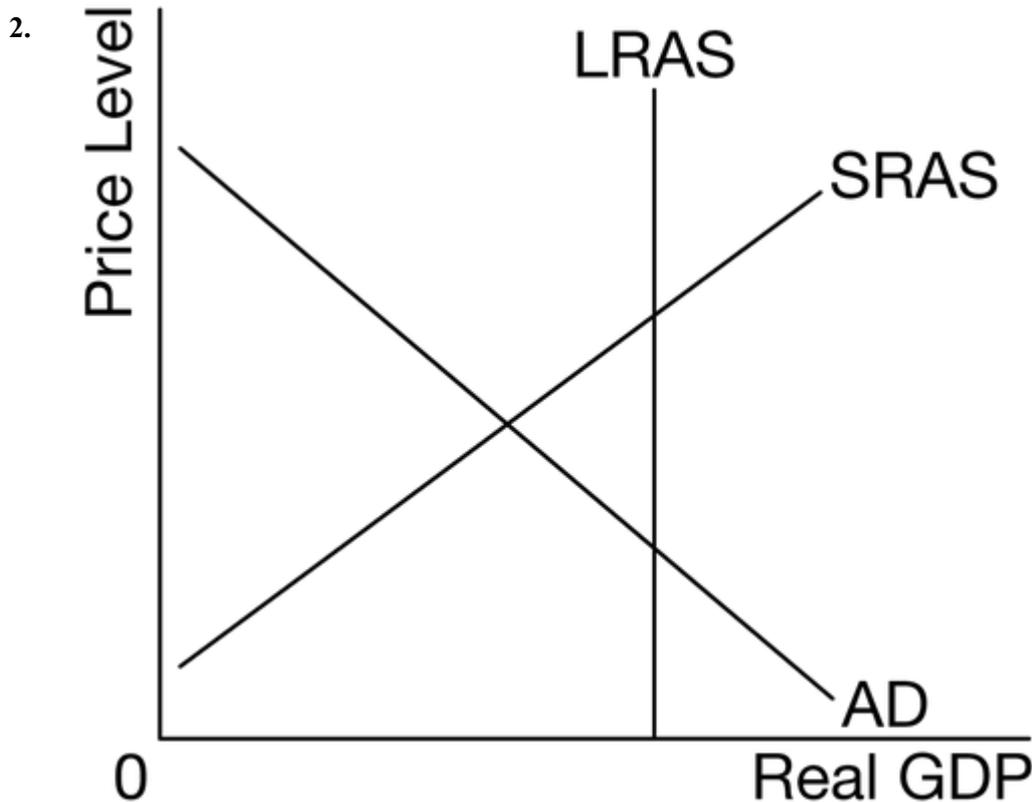## Unit 5 Progress Check: MCQ

1. Country X's economy is in an inflationary gap. Which of the following combinations of fiscal and monetary policy actions would restore full employment in the short run?

(A) A decrease in income taxes and a decrease in the required reserve ratio

(B) A decrease in income taxes and an increase in the discount rate

(C) A decrease in government spending and an open-market purchase of government bonds by the country's central bank

(D) An increase in government spending and targeting a lower interest rate on overnight interbank loans

(E) An increase in income taxes and an open-market sale of government bonds by the country's central bank ✓

2.

An economy is in short-run equilibrium as illustrated by the graph above. Which of the following combinations of policy actions would definitely move the economy toward long-run equilibrium?

Unit 5 Progress Check: MCQ

A A decrease in government spending and an increase in income taxes

B An increase in government spending and a decrease in the money supply

C An increase in the money supply and an increase in the discount rate

D A decrease in the money supply and an increase in income taxes

**E** A decrease in income taxes and an increase in the money supply   ✓

3. An open-market purchase of government bonds accompanied by a decrease in income taxes will result in which of the following in the short run?

