregate Demand shifts rightward.
   b. The AE curve shifts upward and the Aggregate Demand does not shift.
   c. The AE curve shifts upward and the Aggregate Demand shifts leftward.
   d. The AE curve shifts downward and the Aggregate Demand shifts leftward.
   e. The AE curve shifts downward and the Aggregate Demand does not shift.
6. In diagram 1, if the economy is at point B, then:
   a. it is in a recession
   b. current unemployment rate is above the natural rate
   c. current output is above the full employment level of output.
   d. without government action, wages and other input prices could be expected to fall.

7. In diagram 1, if the economy is at point B, then the economy will move more rapidly toward long run equilibrium if government:
   a. raises tax rates.
   b. reduces its spending on goods and services.
   c. increases its spending on goods and services.
   d. increases its fiscal budget deficit.
   e. Both a and b are correct.

8. In diagram 1, which of the following point(s) represent possible long run equilibria?
   a. Point A
   b. Point B
   c. Point C
   d. Point A or C
   e. Points A, B, or C

9. In diagram 1, if the economy is at point B and government does not change their macroeconomic policy, wages and other input prices will _____ and a new long run equilibrium will be reestablished at point ____.
   a. rise, C
   b. rise, A
   c. fall, C
   d. fall, A

10. In diagram 2, the Keynesian equilibrium level of output is:
    a. 5.6
    b. 5.8
    c. 6
    d. 5
11. In diagram 2, if real GDP = 6, there will be:
   a. unplanned (unintended) increase in inventories of 0.2 per year.
   b. unplanned (unintended) decrease in inventories of 0.2 per year.
   c. unplanned (unintended) increase in inventories of 0.4 per year.
   d. unplanned (unintended) decrease in inventories of 0.4 per year.
   e. unplanned (unintended) increase in inventories of 0.8 per year.

12. In diagram 2, if the Full Employment level of output = 6, then
   a. Keynesian equilibrium will imply unemployed resources.
   b. Keynesian analysis implies that economic adjustment (without a change in government policy) will shift the AE curve upward.
   c. Keynesian analysis implies wages will fall, directing the economy back to long run equilibrium.
   d. Keynesian analysis implies that savings and investment will increase until output = 6.

13. If the aggregate demand and short run aggregate supply curves intersect to the right of the long run aggregate supply curve, and there is no change in government policy:
   a. resource (input) prices will rise.
   b. resource (input) prices will fall.
   c. economic agents will expect a higher price level in the future.
   d. economic agents will expect a lower price level in the future.
   e. both a and c.

14. Other things constant, how will an unanticipated increase in oil prices, (an “Adverse Supply Shock”), influence the price level and real output of oil-importing nations such as the United States?
   a. Real output will fall and the price level will rise.
   b. Real output will rise and the price level will fall
   c. Both real output and the price level will fall.
   d. Both real output and the price level will rise.

15. Potential GDP
   a. is always less than actual GDP, except during a recession.
   b. is identical to actual GDP.
   c. minus actual GDP measures the loss of production as the result of inflation.
   d. measures the output an economy could reasonably be expected to produce at full employment, under normal circumstances without increasing inflation.

16. The aggregate demand curve slopes downward to the right because:
   a. as the price level decreases, the real value of the fixed quantity of money decreases - reducing expenditures.
   b. a lower domestic price level will cause net exports to fall.
   c. a lower price level will lead to a lower real interest rate, all else constant, and this will increase the amount of final goods and services demanded.
   d. all of the above.

Regarding Ch 14 17) What happens to the Phillips Curve if workers expect an increase in inflation in the future:
   a. it shifts right/up
   b) it shifts left/down
   c) it becomes steeper
   d) we move along a stationary Phillips Curves, upward and to the left (so unemployment falls).
Regarding Ch 14 18) If government spending increases - shifting aggregate demand rightward - but inflation expectations do not change so that aggregate supply does not shift, then:
   a. the Phillips Curve shifts right/up
   b) the Phillips Curve shifts left/down
   c) the economy moves up/leftward along a stationary Phillips Curve
   d) the economy moves down/rightward along a stationary Phillips Curve

19) Which of the following is an example of “crowding out” as discussed in this class.
   a) an increase in investment reduces government spending.
   b) higher taxes causes consumption to fall.
   c) imports reduce domestic sales of goods and services.
   d) government borrowing increases interest rates, and this reduces real investment by firms.

20) In a depression, when unemployment is very high (but prices and wages do not fall):
   a) the aggregate supply curve shifts leftward.
   b) the aggregate supply curve shifts rightward
   c) the aggregate supply curve will be flat (small value of slope).
   d) the aggregate supply curve will be steep (high value of slope).

