Unit 3 Progress Check: MCQ

1. Which of the following best describes the aggregate demand curve?

A It is a curve that shows the relationship between consumer spending and income.

B It is a curve that shows the amount of goods and services domestic consumers will buy from domestic and foreign firms.

C It is a curve that shows the level of spending by consumers, businesses, the government, and the foreign sector at different price levels. ✓

D It is a curve that shows only the level of government spending at different price levels.

E It is a curve that shows the level of spending by all factors of production at different price levels.

2. Which of the following explains the relationship between the price level and real output along the aggregate demand curve?

A At a lower price level, people need more money to spend and therefore deposit less money in banks, which lowers interest rates and increases real output.

B At a lower price level, the real value of savings decreases which causes an increase in spending.

C At a lower price level, domestic goods will become less expensive compared to foreign goods, which causes an increase in spending on domestic goods. ✓

D At a lower price level, real incomes decrease which causes an increase in spending.

E At a lower price level, the purchasing power of consumers' income decreases which causes an increase in spending.

3. The government of Euroland is considering increasing government spending to avoid a recession. What is the most likely effect on aggregate demand in Euroland?

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A There will be a movement along the **AD** curve to a lower real output.

B There will be a movement along the **AD** curve to a higher price level.

C There will be no change in the **AD** curve.

D There will be a leftward shift in the **AD** curve.

E There will be a rightward shift in the **AD** curve. ✓

4. Assume the marginal propensity to consume is 0.75. What will happen if government spending increases by $100 billion?

A Real output will increase by a maximum of $75 billion.

B Real output will increase by a maximum of $100billion.

C Real output will increase by a maximum of $175 billion.

D Real output will increase by a maximum of $300 billion.

E Real output will increase by a maximum of $400 billion. ✓

5. According to the expenditure multiplier, if the marginal propensity to consume is greater than zero, a one-dollar change in autonomous expenditures will result in which of the following?

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(A) A one-dollar increase in government spending

(B) A greater-than-one-dollar increase in government spending

(C) A one-dollar increase in the production of goods and services

(D) A one-dollar increase in aggregate demand for goods and services

(E) A greater-than-one-dollar increase in aggregate demand for goods and services ✓

6. Use the table to answer the question.

Disposable Income	Consumption Spending
$10,000	$6,000
$11,000	$6,600

Using the disposable income and consumption data in the table above, calculate the value of the marginal propensity to consume (MPC) and the marginal propensity to save (MPS).

(A) $\text{MPC} = 0.04$, $\text{MPS} = 0.96$

(B) $\text{MPC} = 0.10$, $\text{MPS} = 0.90$

(C) $\text{MPC} = 0.20$, $\text{MPS} = 0.80$

(D) $\text{MPC} = 0.50$, $\text{MPS} = 0.50$

(E) $\text{MPC} = 0.60$, $\text{MPS} = 0.40$ ✓

7. In an economy where wages and prices are sticky, which of the following will happen as a result of an increase in the price level?

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(A) There will be a downward movement along the short-run aggregate supply curve and real output will decrease.

(B) There will be an upward movement along the short-run aggregate supply curve and real output will increase. ✓

(C) The short-run aggregate supply curve will shift to the right and real output will increase.

(D) The short-run aggregate supply curve will shift to the left and real output will decrease.

(E) The aggregate demand curve will shift to the right and real output will increase.

8. The imposition by the United States of a tariff on imported steel from the European Union will likely have what impact on the short-run aggregate supply $(SRAS)$ curve in the United States?

(A) It will cause a movement along the $(SRAS)$ curve to a higher real output.

(B) It will cause a movement along the $(SRAS)$ curve to a lower real output.

(C) It will have no impact on the $(SRAS)$ curve.

(D) It will cause the $(SRAS)$ curve to shift leftward. ✓

(E) It will cause the $(SRAS)$ curve to shift rightward.