A A decrease in real output

B A decrease in the price level

C A decrease in unemployment   ✓

D A decrease in nominal wages

E A decrease in the natural rate of unemployment

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4.   Use the graph below of a long-run Phillips Curve (**LRPC**) and a short-run Phillips Curve (**SRPC**) to answer the question.
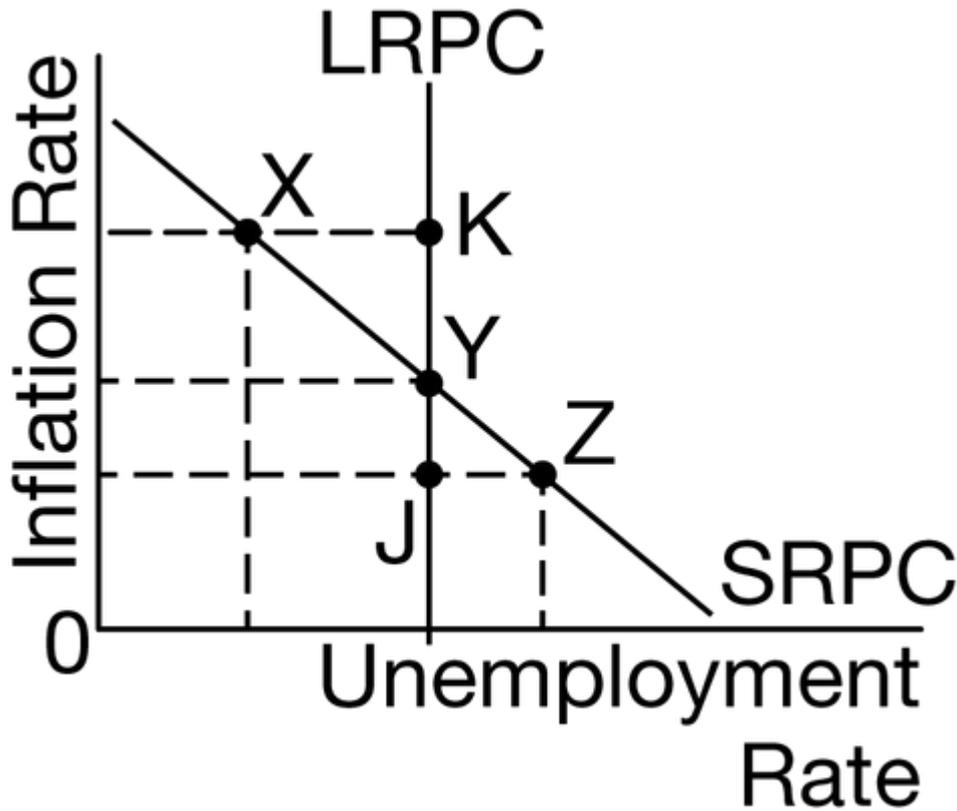
Which of the following points illustrates an inflationary gap?