21) The Short-Run Aggregate supply curve is upward sloping because we assume:
   a) output may increase without increasing input prices.
   b) prices are assumed to be constant.
   c) government uses price controls (ceilings).
   d) labor contracts are quickly renegotiated when prices start to increase.

Regarding Ch 14 22) Can a labor supply curve be “backward bending,” i.e., have negative slope?
   a) no as wage increases, people will always want to work more.
   b) no as wage decreases, people will always want to work less.
   c) yes – government welfare and unemployment payments may cause people to work less as wage increases.
   d) yes – some people will want to work less (consume more leisure) as their wage and income increases.

Regarding Ch 14 23) In the 1960s the Phillips Curve:
   a) appeared stable and downward sloping, since inflation expectations were slow to change.
   b) appeared to shift erratically, for no apparent reason.
   c) shifted quickly, as workers quickly demanded higher wages in response to small increases in the price level.
   d) was vertical in the short run.

24) What causes the short aggregate supply curve to shift left?
   a) higher budget deficits increase output and the price level at the same time.
   b) a real balance effect which causes real wealth to fall.
   c) an increase in input prices such as wages in response to higher expected inflation.
   d) reduced imports of final goods and services.

25 A conventional path whereby monetary policy shifts aggregate demand rightward is:
   a) money supply increases, increasing interest rates, increasing investment.
   b) money supply increases, increasing interest rates, increasing interest income, increasing consumption.
   c) money supply increases, decreasing interest rates, which increases government spending.
   d) money supply increases, decreasing interest rates, which increases real investment.
26. Which of the following correctly illustrates the view of Keynesian economists as presented in lecture:
   a) the order of keys on keyboards allows people to type fast and this is evidence of market failure.
   b) the order of keys on keyboards allows people to type fast and this is evidence that markets work well.
   c) the order of keys on keyboards forces people to type slowly, and this is evidence of market failure.
   d) the order of keys on keyboards forces people to type slowly, and this is evidence that markets work well.

27. Which of the following is a stock variable?
   a. income
   b. (federal government) budget deficit
   c. investment
   d. the “national debt” of the federal government
   e. all of the above are stock variables.

28. A simple analysis using a production possibilities frontier (PPF) with “cleaner environment” and “all other goods” on the two axes and with a bowed out shape shows how:
   a. the cost of further cleaning the environment increases as more and more resources are devoted to keeping/making it clean (more and more strict anti-pollution laws are enacted).
   b. the cost of further cleaning the environment decreases as more and more resources are devoted to keeping/making it clean (more and more strict anti-pollution laws are enacted).
   c. as more “other goods” are produced, the environment can become cleaner.
   d. as fewer “other goods” are produced, the environment will necessarily become less clean.

29. Which of the following is a flaw in the analysis used in the previous question emphasized in lecture?
   a. there is no market for cleaner air, so the analysis does not apply
   b. “other goods” can not be added together.
   c. the benefits of a cleaner environment are enjoyed by everyone, not to individual consumers.
   d. it does not include the possibility that a cleaner environment can shift out the future PPF.

30. Which of the following will result from rent controls that reduce rents below market equilibrium?
   a. the future supply of rental housing will not increase, despite the shortage.
   b. maintenance of existing apartments will improve.
   c. discrimination against minorities or those with characteristics that managers dislike (noisy young students?) will be less likely in the housing market.
   d. all of the above are correct.

31) Adam Smith was an early economist who argued that:
   a. supply and demand determined the market price of a good/service, and this reflected true value.
   b. well functioning markets could lead selfish people to do things that benefit others in society.
   c. trade based on comparative advantage (not absolute) could benefit both buyers and sellers.
   d. the Great Depression was a statistical illusion, and that the U.S. economy was actually operating well (efficiently) during the 1930s.

32. Other things constant, which of the following would be most likely to shift demand for cars rightward?
   a. a decrease in bus fares (bus rides are a substitute for cars).
   b. an increase in the price of gasoline (gas is a complement to cars).
   c. a decrease in incomes of potential car buyers (cars are a normal good).
   d. an increase in the future price of cars expected by consumers.
33. Which of the following will shift the supply curve for good x. A change in:
   a. the wages of workers who make good x.
   b. prices of all goods that are complements for good x.
   c. future prices of good x expected by buyers.
   d. tastes and preferences of potential buyers for good x.
   e. all of the above

34. Which of the following will shift the demand curve for good x. A change in:
   a. prices of all goods that are substitutes for good x.
   b. the income of potential buyers.
   c. future prices of good x expected by buyers.
   d. tastes and preferences of potential buyers for good x.
   e. all of the above

35. A typical, “default assumption” in the standard economic reasoning presented in this class is that:
   a. deceptive advertising can easily trick consumers into buying goods they really do not want or need.
   b. consumers are rational and well informed.
   c. consumers do not know how much they will enjoy consuming a good until after they have purchased it.
   d. consumers become well informed about a product’s characteristics and the utility they obtain from the good only after they purchase and consumed it.

