***Exercise 6 Answer Key***

**Chapter 12 Aggregate Demand and Aggregate Supply Analysis**

**12.1 Aggregate Demand**

1) The basic aggregate demand and aggregate supply curve model helps explain

A) short term fluctuations in real GDP and the price level.

B) long term growth.

C) price fluctuations in an individual market.

D) output fluctuations in an individual market.

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 788/384

Topic: Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

2) When the economy enters into a recession, your employer is \_\_\_\_\_\_\_\_ to reduce your wages because \_\_\_\_\_\_\_\_.

A) unlikely; output and input prices generally fall during recession

B) unlikely; lower wages reduce productivity and morale

C) likely; output prices always fall during recession

D) likely; aggregate demand is vertical in the long run

Answer: A

Diff: 1 Page Ref: 787/383

Topic: Business Cycle

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: Economics in YOUR LIFE!: Is an Employer Likely to Cut Your Pay During a Recession?

3) Because of the slope of the aggregate demand curve, we can say that

A) a decrease in the price level leads to a lower level of real GDP demanded.

B) an increase in the price level leads to no change in the level of real GDP demanded.

C) a decrease in the price level leads to a higher level of real GDP demanded.

D) an increase in the price level leads to a higher level of real GDP demanded.

Answer: C

Comment: Recurring

Diff: 1 Page Ref: 789/385

Topic: Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

4) Which of the following best describes the "wealth effect"?

A) When the price level falls, the real value of household wealth falls.

B) When the price level falls, the nominal value of household wealth falls.

C) When the price level falls, the nominal value of household wealth rises.

D) When the price level falls, the real value of household wealth rises.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 789/385

Topic: Wealth Effect

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

5) An increase in the price level results in a(n) \_\_\_\_\_\_\_\_ in the quantity of real GDP demanded because \_\_\_\_\_\_\_\_.

A) decrease; a higher price level reduces consumption, investment, and net exports.

B) increase; a higher price level reduces consumption, investment, and net exports.

C) decrease; a higher price level increases consumption, investment, and net exports.

D) increase; a higher price level increases consumption, investment, and net exports.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 790/386

Topic: Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

6) The international trade effect states that

A) an increase in the price level will raise net exports.

B) an increase in the price level will lower net exports.

C) an increase in the price level will raise exports.

D) an increase in the price level will lower imports.

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 789-790/385-386

Topic: International Trade Effect

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

7) An increase in the price level will

A) shift the aggregate demand curve to the left.

B) shift the aggregate demand curve to the right.

C) move the economy up along a stationary aggregate demand curve.

D) move the economy down along a stationary aggregate demand curve.

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 790/386

Topic: Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

8) Spending on the war in Iraq is essentially categorized as government purchases. How do increases in spending on the war in Iraq affect the aggregate demand curve?

A) They will move the economy up along a stationary aggregate demand curve.

B) They will move the economy down along a stationary aggregate demand curve.

C) They will shift the aggregate demand curve to the left.

D) They will shift the aggregate demand curve to the right.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 790/386

Topic: Shifts in Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

9) Higher personal income taxes

A) increase aggregate demand.

B) increase disposable income.

C) decrease aggregate demand.

D) both B and C

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 790/386

Topic: Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

10) German luxury car exports were hurt in 2009 as a result of the recession. How would this decrease in exports have affected Germany's aggregate demand curve?

A) The aggregate demand curve would have shifted to the right.

B) The aggregate demand curve would not have shifted, but there would have been a movement up the aggregate demand curve.

C) The aggregate demand curve would not have shifted, but there would have been a movement down the aggregate demand curve.

D) The aggregate demand curve would have shifted to the left.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 791/387

Topic: Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking, Multicultural and Diversity

Special Feature: None

11) Last week, six Swedish kronor could purchase one U.S. dollar. This week, it takes eight Swedish kronor to purchase one U.S. dollar. This change in the value of the dollar will \_\_\_\_\_\_\_\_ exports from the United States to Sweden and \_\_\_\_\_\_\_\_ U.S. aggregate demand.

A) increase; increase

B) decrease; decrease

C) increase; decrease

D) decrease; increase

Answer: B

Comment: Recurring

Diff: 3 Page Ref: 791/387

Topic: Shifts in Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

12) If aggregate demand just increased, which of the following may have caused the increase?