(A) X ✓

(B) Y

(C) Z

(D) K

(E) J

5.   An increase in the expected inflation rate will cause which of the following?

Unit 5 Progress Check: MCQ

Ⓐ A rightward shift in the aggregate demand curve

Ⓑ A rightward shift in the short-run Phillips curve ✓

Ⓒ A rightward shift in the short-run aggregate supply curve

Ⓓ A leftward shift in the long-run Phillips curve

Ⓔ A leftward shift in the long-run aggregate supply curve

6. Use the graph below of the long-run Philips Curve $(\mathbf{LRPC})$ and the short-run Phillips Curve $(\mathbf{SRPC})$ to answer the question.
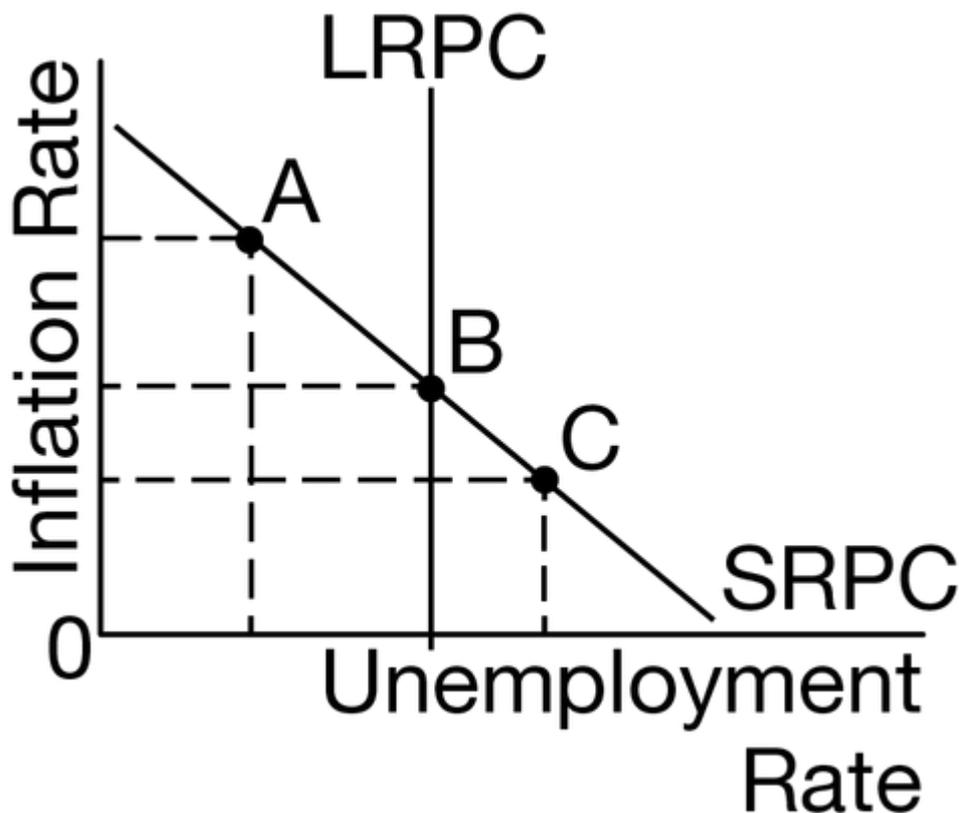
Assume the economy is in long-run equilibrium. A decrease in net exports will result in which of the following in the short run?

Unit 5 Progress Check: MCQ

(**A**) The **SRPC** will shift to the left.

(**B**) The **SRPC** will shift to the right.

(**C**) The **LRPC** will shift to the right.

(**D**) There will be a movement from point B to point C. ✓

(**E**) There will be a movement from point B to point A.

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7. Suppose that an economy with flexible wages and prices is in long-run equilibrium when the central bank contracts the money supply. What is the long-run effect on real output in the economy?

(**A**) Real output falls.

(**B**) Real output is unchanged. ✓

(**C**) Real output rises.

(**D**) Real output falls as price levels fall.

(**E**) Real output rises as price levels fall.

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8. Assume an economy is in long-run equilibrium and the central bank engages in an expansionary monetary policy for a prolonged time period. If the velocity of money is constant, which of the following is true according to the quantity theory of money?

Unit 5 Progress Check: MCQ

A The government's budget deficit will increase.

B Price level will increase at the same rate as the money supply.   ✓

C Real output will exceed full employment in the long run.

D The actual unemployment rate will exceed the natural rate of unemployment.

E The production possibilities curve will shift inward.

9. Suppose the nominal **GDP** is **$25** million, the price level is **1.25**, and the central bank has set the money supply at **$10** million. What is the real **GDP** and the velocity of money according to the quantity theory of money?

A Real **GDP** is **$2.5** million, and the velocity of money is **12.5**.

B Real **GDP** is **$10** million, and the velocity of money is **20**.

C Real **GDP** is **$12.5** million, and the velocity of money is **8**.

D Real **GDP** is **$20** million, and the velocity of money is **2.5**.   ✓

E Real **GDP** is **$25** million, and the velocity of money is **8**.

10. If tax revenues are less than the total of government spending plus government transfer payments, which of the following will happen?

Unit 5 Progress Check: MCQ

A The tax multiplier will increase.

B The spending multiplier will increase.

C The government budget will be in surplus.

D There will be an inflationary gap.

E The national debt will increase.   ✓

11. To reduce the size of a country's national debt, a government could potentially take all of the following actions EXCEPT

A decrease the supply of government bonds

B decrease borrowing of private loanable funds

C increase taxes

D decrease expenditures

E finance spending by borrowing   ✓

12. Which of the following describes a surplus in the government budget?

Unit 5 Progress Check: MCQ

A   Private savings exceed private investment spending.

B   Private savings exceed consumption spending.

C   Private savings exceed government purchases plus transfer payments.

D   Tax revenues exceed government purchases plus transfer payments.   ✓

E   National debt exceeds government purchases plus transfer payments.

13. Assume policy makers increased spending and cut taxes to stimulate the economy. If the government's budget was initially in balance, which of the following will occur?

