

Georgia Institute of Technology
Advanced Macroeconomics
Spring 2008
QUIZ # 7 Key

1. The quantity demanded of labor is determined by
 - a. the marginal product of labor, marginal costs, and technology.
 - ♠ **the marginal product of labor, the price level, and nominal wage rate.**
 - c. the marginal product of labor and the consumers' price index.
 - d. none of the above.
2. With a fixed nominal wage the SAS curve is positively sloped because
 - ♠ **an increase in P decreases the real wage and raises profits if output is increased.**
 - b. a decrease in P decreases the real wage and raises profits if output is increased.
 - c. business firms are responsive to interest rates.
 - d. marginal leakage rate is small.
3. Which of the following statements best describes the rational expectations hypothesis?
 - a. Individual will not enter into long-term agreements unless they are certain about the payment they will receive.
 - b. It is likely that individuals will consistently make errors.
 - ♠ **Individual will make random errors, independent of previous errors.**
 - d. It is reasonable to expect individuals to consistently underestimate the level of inflation.

4. If there are perfectly flexible prices and wages and the economy is operating at Y_n , then the long-run effect of an increase in government spending

♠ **will be an increase in real GDP and the price level.**

b. will be an increase in nominal GDP and increased price level.

c. will lead to a complete nominal crowding out and leave the price level unchanged.

d. will not lead to a complete real crowding out.

5. Which of following assumptions is found in Friedman's model but not in the new classical model?

a. Supply of labor depends on expected real wage.

b. Workers gradually adapt their expectations of the price to the actual price level.

c. Perfect information.

d. Labor market never clears.

Question (5) I am very sorry I screwed up this question, I shall give you credit for this question to all of you.