A) an increase in government purchases

B) an increase in the interest rate

C) an increase in the price level

D) an increase in imports

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 790/386

Topic: Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

13) The reduction in German exports resulting from the global recession of 2007-2009 had what impact on the German aggregate demand curve?

A) It shifted to the left.

B) It shifted to the right.

C) There was a movement up the curve.

D) There was a movement down the curve.

Answer: A

Diff: 2 Page Ref: 791-792/387-388

Topic: Shifts in Aggregate Demand

Objective: LO1: Identify the determinants of aggregate demand and distinguish between a movement along the aggregate demand curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: Making the Connection: Should Germany Reduce Its Reliance on Exports?

**12.2 Aggregate Supply**

1) The level of aggregate supply in the long-run is *not* affected by

A) changes in technology.

B) changes in the capital stock.

C) changes in the price level.

D) changes in the number of workers.

Answer: C

Comment: Recurring

Diff: 1 Page Ref: 794/390

Topic: Long-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

2) The long-run aggregate supply curve

A) has a negative slope.

B) has a steep but positive slope.

C) is horizontal.

D) is vertical.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 794/390

Topic: Long-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

3) What is potential GDP?

A) It is the level of real GDP in the long run.

B) It is the difference between current GDP and maximum GDP.

C) It is the level of real GDP in the short run.

D) It is the level of GDP at which inflation is constant.

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 794/390

Topic: Long-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

4) The long-run aggregate supply curve shows the relationship between the \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_.

A) inflation rate; quantity of real GDP demanded

B) real interest rate; quantity of real GDP supplied

C) nominal interest rate; quantity of real GDP supplied

D) price level; quantity of real GDP supplied

Answer: D

Comment: Recurring

Diff: 1 Page Ref: 794/390

Topic: Long-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

5) Changes in the price level

A) increase the level of aggregate supply in the long run.

B) decrease the level of aggregate supply in the long run.

C) do not affect the level of aggregate supply in the long run.

D) increase the level of aggregate supply in the long run only at very high levels of output.

Answer: C

Comment: Recurring

Diff: 1 Page Ref: 794/390

Topic: Long-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

6) Suppose a developing country receives more machinery and capital equipment as foreign entrepreneurs increase the amount of investment in the economy. As a result,

A) the long-run aggregate supply curve will shift to the right.

B) the long-run aggregate supply curve will shift to the left.

C) the economy will move up along the long-run aggregate supply curve.

D) the economy will move down along the long-run aggregate supply curve.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 794/390

Topic: Long-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

7) The short-run aggregate supply curve has a(n) \_\_\_\_\_\_\_\_ slope because as prices of \_\_\_\_\_\_\_\_ rise, prices of \_\_\_\_\_\_\_\_ rise more slowly.

A) positive; final goods and services; inputs

B) infinite; final goods and services; inputs

C) positive; inputs; final goods and services

D) infinite; inputs; final goods and services

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 796-797/392-393

Topic: Short-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

8) An increase in the price level will

A) shift the short-run aggregate supply curve to the left.

B) shift the short-run aggregate supply curve to the right.

C) move the economy up along a stationary short-run aggregate supply curve.

D) move the economy down along a stationary short-run aggregate supply curve.

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 797-798/393-394

Topic: Shifts in the Short-Run Aggregate Supply Curve

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

9) The invention of the cotton gin ushered in the Industrial Revolution and began a long period of technological innovation. What did this technological change do the short-run supply curve?

A) It shifted the short-run aggregate supply curve to the left.

B) It shifted the short-run aggregate supply curve to the right.

C) It moved the economy up along a stationary short-run aggregate supply curve.

D) It moved the economy down along a stationary short-run aggregate supply curve.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 797-798/393-394

Topic: Shifts in the Short-Run Aggregate Supply Curve

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking, Use of Information Technology

Special Feature: None

10) When the price level rises from 110 to 115, the aggregate level of GDP supplied rises from $80 billion to $120 billion. This \_\_\_\_\_\_\_\_ relationship represents the \_\_\_\_\_\_\_\_ relationship between the quantity of real GDP firms are willing to supply and the price level.

A) negative; short-run

B) positive; short-run

C) negative; long-run

D) positive; long-run

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 796-797/392-393

Topic: Short-Run Aggregate Supply

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

11) Workers expect inflation to rise from 3% to 5% next year. As a result, this should

A) shift the short-run aggregate supply curve to the left.