9. If nominal wages are fixed by labor contracts, then which of the following explains why the aggregate supply curve is upward sloping?

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A A decrease in the price level will increase profits and production.

B A decrease in the price level will decrease profits and increase production.

C An increase in the price level will increase real wages and production.

D An increase in the price level will increase profits and production. ✓

E An increase in the price level will decrease real wages and decrease production.

10. Which of the following is illustrated by the long-run aggregate supply (LRAS) curve and the production possibilities curve (PPC)?

A The multiplier effect

B The maximum sustainable capacity ✓

C The trade-off between inflation and unemployment

D Sticky wages and prices

E Business cycles

11. Suppose a nation opened its borders to the free flow of workers from other nations. How would this event likely affect the long-run aggregate supply (LRAS) curve and the production possibilities curve of the nation?

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A The (LRAS) curve would shift to the right, and the production possibilities curve would not shift.

B Both curves would shift to the right.   ✓

C Neither curve would shift.

D Both curves would shift to the left.

E The (LRAS) curve would shift to the left, and the production possibilities curve would shift to the right.

12. Suppose that the prices of labor and inputs to production are fixed in the short run but not in the long run. What is a consequence of this flexibility in the long run?

A The long-run aggregate supply curve is vertical and there is no trade-off between inflation and unemployment in the long run.   ✓

B The long-run aggregate supply curve is vertical and there is a trade-off between inflation and unemployment in the long run.

C The long-run aggregate supply curve is horizontal and there is a trade-off between inflation and unemployment in the long run.

D Real output is always greater than full employment in the long run.

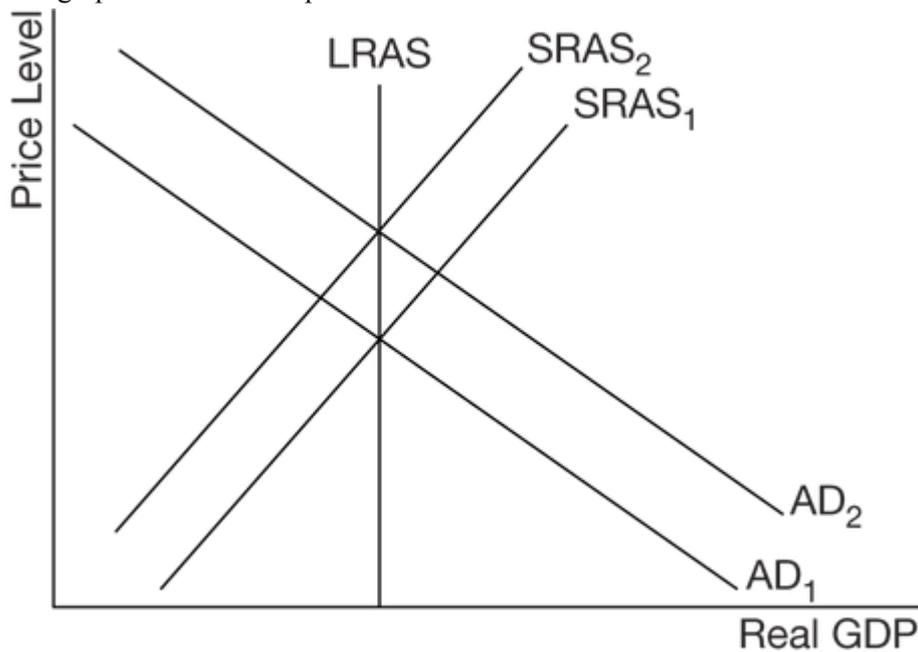**E** Real output is always less than full employment in the long run.

13. Which of the following is true about the equilibrium real output in the aggregate demand-aggregate supply (AD-AS) model in the short run?

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(A) Equilibrium real output is always above full employment.

(B) Equilibrium real output is always below full employment.

(C) Equilibrium real output is always equal to full employment.

