Macro – Homework 3

**Multiple Choice**

*Identify the choice that best completes the statement or answers the question.*

**Figure 33-2.**



\_\_\_\_ 1. **Refer to Figure 33-2.** The shift of the short-run aggregate-supply curve from AS1 to AS2

|  |  |
| --- | --- |
| a. | could be caused by an outbreak of war in the Middle East. |
| b. | could be caused by an increase in the expected level of capital machinery. |
| c. | causes the economy to experience an increase in the unemployment rate. |
| d. | causes the economy to experience stagflation. |

\_\_\_\_ 2. **Refer to Figure 33-2.** Starting from point B and assuming that aggregate demand is held constant, in the long run the economy is likely to experience in the transition to the long-run

|  |  |
| --- | --- |
| a. | a falling price level and a falling level of output. |
| b. | a falling price level and a rising level of output. |
| c. | a rising price level and a falling level of output. |
| d. | a rising price level and a rising level of output. |

\_\_\_\_ 3. In the open-economy macroeconomic model, if investment demand increases, then

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| --- | --- |
| a. | the supply of dollars in the market for foreign-currency exchange shifts left. |
| b. | the supply of dollars in the market for foreign-currency exchange shifts right. |
| c. | the demand for dollars in the market for foreign-currency exchange shifts left. |
| d. | the demand for dollars in the market for foreign-currency exchange shifts right. |

\_\_\_\_ 4. Which of the following leads to an increase in net exports in the long run?

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| --- | --- |
| a. | either a decrease in the budget deficit or imposing an import quota |
| b. | a decrease in the budget deficit but not imposing an import quota |
| c. | imposing an import quota but not a decrease in the budget deficit |
| d. | neither a decrease in the budget deficit nor imposing an import quota |

\_\_\_\_ 5. A relatively mild period of falling incomes and rising unemployment is called a

|  |  |
| --- | --- |
| a. | depression. |
| b. | recession. |
| c. | expansion. |
| d. | business cycle. |

\_\_\_\_ 6. If the supply of loanable funds shifts left, then

|  |  |
| --- | --- |
| a. | the real interest rate and the equilibrium quantity of loanable funds both fall. |
| b. | the real interest rate falls and the equilibrium quantity of loanable funds rises. |
| c. | the real interest rate and the equilibrium quantity of loanable funds both rise. |
| d. | the real interest rate rises and the equilibrium quantity of loanable funds falls. |

\_\_\_\_ 7. A decrease in U.S. interest rates leads to

|  |  |
| --- | --- |
| a. | a depreciation of the dollar and greater net exports. |
| b. | a depreciation of the dollar and smaller net exports. |
| c. | an appreciation of the dollar and greater net exports. |
| d. | an appreciation of the dollar and smaller net exports. |

\_\_\_\_ 8. Other things the same*,* if the Swedish real interest rate were to decrease, Swedish net capital outflow

|  |  |
| --- | --- |
| a. | would not change. |
| b. | would fall. |
| c. | would rise. |
| d. | Can’t know without more information. |

\_\_\_\_ 9. Which part of real GDP fluctuates most over the course of the business cycle?

|  |  |
| --- | --- |
| a. | consumption expenditures |
| b. | government expenditures |
| c. | investment expenditures |
| d. | net exports |

\_\_\_\_ 10. If the government of a country with a zero trade balances increases its budget deficit, then interest rates

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| --- | --- |
| a. | rise and the trade balance moves to a surplus. |
| b. | rise and the trade balance moves to a deficit. |
| c. | fall and the trade balance moves to a surplus. |
| d. | fall and the trade balance moves to a deficit. |

\_\_\_\_ 11. Which of the following policy actions shifts the aggregate-demand curve?

|  |  |
| --- | --- |
| a. | an increase in the money supply |
| b. | an increase in taxes |
| c. | an increase in government spending |
| d. | All of the above are correct. |