B) shift the short-run aggregate supply curve to the right.

C) move the economy up along a stationary short-run aggregate supply curve.

D) move the economy down along a stationary short-run aggregate supply curve.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 798/394

Topic: Shifts in the Short-Run Aggregate Supply Curve

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

12) Which of the following would cause the short-run aggregate supply curve to shift to the right?

A) an increase in the price level

B) a decrease in inflation expectations

C) a technological advance

D) an increase in interest rates

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 798/394

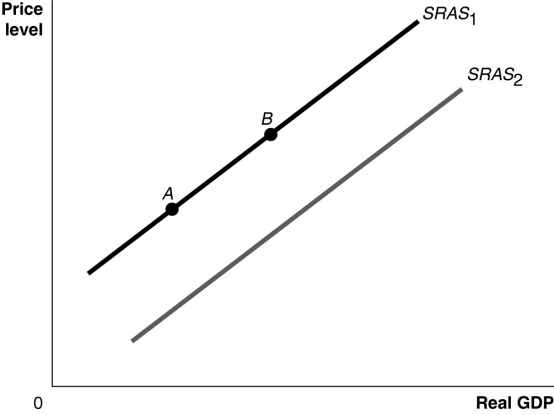
Topic: Shifts in the Short-Run Aggregate Supply Curve

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

***Figure 12-1***



13) ***Refer to Figure 12-1***. *Ceteris paribus*, an increase in the labor force would be represented by a movement from

A) *SRAS*1 to *SRAS*2.

B) *SRAS*2 to *SRAS*1.

C) point *A* to point *B*.

D) point *B* to point *A*.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 799/395

Topic: Shifts in the Short-Run Aggregate Supply Curve

Skill: Graphing

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

14) ***Refer to Figure 12-1***. *Ceteris paribus*, a decrease in the capital stock would be represented by a movement from

A) *SRAS*1 to *SRAS*2.

B) *SRAS*2 to *SRAS*1.

C) point *A* to point *B*.

D) point *B* to point *A*.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 799/395

Topic: Shifts in the Short-Run Aggregate Supply Curve

Skill: Graphing

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

15) ***Refer to Figure 12-1***. *Ceteris paribus*, an increase in productivity would be represented by a movement from

A) *SRAS*1 to *SRAS*2.

B) *SRAS*2 to *SRAS*1.

C) point *A* to point *B*.

D) point *B* to point *A*.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 799/395

Topic: Shifts in the Short-Run Aggregate Supply Curve

Skill: Graphing

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

16) ***Refer to Figure 12-1***. *Ceteris paribus*, an increase in the price level would be represented by a movement from

A) *SRAS*1 to *SRAS*2.

B) *SRAS*2 to *SRAS*1.

C) point *A* to point *B*.

D) point *B* to point *A*.

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 799/395

Topic: Shifts in the Short-Run Aggregate Supply Curve

Skill: Graphing

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

17) ***Refer to Figure 12-1***. *Ceteris paribus*, an increase in the expected future price level would be represented by a movement from

A) *SRAS*1 to *SRAS*2.

B) *SRAS*2 to *SRAS*1.

C) point *A* to point *B*.

D) point *B* to point *A*.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 799/395

Topic: Shifts in the Short-Run Aggregate Supply Curve

Skill: Graphing

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

18) ***Refer to Figure 12-1***. *Ceteris paribus*, an increase in workers and firms adjusting to having previously overestimated the price level would be represented by a movement from

A) *SRAS*1 to *SRAS*2.

B) *SRAS*2 to *SRAS*1.

C) point *A* to point *B*.

D) point *B* to point *A*.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 799/395

Topic: Shifts in the Short-Run Aggregate Supply Curve

Skill: Graphing

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

19) ***Refer to Figure 12-1***. *Ceteris paribus*, an increase in the expected price of an important natural resource would be represented by a movement from

A) *SRAS*1 to *SRAS*2.

B) *SRAS*2 to *SRAS*1.

C) point *A* to point *B*.

D) point *B* to point *A*.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 799/395

Topic: Shifts in the Short-Run Aggregate Supply Curve

Skill: Graphing

Objective: LO2: Identify the determinants of aggregate supply and distinguish between a movement along the short-run aggregate supply curve and a shift of the curve.