(D) Equilibrium real output can be above, equal to, or below full employment. ✓

(E) Equilibrium real output is indeterminate.
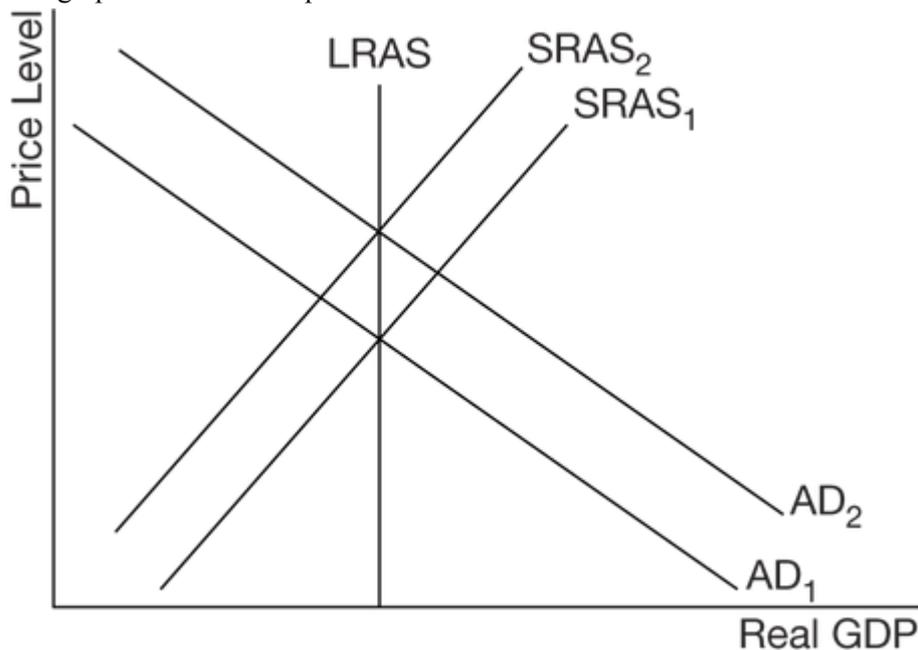
14. Use the graph to answer the question.

Which of the following accurately describes the state of the macro-economy if it is operating at the intersection of the AD_1 and $SRAS_2$ curves?

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(A) It is operating at full employment and is in both a short-run and long-run equilibrium.

(B) It is operating above full employment and is in both a short-run and long-run equilibrium.

(C) It is operating below full employment and is in a short-run but not a long-run equilibrium. ✓

(D) It is not in short-run equilibrium because output is below full employment.

(E) It is in long-run equilibrium because the economy is at full employment.

15. Use the graph to answer the question.

Which of the following is true when an economy is operating at the intersection of the AD_2 and $SRAS_2$ curves?

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A The economy is facing a recessionary gap.

B The economy is facing an inflationary gap.

C The natural rate of unemployment is less than the actual unemployment rate.

D The natural rate of unemployment is greater than the actual unemployment rate.

E The economy is in short-run and long-run equilibrium. ✓

16. Assume that stock prices and home values have increased, raising household wealth. At the same time, productivity increased due to new technology. What is the likely short-run impact on the economy?

A The aggregate demand (AD) curve shifts right and the short-run aggregate supply $(SRAS)$ curve shifts left, resulting in a higher price level and no change in the output level.

B The aggregate demand (AD) curve shifts left and the short-run aggregate supply $(SRAS)$ curve shifts right, resulting in a lower price level and no change in the output level.

C The aggregate demand (AD) curve shifts right and the short-run aggregate supply $(SRAS)$ curve shifts left, resulting in a higher output level and lower price level.

D Both the aggregate demand (AD) and the short-run aggregate supply $(SRAS)$ curves shift right, resulting in a higher output level and indeterminate price level. ✓

E Both the aggregate demand (AD) and the short-run aggregate supply $(SRAS)$ curves shift right, resulting in a lower output level and indeterminate price level.

