Universidad de Alcalá
Macroeconomics II 2007-2008 Second Term
The AS-AD model April 2008 http://www2.uah.es/econ

1) In the aggregate supply relation, the current price level depends upon:
A) fiscal policy.
B) consumer confidence.
C) monetary policy.
D) expected price level.
E) all of the above

2) The aggregate supply curve will shift up when which of the following occurs?
A) a reduction in unemployment benefits
B) a reduction in the expected price level
C) a reduction in firms' markup over labor costs
D) all of the above
E) none of the above

3) Suppose the economy is operating at a point where output is less than the natural level of output. Which of the following statements is correct given this information?
A) the price level is less than the expected price level
B) the unemployment rate is less than the natural unemployment rate
C) the price level will be higher next period than this period
D) all of the above
E) none of the above

4) Which of the following will cause the aggregate demand curve will shift to the left?
A) a rise in the price level
B) a decrease in the price level
C) an increase in taxes
D) an increase in consumer confidence
E) an increase in the money supply

5) Suppose the central bank implements contractionary monetary policy. Which of the following will occur in the short run?
A) a decrease in the price level
B) a decrease in output
C) an increase in the interest rate
D) all of the above
E) none of the above

6) Which of the following represents the medium-run effect of a reduction in the money supply?
A) an increase in the interest rate
B) a decrease in the price level
C) a decline in output
D) all of the above
E) none of the above

7) Which of the following would reduce the short-run output effects of a monetary expansion?
A) The IS curve is very steep
B) a reduction in the interest rate sensitivity of investment
C) a reduction in the marginal propensity to consume
D) all of the above
E) none of the above

8) Assume the economy is initially operating at the natural level of output. Now suppose a budget is passed that calls for a tax cut. This fiscal expansion will, in the short run, cause an increase in:
A) the nominal wage.
B) the price level.
C) the interest rate.
D) all of the above
E) none of the above

9) Assume the economy is initially operating at the natural level of output. Which of the following events will NOT change the composition of output (i.e., the percentage of GDP composed of consumption, investment, etc.) in the medium run?
A) a reduction in the desire to save
B) an increase in the money supply
C) a cut in taxes
D) an increase in consumer confidence
E) a reduction in government spending

10) Assume the economy is initially operating at the natural level of output. Suppose that individuals decide to increase their saving. We know that this increased desire to save will be "neutral" in:
A) neither the medium run nor the short run.
B) both the short run and the medium run.
C) the short run, but not the medium run.
D) the medium run, but not the long run.
E) none of the above

11) Which of the following represents the short-run effects of an increase in the price of oil?
A) an increase in the interest rate
B) a reduction in output
C) an increase in the price level
D) all of the above
E) none of the above

13) The short-run aggregate supply curve (AS) presented in the course has its particular shape because of which of the following explanations?
A) An increase in the aggregate price level causes an increase in nominal money demand and an increase in the interest rate.

B) A reduction in output causes a reduction in employment, an increase in unemployment, a reduction in the nominal wage and a reduction in the price level.
C) A drop in the nominal wage causes an increase in the amount of output that firms are willing to produce.
D) A reduction in the aggregate price level will cause a reduction in the interest rate and an increase in output.

14) Which of the following events will cause an increase in the aggregate price level?
A) an increase in the unemployment rate
B) a reduction in Pe
C) an increase in the unemployment benefits
D) a reduction in the markup
E) none of the above

15) If Y > Yn, we know with certainty that:
A) P = Pe.
B) u > un.
C) P < Pe.
D) P > Pe.

16) An increase in the aggregate price level will cause:
A) a reduction in the interest rate and a rightward shift in the IS curve.
B) an ambiguous effect on investment.
C) an upward shift in the LM curve and an increase in the interest rate.
D) an increase in investment and an increase in output.

17) For this question, assume that the economy is initially operating at the natural level of output. An increase in taxes will cause which of the following?
A) an increase in the aggregate price level, no change in output and no change in the interest rate in the medium run
B) a reduction in employment and no change in the nominal wage in the short run
C) an increase in investment in the medium run
D) a reduction in output and no change in the aggregate price level in the short run

18) For this question, assume that the economy is initially operating at the natural level of output. A reduction in consumer confidence will cause:
A) ambiguous effects on the real wage in the medium run.
B) an increase in the real wage in the medium run.
C) no change in the real wage in the medium run.
D) a reduction in the real wage in the medium run.

19) For this question, assume that the economy is initially operating at the natural level of output. An increase in the minimum wage will cause:
A) a reduction in the real wage in the medium run.
B) ambiguous effects on the real wage in the medium run.
C) an increase in the real wage in the medium run.
D) no change in the real wage in the medium run.

20) For this question, assume that the economy is initially operating at the natural level of output. A one-time 7% increase in the nominal money supply will cause:
A) a 7% reduction in the interest rate (i) in the medium run.
B) a 7% increase in the real money supply in the medium run .
C) a 7% increase in the price level in the medium run .
D) all of the above

21) Results obtained from the Taylor model suggest that the effects of changes in the nominal money supply are neutral after:
A) 2 years.
B) 4 years.
C) 6 years.
D) 8 years.

22) For this question, assume that the economy is initially operating at the natural level of output. A simultaneous reduction in taxes and reduction in the money supply will cause which of the following?
A) a reduction in the interest rate in the medium run
B) a reduction in output and a reduction in the nominal wage in the short run
C) an increase in output and an increase in the aggregate price level in the short run
D) an increase in the aggregate price level, no change in output, and no change in the interest rate in the medium run
E) a reduction in investment in the medium run

23) A reduction in the price of oil will tend to cause which of the following?
A) no change in the interest rate in the medium run
B) an increase in investment in the medium run
C) an increase in the aggregate price level as output increases
D) no change in the real wage in the medium run

24) Suppose the minimum wage increases. Given this event, we would expect which of the following to occur?
A) no change in the real wage in the medium run
B) an increase in the interest rate in the medium run
C) an increase in the aggregate price level as output increases
D) all of the above