AACSB: Reflective Thinking

Special Feature: None

**12.3 Macroeconomic Equilibrium in the Long Run and the Short Run**

1) Long-run macroeconomic equilibrium occurs when

A) aggregate demand equals short-run aggregate supply.

B) aggregate demand equals short-run aggregate supply and they intersect at a point on the long-run supply curve.

C) structural and frictional unemployment equals zero.

D) output is above potential GDP.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 800/396

Topic: Long-Run Macroeconomic Equilibrium

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

2) Suppose there has been an increase in investment. As a result, real GDP will \_\_\_\_\_\_\_\_ in the short run, and \_\_\_\_\_\_\_\_ in the long run.

A) increase; increases further

B) increase; decrease to its initial value

C) decrease; decrease further

D) decrease; increase to its initial level

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 800-804/396-400

Topic: Short-Run and Long-Run Effects of a Change in Aggregate Demand

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

3) An increase in aggregate demand causes an increase in \_\_\_\_\_\_\_\_ only in the short run, but causes an increase in \_\_\_\_\_\_\_\_ in both the short run and the long run.

A) the price level; real GDP

B) real GDP; real GDP

C) the price level; the price level

D) real GDP; the price level

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 800-804/396-400

Topic: Short-Run and Long-Run Effects of a Change in Aggregate Demand

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

4) When the aggregate demand curve and the short-run aggregate supply curve intersect,

A) the long-run aggregate supply curve must also intersect at the same point.

B) inflation must be increasing.

C) structural and frictional unemployment equal zero.

D) the economy is in short-run macroeconomic equilibrium.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 800/396

Topic: Short -Run Macroeconomic Equilibrium

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

5) A decrease in aggregate demand in the economy will have what effect on macroeconomic equilibrium in the long run?

A) The price level will fall, and the level of GDP will be unaffected.

B) The price level will fall, and the level of GDP will fall.

C) The price level will rise, and the level of GDP will fall.

D) The price level will rise, and the level of GDP will be unaffected.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 802-803/398-399

Topic: Long-Run Macroeconomic Equilibrium

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

6) The process of an economy adjusting from a recession back to potential GDP in the long run without any government intervention is known as

A) monetary policy.

B) an automatic mechanism.

C) "releasing sticky prices".

D) fiscal policy.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 802-803/398-399

Topic: Long-Run Macroeconomic Equilibrium

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

7) Suppose the economy is at a short-run equilibrium GDP that lies below potential GDP. Which of the following will occur because of the automatic mechanism adjusting the economy back to potential GDP?

A) Output will decrease.

B) Prices will increase.

C) Unemployment will rise.

D) Short-run aggregate supply will shift to the right.

Answer: D

Comment: Recurring

Diff: 3 Page Ref: 803/399

Topic: Expansion in the Long Run

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

8) The automatic mechanism \_\_\_\_\_\_\_\_ the price level in the case of \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ the price level in the case of \_\_\_\_\_\_\_\_.

A) raises; recession; lowers; expansion

B) raises; expansion raises; recession

C) lowers; expansion; lowers; recession

D) lowers; recession; raises; expansion

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 802-803/398-399

Topic: Long-Run Macroeconomic Equilibrium

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

9) \_\_\_\_\_\_\_\_ of unemployment during \_\_\_\_\_\_\_\_ make it easier for workers to \_\_\_\_\_\_\_\_ wages.

A) High levels; a recession; negotiate higher

B) Low levels; an expansion; negotiate higher

C) Low levels; a recession; accept lower

D) High levels; an expansion; accept lower

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 803/399

Topic: Expansion and Automatic Adjustment

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

10) In the long run,

A) GDP > potential GDP.

B) unemployment is at its natural rate.

C) *LRAS* and *SRAS* lie on the same line.

D) the inflation rate is zero.

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 803-804/399-400

Topic: Supply Shock

Objective: LO3: Use the aggregate demand and aggregate supply model to illustrate the difference between short-run and long-run macroeconomic equilibrium.

AACSB: Reflective Thinking

Special Feature: None

**12.4 A Dynamic Aggregate Demand and Aggregate Supply Model**

1) Which of the following is *not* an assumption made by the dynamic model of aggregate demand and aggregate supply?

A) Potential real GDP increases continuously.

B) The aggregate demand curve shifts to the right during most periods.

C) The short-run aggregate supply curve shifts to the right except during periods when workers and firms expect higher wages.