\_\_\_\_ 12. In the open-economy macroeconomic model, if the supply of loanable funds increases, then the interest rate

|  |  |
| --- | --- |
| a. | and the real exchange rate increase. |
| b. | and the real exchange rate decrease. |
| c. | increases and the real exchange rate decreases. |
| d. | decreases and the real exchange rate increases. |

\_\_\_\_ 13. If purchasing-power parity holds, a dollar will buy

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| --- | --- |
| a. | more goods in foreign countries than in the United States. |
| b. | as many goods in foreign countries as it does in the United States. |
| c. | fewer goods in foreign countries than it does in the United States. |
| d. | None of the above is implied by purchasing-power parity. |

\_\_\_\_ 14. In the open-economy macroeconomic model, the amount of net capital outflow represents the quantity of dollars

|  |  |
| --- | --- |
| a. | supplied for the purpose of selling assets domestically. |
| b. | supplied for the purpose of buying foreign assets. |
| c. | demanded for the purpose of buying U.S. net exports of goods and services. |
| d. | demanded for the purpose of importing foreign goods and services. |

\_\_\_\_ 15. Which of the following would cause stagflation?

|  |  |
| --- | --- |
| a. | aggregate demand shifts right |
| b. | aggregate demand shifts left |
| c. | long-run aggregate supply shifts right |
| d. | long-run aggregate supply shifts left |

\_\_\_\_ 16. If government policy encouraged households to save more at each interest rate, then

|  |  |
| --- | --- |
| a. | the real exchange rate and net exports would rise. |
| b. | the real exchange rate and net exports would fall. |
| c. | the real exchange rate would rise and net exports would fall. |
| d. | the real exchange rate would fall and net exports would rise. |

\_\_\_\_ 17. When the money supply decreases

|  |  |
| --- | --- |
| a. | interest rates fall and so aggregate demand shifts right. |
| b. | interest rates fall and so aggregate demand shifts left. |
| c. | interest rates rise and so aggregate demand shifts right. |
| d. | interest rates rise and so aggregate demand shifts left. |

\_\_\_\_ 18. Suppose there were a large decline in net exports. If the Fed wanted to stabilize output, it could

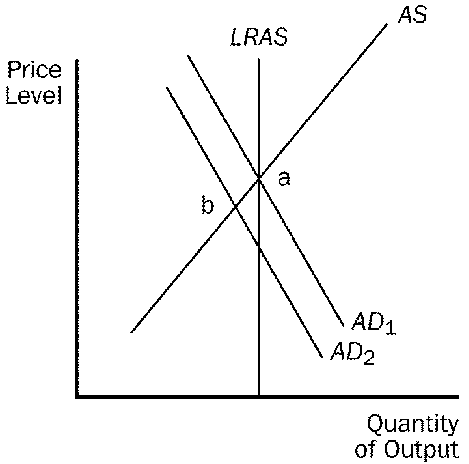
|  |  |
| --- | --- |
| a. | buy bonds to raise interest rates. |
| b. | buy bonds to lower interest rates. |
| c. | sell bonds to raise interest rates. |
| d. | sell bonds to lower interest rates. |

\_\_\_\_ 19. Which of the following is correct concerning recessions?

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| --- | --- |
| a. | They come at fairly regular and predictable intervals. |
| b. | They are associated with comparatively large declines in investment spending. |
| c. | They are any period when real GDP growth is less than average. |
| d. | They tend to be associated with falling unemployment rates. |

For the following questions, use the diagram below:

***Figure 34-6.***



\_\_\_\_ 20. **Refer to Figure 34-6**. Which of the following is correct?

|  |  |
| --- | --- |
| a. | A wave of optimism could move the economy from point a to point b. |
| b. | If aggregate demand moves from *AD*1 to *AD*2, the economy will stay at point b in both the short run and long run. |
| c. | It is possible that either fiscal or monetary policy might have caused the shift from *AD*1 to *AD*2. |
| d. | All of the above are correct. |