17. Assume the economy of Country A is in long-run equilibrium. Which of the following will happen in the short run in Country A if one of its major trading partners, Country B, experiences a recession?
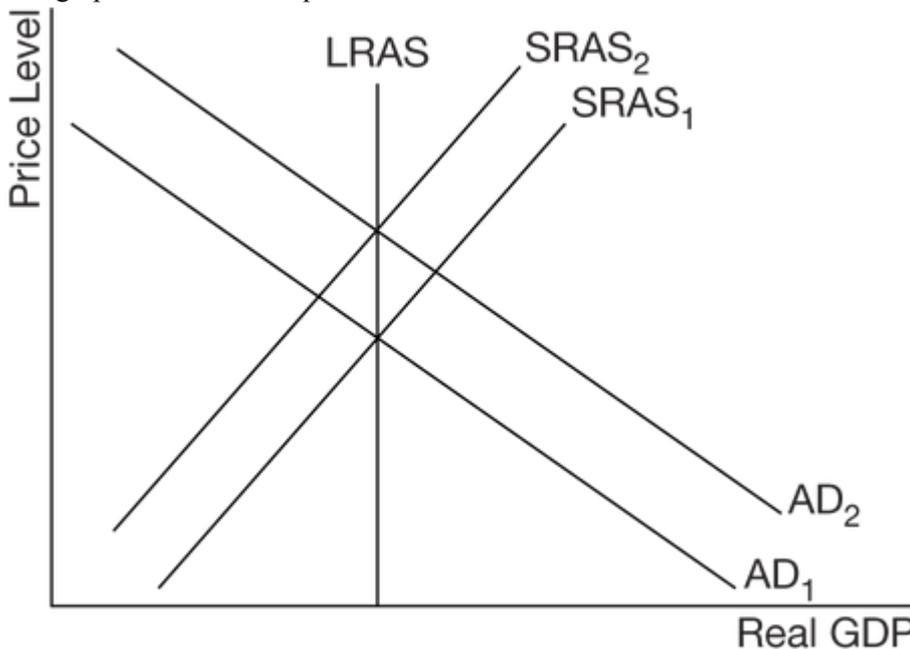
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A Aggregate demand will increase and the price level will increase.

B Aggregate demand will decrease and the price level will decrease. ✓

C Short-run aggregate supply will decrease and the price level will decrease.

D Short-run aggregate supply will increase and the price level will increase.

E Short-run aggregate supply will decrease and the price level will increase.

18. Country X is currently in long-run macroeconomic equilibrium. If the country's economy experiences a significant increase in the price of energy, a major input in production, which of the following will occur in the short run?

A The aggregate demand curve will shift to the left, and the actual rate of unemployment will exceed the natural rate of unemployment.

B The aggregate demand curve will shift to the left, and there will be an inflationary gap.

C The short-run aggregate supply curve will shift to the left, and the actual rate of unemployment will exceed the natural rate of unemployment. ✓

D The short-run aggregate supply curve will shift to the left, and the price level will fall.

E The short-run aggregate supply curve will shift to the left and cause an inflationary gap.

19. Assume an economy is currently at full employment. Which of the following best describes the long-run adjustments that will occur in the economy following a negative aggregate demand shock with no government intervention?

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A   Short-run aggregate supply will decrease, offsetting the initial aggregate demand shock and restoring full employment in the long run.

B   The aggregate demand shock will result in a multiplier effect on real output moving the economy farther away from full employment in the long run.

C   The price level will decrease and aggregate demand will increase until full employment is restored in the long run.

D   Nominal wages will decrease and short-run aggregate supply will increase until full employment is restored in the long run.   ✓

E   Real income will decrease and consumption spending will decrease moving the economy farther away from full employment in the long run.

20.   Use the graph to answer the question.

Suppose that the economy is in a recession. In the absence of government policy action to restore the economy to full employment, how will the economy adjust in the long run?

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A The $SRAS_1$ curve shifts to the left as nominal wages decrease and full employment is restored.