D) Aggregate demand and potential real GDP decrease continuously.

Answer: D

Comment: Recurring

Diff: 1 Page Ref: 805-806/401-402

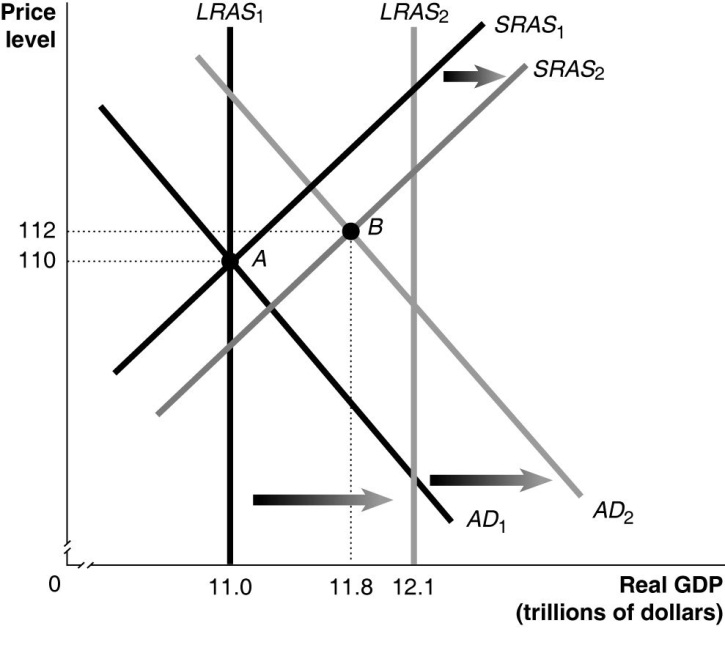
Topic: Dynamic Aggregate Demand and Aggregate Supply Model

Objective: LO4: Use the dynamic aggregate demand and aggregate supply model to analyze macroeconomic conditions.

AACSB: Reflective Thinking

Special Feature: None

***Figure 12-2***



2) ***Refer to Figure 12-2.***  In the figure above, *LRAS*1 and *SRAS*1 denote *LRAS* and *SRAS* in year 1, while *LRAS*2 and *SRAS*2 denote *LRAS* and *SRAS* in year 2. Given the economy is at point *A* in year 1, what is the growth rate in potential GDP in year 2?

A) 8%

B) 9.1%

C) 10%

D) 12%

Answer: C

Comment: Recurring

Diff: 3 Page Ref: 806-807/402-403

Topic: Dynamic Aggregate Demand and Aggregate Supply Model

Skill: Graphing

Objective: LO4: Use the dynamic aggregate demand and aggregate supply model to analyze macroeconomic conditions.

AACSB: Analytic Skills

Special Feature: None

3) ***Refer to Figure 12-2.***  Given the economy is at point *A* in year 1, what is the inflation rate between year 1 and year 2?

A) 0.9%

B) 1.8%

C) 2.7%

D) 3.0%

Answer: B

Comment: Recurring

Diff: 3 Page Ref: 806-807/402-403

Topic: Dynamic Aggregate Demand and Aggregate Supply Model

Skill: Graphing

Objective: LO4: Use the dynamic aggregate demand and aggregate supply model to analyze macroeconomic conditions.

AACSB: Analytic Skills

Special Feature: None

4) ***Refer to Figure 12-2.***  Given the economy is at point *A* in year 1, what will happen to the unemployment rate in year 2?

A) It will rise.

B) It will fall.

C) It will remain constant.

D) not enough information to answer the question

Answer: A

Comment: Recurring

Diff: 3 Page Ref: 806-807/402-403

Topic: Dynamic Aggregate Demand and Aggregate Supply Model

Skill: Graphing

Objective: LO4: Use the dynamic aggregate demand and aggregate supply model to analyze macroeconomic conditions.

AACSB: Analytic Skills

Special Feature: None

5) In the dynamic aggregated demand and aggregate supply model, if *AD* shifts faster than *AS*

A) inflation occurs.

B) deflation occurs.

C) stagflation occurs.

D) disinflation occurs.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 805-806/401-402

Topic: Dynamic Aggregate Demand and Aggregate Supply Model

Objective: LO4: Use the dynamic aggregate demand and aggregate supply model to analyze macroeconomic conditions.

AACSB: Reflective Thinking

Special Feature: None