A   There will be a budget deficit, real interest rates will increase, and investment spending will be crowded out.   ✓

B   There will be a budget deficit, real interest rates will decrease, and investment spending will increase.

C   There will be a budget surplus, real interest rates will increase, and investment spending will be crowded out.

D   There will be a budget surplus, real interest rates will decrease, and investment spending will increase.

E   The budget will remain in balance, real interest rates will not change, and investment spending will not change.

14. Which of the following will most likely occur if a country's government is continuously borrowing to finance its spending without changing taxes?

Unit 5 Progress Check: MCQ

A The economy will experience an inflationary gap in the long run.

B The government budget will be in deficit and the national debt will decrease.

C The government budget will be in surplus and the national debt will increase.

D Private investment in plant and equipment will decrease, resulting in a lower rate of economic growth in the long run.   ✓

E Private investment in plant and equipment will increase, resulting in a higher rate of economic growth in the long run.

15. Which of the following terms describes the adverse effect that results when private sector investment spending competes with government deficit financing?

A Crowding out effect   ✓

B Real wealth effect

C Multiplier effect

D Exchange rate effect

E Interest rate effect

16. Which of the following changes is most likely to cause economic growth?

Unit 5 Progress Check: MCQ

(A) A decrease in private savings

(B) A decrease in labor productivity

(C) A decrease in physical capital

(D) An increase in human capital ✓

(E) An increase in the price level

17. Steady advances in technological development will result in which of the following?

(A) The long-run aggregate supply curve will shift to the right, resulting in economic growth and a lower full employment level of output.

(B) The long-run aggregate supply curve will shift to the left, resulting in economic growth and a higher natural unemployment rate.

(C) The long-run aggregate supply curve will shift to the right, resulting in economic growth and a lower natural unemployment rate. ✓

(D) The short-run aggregate supply curve will shift to the left, resulting in a lower price level and a higher full employment level of output.

(E) The short-run aggregate supply curve will shift to the right, resulting in a higher price level and a higher natural rate of unemployment.

18. How will a nation's production possibilities curve (PPC) and long-run aggregate supply (LRAS) curve change as a result of an increase in both the labor force and productivity?

Unit 5 Progress Check: MCQ

(A) The LRAS curve will shift to the right, and the PPC will shift inward.

(B) The LRAS curve will shift to the right, and the PPC will remain unchanged.

(C) The LRAS curve will shift to the right, and the PPC will shift outward. ✓

(D) The LRAS curve will shift to the left, and the PPC will remain unchanged.

(E) The LRAS curve will shift to the left, and the PPC will shift inward.

19. If economic growth through investment in the economy's infrastructure is desirable, which of the following policies will most likely achieve this objective?

(A) Reducing income and wealth inequality

(B) Increasing government borrowing financed by national savings

(C) Decreasing spending on education and training of workers for higher-income jobs

(D) Reducing subsidies for business investment in research and development

(E) Granting tax credits for businesses in the construction sector ✓

20. Suppose a country's government increases the allowable deduction for individual retirement accounts per person. Holding all other influences constant, how would this policy action affect the country's loanable funds market, its production possibilities curve, and its long-run aggregate supply (LRAS) curve?

Unit 5 Progress Check: MCQ

A Private savings would decrease and real interest rates would increase in the loanable funds market, the nation's production possibilities curve would shift inward, and its LRAS curve would shift to the left.

B Private savings would increase and real interest rates would decrease in the loanable funds market, the nation's production possibilities curve would shift outward, and its LRAS curve would shift to the right. ✓

C Public savings would decrease and real interest rates would increase in the loanable funds market, the nation's production possibilities curve would shift inward, and its LRAS curve would shift to the left.

D Public savings would increase and real interest rates would decrease in the loanable funds market, the nation's production possibilities curve would shift outward, and its LRAS curve would shift to the right.

E National savings would decrease and real interest rates would increase in the loanable funds market, the nation's production possibilities curve would shift inward, and its LRAS curve would shift to the left.

21. Which of the following policies will most likely promote long-run economic growth?

A Decreasing government spending on infrastructure

B Increasing funding for research and development ✓

C Decreasing funding for primary education

D Decreasing investment tax credits

E Increasing tax rates on interest earned on savings