B The $SRAS_1$ curve shifts to the right as nominal wages increase and full employment is restored.

C The $SRAS_2$ curve shifts to the left as nominal wages increase and full employment is restored.

D The $SRAS_2$ curve shifts to the right as nominal wages decrease and full employment is restored. ✓

E The AD_2 curve shifts to the left as nominal wages decrease and full employment is restored.

21. If the natural rate of unemployment exceeds the actual rate of unemployment, which of the following will occur in the long run in the absence of government intervention?

A There will be cyclical unemployment.

B Input prices will decrease.

C Nominal wages will increase. ✓

D The aggregate demand curve will shift to the left.

E The short-run aggregate supply curve will shift to the right.

22. Suppose an economy is operating above full employment. Which of the following fiscal policy actions and resulting changes in aggregate demand will move the economy back towards full employment?

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Ⓐ Increasing government spending, which will shift the **AD** curve rightward.

Ⓑ Decreasing government spending, which will shift the **AD** curve rightward.

Ⓒ Increasing taxes, which will shift the **AD** curve leftward. ✓

Ⓓ Decreasing taxes, which will shift the **AD** curve leftward.

Ⓔ Increasing transfer payments, which will shift the **AD** curve leftward.

23. Which of the following represents an appropriate fiscal policy for the given economic conditions?

Ⓐ An expansionary fiscal policy is appropriate to reduce unemployment when there is an inflationary gap.

Ⓑ An expansionary fiscal policy is appropriate to reduce inflation when there is a recessionary gap.

Ⓒ An expansionary fiscal policy is appropriate to reduce inflation when there is an inflationary gap.

Ⓓ A contractionary fiscal policy is appropriate to reduce unemployment when there is a recessionary gap.

Ⓔ A contractionary fiscal policy is appropriate to reduce inflation when there is an inflationary gap. ✓

24. The government of Olympia is considering a fiscal policy action to slow the economy and curb inflation. If the marginal propensity to consume is 0.8, which of the following responses correctly identifies a policy action that would help the government achieve its goals and the impact of that action on Olympia's real gross domestic product (GDP)?

         →

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A Increasing taxes by $10 billion increases real **GDP** by a maximum of $50 billion.

B Decreasing taxes by $10 billion decreases real **GDP** by a maximum of $50 billion.

C Increasing taxes by $10 billion increases real **GDP** by a maximum of $40 billion.

D Increasing government spending by $10 billion increases real **GDP** by a maximum of $50 billion.

E Decreasing government spending by $10 billion decreases real **GDP** by a maximum of $50 billion.   ✓

25. What is an automatic stabilizer?

A It is a program or policy that counteracts the business cycle with discretionary fiscal policy.

B It is a program or policy that counteracts the business cycle without any new government action required.   ✓

C It is a tax or spending program that is enacted to balance the federal budget.

D It is the change in consumption spending resulting from a given change in disposable income.

E It is a part of a market economic system that ensures that markets achieve equilibrium in the long run.

26. Which of the following best explains how income taxes can moderate a business cycle during an expansion?

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A Tax payments increase automatically as gross domestic product (GDP) rises, which dampens consumption spending. ✓

B Tax payments decrease automatically as GDP rises, which increases short-run aggregate supply.

C Tax payments increase automatically as GDP falls, which decreases short-run aggregate supply.

D Tax payments increase automatically as GDP falls, which prevents the economy from experiencing a downturn.

E Tax payments decrease automatically as GDP falls, which encourages consumption spending.

27. How will automatic stabilizers affect the economy during a recession?

A They will shift the aggregate demand curve to the right, increasing real output. ✓

B They will shift the aggregate demand curve to the left, decreasing real output.

C They will shift the long-run aggregate supply curve to the right, increasing potential output.

D They will shift the short-run aggregate supply curve to the left, increasing real output.

E They will shift the short-run aggregate supply curve to the right, decreasing real output.