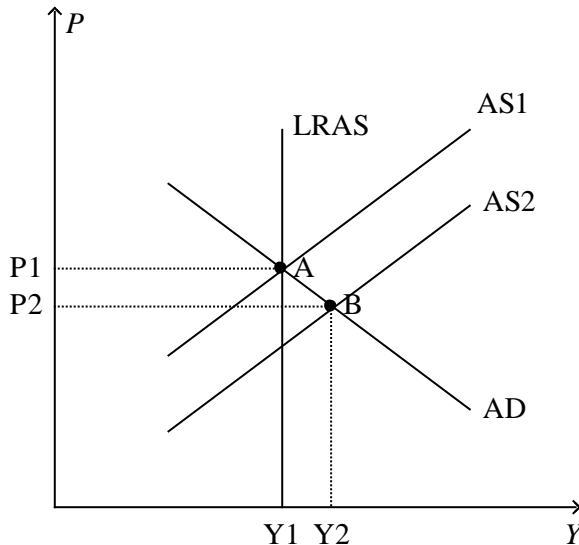


Macro – Homework 3

Multiple Choice

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

Figure 33-2.



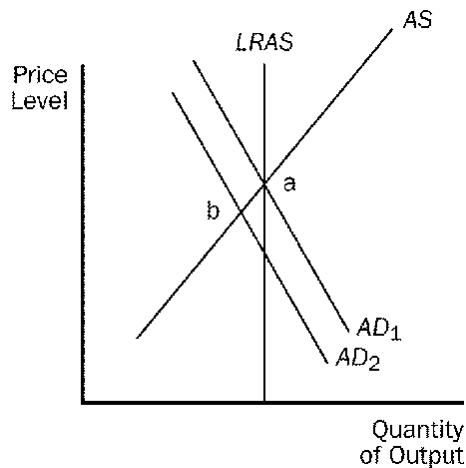
- _____ 1. **Refer to Figure 33-2.** The shift of the short-run aggregate-supply curve from AS_1 to AS_2
- could be caused by an outbreak of war in the Middle East.
 - could be caused by an increase in the expected level of capital machinery.
 - causes the economy to experience an increase in the unemployment rate.
 - 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 falling price level and a falling level of output.
 - a falling price level and a rising level of output.
 - a rising price level and a falling level of output.
 - a rising price level and a rising level of output.
- _____ 3. In the open-economy macroeconomic model, if investment demand increases, then
- the supply of dollars in the market for foreign-currency exchange shifts left.
 - the supply of dollars in the market for foreign-currency exchange shifts right.
 - the demand for dollars in the market for foreign-currency exchange shifts left.
 - 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?
- either a decrease in the budget deficit or imposing an import quota
 - a decrease in the budget deficit but not imposing an import quota
 - imposing an import quota but not a decrease in the budget deficit
 - 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
- depression.
 - recession.
 - expansion.
 - business cycle.
- ___ 6. If the supply of loanable funds shifts left, then
- the real interest rate and the equilibrium quantity of loanable funds both fall.
 - the real interest rate falls and the equilibrium quantity of loanable funds rises.
 - the real interest rate and the equilibrium quantity of loanable funds both rise.
 - the real interest rate rises and the equilibrium quantity of loanable funds falls.
- ___ 7. A decrease in U.S. interest rates leads to
- a depreciation of the dollar and greater net exports.
 - a depreciation of the dollar and smaller net exports.
 - an appreciation of the dollar and greater net exports.
 - 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
- would not change.
 - would fall.
 - would rise.
 - Can't know without more information.
- ___ 9. Which part of real GDP fluctuates most over the course of the business cycle?
- consumption expenditures
 - government expenditures
 - investment expenditures
 - net exports
- ___ 10. If the government of a country with a zero trade balances increases its budget deficit, then interest rates
- rise and the trade balance moves to a surplus.
 - rise and the trade balance moves to a deficit.
 - fall and the trade balance moves to a surplus.
 - fall and the trade balance moves to a deficit.
- ___ 11. Which of the following policy actions shifts the aggregate-demand curve?
- an increase in the money supply
 - an increase in taxes
 - an increase in government spending
 - All of the above are correct.
- ___ 12. In the open-economy macroeconomic model, if the supply of loanable funds increases, then the interest rate
- and the real exchange rate increase.
 - and the real exchange rate decrease.
 - increases and the real exchange rate decreases.
 - decreases and the real exchange rate increases.
- ___ 13. If purchasing-power parity holds, a dollar will buy
- more goods in foreign countries than in the United States.
 - as many goods in foreign countries as it does in the United States.
 - fewer goods in foreign countries than it does in the United States.
 - 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
- supplied for the purpose of selling assets domestically.
 - supplied for the purpose of buying foreign assets.
 - demanded for the purpose of buying U.S. net exports of goods and services.
 - demanded for the purpose of importing foreign goods and services.
- ___ 15. Which of the following would cause stagflation?
- aggregate demand shifts right
 - aggregate demand shifts left
 - long-run aggregate supply shifts right
 - long-run aggregate supply shifts left
- ___ 16. If government policy encouraged households to save more at each interest rate, then
- the real exchange rate and net exports would rise.
 - the real exchange rate and net exports would fall.
 - the real exchange rate would rise and net exports would fall.
 - the real exchange rate would fall and net exports would rise.
- ___ 17. When the money supply decreases
- interest rates fall and so aggregate demand shifts right.
 - interest rates fall and so aggregate demand shifts left.
 - interest rates rise and so aggregate demand shifts right.
 - 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
- buy bonds to raise interest rates.
 - buy bonds to lower interest rates.
 - sell bonds to raise interest rates.
 - sell bonds to lower interest rates.
- ___ 19. Which of the following is correct concerning recessions?
- They come at fairly regular and predictable intervals.
 - They are associated with comparatively large declines in investment spending.
 - They are any period when real GDP growth is less than average.
 - 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 wave of optimism could move the economy from point a to point 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.
 - It is possible that either fiscal or monetary policy might have caused the shift from AD_1 to AD_2 .
 - All of the above are correct.
- ___ 21. When the interest rate increases, the opportunity cost of holding money
- increases, so the quantity of money demanded increases.
 - increases, so the quantity of money demanded decreases.
 - decreases, so the quantity of money demanded increases.
 - decreases, so the quantity of money demanded decreases.
- ___ 22. Automatic stabilizers
- increase the problems that lags cause in using fiscal policy as a stabilization tool.
 - are changes in taxes or government spending that increase aggregate demand without requiring policy makers to act when the economy goes into recession.
 - are changes in taxes or government spending that policy makers quickly agree to when the economy goes into recession.
 - 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 firm in Mexico wants to buy corn from a U.S. firm.
 - A Japanese bank desires to purchase U.S. Treasury securities.
 - An U.S. citizen wants to buy a bond issued by a Mexican corporation.
 - 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
- the demand for dollars in the market for foreign-currency exchange shifts right.
 - the demand for dollars in the market for foreign-currency exchange shifts left.
 - the supply of dollars in the market for foreign-currency exchange shifts right.
 - 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.