\_\_\_\_ 21. When the interest rate increases, the opportunity cost of holding money

|  |  |
| --- | --- |
| a. | increases, so the quantity of money demanded increases. |
| b. | increases, so the quantity of money demanded decreases. |
| c. | decreases, so the quantity of money demanded increases. |
| d. | decreases, so the quantity of money demanded decreases. |

\_\_\_\_ 22. Automatic stabilizers

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| --- | --- |
| a. | increase the problems that lags cause in using fiscal policy as a stabilization tool. |
| b. | are changes in taxes or government spending that increase aggregate demand without requiring policy makers to act when the economy goes into recession. |
| c. | are changes in taxes or government spending that policy makers quickly agree to when the economy goes into recession. |
| d. | All of the above are correct. |

\_\_\_\_ 23. Which of the following is included in the demand for dollars in the market for foreign-currency exchange in the open-economy macroeconomic model?

|  |  |
| --- | --- |
| a. | A firm in Mexico wants to buy corn from a U.S. firm. |
| b. | A Japanese bank desires to purchase U.S. Treasury securities. |
| c. | An U.S. citizen wants to buy a bond issued by a Mexican corporation. |
| d. | All of the above are correct. |

\_\_\_\_ 24. In the open-economy macroeconomic model, if for some reason foreign citizens want to purchase more U.S. goods and services at each exchange rate, then

|  |  |
| --- | --- |
| a. | the demand for dollars in the market for foreign-currency exchange shifts right. |
| b. | the demand for dollars in the market for foreign-currency exchange shifts left. |
| c. | the supply of dollars in the market for foreign-currency exchange shifts right. |
| d. | the supply of dollars in the market for foreign-currency exchange shifts left. |

\_\_\_\_ 25. Which of the following would increase output in the long run?

|  |  |
| --- | --- |
| a. | an increase in stock prices makes people feel wealthier |
| b. | government spending increases |
| c. | firms chose to purchase more investment goods |
| d. | All of the above are correct. |

\_\_\_\_ 26. If the demand for dollars in the market for foreign-currency exchange shifts inward, then the real exchange rate

|  |  |
| --- | --- |
| a. | rises and net exports rises. |
| b. | rises and net exports does not change. |
| c. | falls and net exports falls. |
| d. | falls and net exports does not change. |

\_\_\_\_ 27. In the long run, changes in the money supply affect

|  |  |
| --- | --- |
| a. | prices. |
| b. | output. |
| c. | unemployment rates. |
| d. | All of the above. |

\_\_\_\_ 28. Which of the following is correct?

|  |  |
| --- | --- |
| a. | An increase in the money supply causes the interest rate to decrease so that aggregate demand shifts left. |
| b. | An increase in stock prices reduces consumption spending so that aggregate demand shifts left. |
| c. | An increase in the price level causes the real exchange rate to rise so that aggregate demand shifts left. |
| d. | A recession in other countries reduces U.S. net exports so that U.S. aggregate demand shifts left. |

\_\_\_\_ 29. Shifts in the aggregate-demand curve can cause fluctuations in

|  |  |
| --- | --- |
| a. | neither the level of output nor the level of prices. |
| b. | the level of output, but not in the level of prices. |
| c. | the level of prices, but not in the level of output. |
| d. | the level of output and in the level of prices. |

\_\_\_\_ 30. The economy is in long-run equilibrium. Suppose that automatic teller machines become cheaper and more convenient to use, and as a result the demand for money falls. Other things equal, we would expect that, in the short run,

|  |  |
| --- | --- |
| a. | the price level and real GDP would rise, but in the long run they would both be unaffected. |
| b. | the price level and real GDP would rise, but in the long run the price level would rise and real GDP would be unaffected. |
| c. | the price level and real GDP would fall, but in the long run they would both be unaffected. |
| d. | the price level and real GDP would fall, but in the long run the price level would fall and real GDP would be unaffected. |