Assigment 8

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Hourly Wage</td>
<td>$6.00</td>
<td>$7.00</td>
</tr>
<tr>
<td>Price Index</td>
<td>117</td>
<td>125</td>
</tr>
</tbody>
</table>

1. The data in the table above suggest that in year 2
   a) aggregate demand increases.
   b) aggregate supply decreases.
   c) aggregate supply increases.
   d) aggregate supply remains constant.
   e) aggregate demand decreases.

2. Refer to the figure above. The combination of rising prices and falling output is known as stagflation. This phenomenon is represented by which of the following shifts?
   a) AD₂ to AD₁
   b) AD₁ to AD₂
   c) LRAS₁ to LRAS₂
   d) LRAS₂ to LRAS₁
   e) The combination of LRAS₁ to LRAS₂ and AD₁ to AD₂

3. Which of the following will not shift the short-run aggregate supply curve?
   a) A change in technology
   b) A change in price expectations
   c) A change in the domestic price level
   d) A change in raw material supplies
   e) A change in wage rates
4. Which of the following is *not* one of the factors that directly affect how much households spend?

   a) Expectations about the future
   b) Government spending and taxes
   c) Aggregate supply
   d) Households’ wealth
   e) Changes in the population of a country

5. In the long run, the AS curve is depicted by

   a) a downward-sloping curve.
   b) a vertical line at potential real GDP.
   c) a vertical line at one price level.
   d) a horizontal line at one price level.
   e) a relatively flat upward-sloping curve.

6. Which of the following statements is *not* true?

   a) Aggregate demand and aggregate supply determine the equilibrium price and quantity of any given good.
   b) Macroeconomic equilibrium occurs at the intersection of the aggregate demand and aggregate supply curves.
   c) Other things equal, a downward shift of the aggregate demand curve implies that the economy enters a contractionary phase.
   d) The aggregate supply curve indicates a positive relationship between the price level and GDP.
   e) The aggregate demand curve indicates a negative relationship between the price level and GDP.

7. The sum of consumption spending, investment, government spending, and net exports is defined as

   a) aggregate expenditures.
   b) aggregate supply.
   c) aggregate equilibrium.
   d) aggregate wealth.
   e) aggregate demand.

8. The aggregate demand curve

   a) relates relative prices to the quantity demanded of a particular good.
   b) shows the various levels of expenditures that the economy will engage in at alternative price levels.
   c) implies a positive relationship between inflation and unemployment.
   d) is identical to the aggregate expenditures curve.
   e) has the same slope as the aggregate supply curve.

9. Household expenditures will decrease as a result of

   a) a higher domestic price level.
   b) increased consumer confidence.
   c) lower personal income taxes.
   d) an appreciation of the domestic currency.
   e) population growth.
10. Why does the AS curve become steeper as real GDP increases?
   a) Resource costs rise at a slower rate than prices.
   b) As prices increase there are smaller and smaller increases in output.
   c) As prices increase there are larger and larger increases in output.
   d) Factors of production become increasingly idle.
   e) Excess capacity increases.

11. Which of the following statements concerning the long-run aggregate demand and supply model is true?
   a) Output change that results from a change in aggregate demand is a permanent effect.
   b) A change in aggregate demand leads to a permanent change of higher output.
   c) An increase in aggregate demand increases real GDP only temporarily.
   d) An increase in aggregate demand increases real GDP by a multiple of the initial increase in expenditures.
   e) Prices are fixed.

12. An increase in foreign income causes the domestic aggregate demand curve to shift to the right because
   a) domestic prices fall, causing net exports to increase.
   b) domestic consumption spending rises, causing net exports to increase.
   c) net exports rise at every domestic price level.
   d) domestic prices rise, causing net exports to decline.
   e) net exports decline at every domestic price level.
13. Which of the graphs in the figure above is consistent with long-run equilibrium analysis?

a) A  

b) B  

c) C  

d) D  

e) None of these

14. Stagflation is defined as simultaneous recession and rising prices. In the figure above, stagflation would occur with which of the following shifts?

a) AS$_1$ to AS$_3$  

b) AD$_2$ to AD$_1$  

c) AS$_1$ to AS$_2$  

d) AD$_2$ to AD$_3$  

e) AD$_1$ to AD$_2$
15. A decline in production costs
   a) increases the opportunity cost of doing business.
   b) reduces business profits.
   c) reduces the opportunity cost of doing business.
   d) decreases business revenues.
   e) reduces the amount of output produced.

16. Consider the following statement: "If the government attempts to raise employment through increased fiscal spending, all it will end up doing will be to drive up the price level." The proponent of this statement assumes that
   a) the aggregate supply curve is a vertical line.
   b) the aggregate demand curve is a horizontal line.
   c) the aggregate supply curve is upward-sloping.
   d) the aggregate supply curve is flat.
   e) the aggregate supply curve is downward-sloping.

17. The development of a new and cheap source of energy will result in
   a) a higher amount of production at every price level.
   b) a lower amount of production at every price level.
   c) a lower price level and a lower amount of production.
   d) a higher price level and a higher amount of production.
   e) a lower profit at every price level.

18. We would expect higher interest rates on business loans to result in
   a) an increase in aggregate supply.
   b) a decrease in aggregate expenditures.
   c) an increase in investment spending.
   d) a decrease in government spending.
   e) an increase in aggregate demand.
19. Which of the graphs in the figure above best describes the impact of a generalized more optimistic view of the future by consumers?

a) A  
b) B  
c) C  
d) D  
e) E
20. Consider the figure above. Movement from point $B$ to point $E$ could be the result of

a) an increase in the quality of labor.
b) a declining domestic price level.
c) declining net exports.
d) rising real wage rates.
e) increased investment spending.

Essay Question

1. Consider a short-run aggregate supply curve. How will a decrease in foreign income affect the aggregate supply and demand curves, equilibrium real GDP and output, and the general price level? How will your answer change for a long-run time horizon?

2. Why does the aggregate demand curve slope down? Give real-world examples of the three effects that explain the slope of the curve.