36. The fallacy of composition implies:
   a. that what is true for a subcomponent (or individual) may not be true for the group as a whole (in the aggregate).
   b. that a small change in an economic variable will have unrecognizable but significant consequences on the workings of the economy as a whole.
   c. that when two events are associated, the one that was observed first is assumed to be the cause of the second event.
   d. that there is no such thing as a “free lunch.”

37. In the Keynesian model, which of the following will cause current consumption to increase?
   a. an increase in income taxes.
   b. an increase in the current disposable income.
   c. an increase in the interest rate.
   d. a decrease in government spending.

38. If the Fed wanted to use all three of its major monetary control tools to increase the money supply, it would
   a. buy bonds, reduce the discount rate, and reduce reserve requirements.
   b. sell bonds, reduce the discount rate, and reduce reserve requirements.
   c. sell bonds, reduce the discount rate, and increase reserve requirements.
   d. sell bonds, increase the discount rate, and increase reserve requirements.
   e. buy bonds, increase the discount rate, and reduce reserve requirements.

39. In the Keynesian model, if there has been an unexpected reduction in inventories of firms in the recent past, this will cause firms to:
   a. increase output.
   b. decrease output.
   c. decrease investment because of unfavorable future business prospects.
   d. “lay off” (or temporarily fire) workers.
40. If the level of income increases from $20,000 to $25,000 and consumption increases from $18,000 to $22,500, then the marginal propensity to consume is:
   a. .70
   b. .75
   c. .80
   d. .90

41. According to the Keynesian model, if the marginal propensity to consume were 0.75, an independent increase in investment expenditures of $20 billion would cause the Keynesian equilibrium level of aggregate income to rise by:
   a. $2 billion.
   b. $20 billion.
   c. $80 billion.
   d. $200 billion.

42. Under what conditions is the Keynesian aggregate expenditure model most relevant?
   a. when current output of the economy is approximately equal to “Potential Output”.
   b. when inflation and unemployment occur simultaneously
   c. when an economy has a large amount of unemployed resources of all types, (e.g., “excess capacity”).
   d. when decision-makers anticipate fully the impact of higher future taxes implied by budget deficits.

43. Economists generally think that frictional unemployment:
   a. should be eliminated by appropriate macroeconomic (but not microeconomic) policies.
   b. should be eliminated by appropriate microeconomic (but not macroeconomic) policies.
   c. exists in a well-functioning economy.
   d. is the difference between the natural rate and actual rate of unemployment.

44. The Federal Reserve earns most of its revenue because:
   a) it receives tax revenues from the Treasury Department.
   b) its primary liabilities pay interest, but not its primary assets.
   c) its primary assets pay interest, but not its primary liabilities.
   d) it receives insurance premiums from commercial banks

45. The Fed’s liabilities include:
   a. treasury bonds.
   b. discount loans.
   c. currency in circulation.
   d. gold.

46. The Consumer Price Index (CPI) computes the increase in price of a fixed basket of goods from:
   a) the earlier period, and so measures inflation as higher (than if the basket from a later period were used).
   b) the earlier period, and so measures inflation as lower (than if the basket from a later period were used).
   c) the later period, and so measures inflation as higher (than if the basket from an earlier period were used).
   d) the later period, and so measures inflation as lower (than if the basket from an earlier period were used).

47) When individuals are unemployed while moving from one job to another this is a form of:
   a. frictional unemployment.
   b. natural unemployment.
   c. cyclical unemployment.
   d. structural unemployment.
48) What would make it easier to use cigarettes as money?
   a. cigarettes that have the same size and quality of tobacco.
   b. cigarettes that are all of different size and quality.
   c. an erratic and unpredictable supply of cigarettes.
   d. cigarettes that are fragile and fall apart easily.

49) If the required reserve ratio is 10% then commercial banks must keep:
   a. securities equal to 10% of loans outstanding.
   b. 10% of reserves in the form of currency.
   c. reserves equal to 10% of overall assets.
   d. reserves equal to 10% of deposits.

50) If the Fed buys Treasury bonds from commercial banks, the reserves of commercial banks:
   a. increase, leading to an increase in deposits and the money supply.
   b. decrease, leading to an increase in deposits and the money supply.
   c. increase, leading to a decrease in deposits and the money supply.
   d. decrease, leading to a decrease in deposits and the money supply.